ASSESSMENT OF PROFESSIONAL COMPETENCE
November 2015

EXAMPLES OF VARIOUS LEVEL OF COMPETENCE
IN EACH OF THE TASKS

To assist all candidates in preparation for the Assessment of Professional Competence, SAICA has made these examples (specimen answers) available, to illustrate examples of candidate responses deemed LC (limited competent), C (competent) or HC (highly competent) for each of the sections of the case, along with examiner comments (on each of the sections of the case study) on our website.

The objective of allowing candidates access to this information is to assist unsuccessful candidates and first time candidates by providing insights into what APC Examco deemed as LC, C and HC attempts to the various sections of the 2015 assessment. This may assist in preparation for the 2016 APC.

We recommend that the 2015 case study be reviewed in detail prior to reviewing examples of LC, C and HC attempts to sections. Thereafter, review the examiner's comments on each attempt and absorb this for the purposes of your preparation for 2016.

No illustrated examples of candidate responses deemed BC for each of the sections of the case study has been included. Rather examples of LC and C are provided. BC attempts would have features of both LC and C attempts but would not be distinguishable as either.

PART (a)	
Assume you are the audit senior at D Artz & Co. on the audit of Arubah	
(a)	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.

Highly competent

D Artz & Co
Draft - for internal purposes only
Private and confidential

Mr B Malcolm
Chief Executive Officer

Arubah Healthcare Pty (Ltd)
299 Home street
Pretoria
2147

18 November 2015

Dear Mr Malcolm

Request for additional services

We write in response to your recent letter requesting additional services to be performed by us, D Artz & Co, to you, Arubah Healthcare.

The following additional services were requested:

1. Compute the income tax liability for Arubah
2. Complete and submit the Income tax return for Arubah
3. Complete the personal income tax return for each director

Firstly, we would like to thank you for approaching us. We are utterly committed to delivering high value solutions to our clients and appreciate the trust and respect you have shown us.

Arubah public interest score

From the review of your management accounts, we have noted that your Public Interest Score is in excess of 350. This means that the Companies Act requires your Annual Financial Statements to be audited. As a result of an audit that is required by statute, we consider Arubah Healthcare to be a Public Interest Entity (PIE).

The effect of the above Public Interest Score and the classification as a Public Interest Entity is that we cannot perform any functions relating to accounting or book keeping services.
In addition to the above, the Companies Act prevents us from performing any service that may create a conflict of interest in terms of the applicable auditing legislation, the Auditing Profession Act.

We consider independence to be extremely important and a vital pre-requisite in the services we perform for our clients. As a result, we cannot perform any functions that may compromise our independence.

In addition to acting independently, we must ensure that we are considered to be seen to be independent and objective by an objective third party. We can also only accept services where we have sufficient competence and resources to be able to service our clients properly.

Income tax liability

You have requested that we compute the income tax liability for the 2015 financial statements.

This would create a self-review threat for us as we would be expressing an opinion for the purpose of the audit on the work we have prepared ourselves.

Recently, the Independent Regulatory Board for Auditors (IRBA) has updated its independence requirements for registered auditors to be in line with international standards, such that taxation services cannot be provided to an audit client that is a PIE.

The self-review threat created by performing such services is considered to be such that we could not be seen to be independent.

We believe that this would create a conflict of interest as we would be expressing an audit opinion on our own work.

Unfortunately we must decline this service offering.

Income tax return

The preparation of the income tax return is based on historical information and involves analysis and presentation of such historical information. Such returns will also be reviewed by the tax authority.

We are happy to consider providing such services as they are not considered to affect our independence. In order for this to occur, you need to ensure that:
- Management must take complete responsibility for the returns
- Management must take complete responsibility for any significant judgements that are required

The terms of the above engagement must be agreed upon between you and ourselves before any such engagement can commence.

In addition, we will request management to make representations to us that management has taken completely responsibility for the returns and all significant judgements made.

In order for us to arrange sufficient, competent staff to provide you with the excellent level of service you have come to associate with our firm, can you please provide us with the details of the engagement as soon as is convenient.

Individual tax returns

You have requested that we prepare and submit the individual tax returns of the directors.

We believe that performing such services may create a threat to our independence in appearance. An independent third party that became aware of such arrangement may believe that the auditors are not independent due to a familiarity threat that is created.

Unfortunately, we must decline this service offering.

We trust that the above has been to your satisfaction and welcome any queries on the matters included.

Kind regards
Joe Tick
Registered Auditor
Partner
D Artz & Co.

The tone of the draft letter was professional and concise. Reasons for accepting or not accepting assignments should be clear to the client. Reference to the Companies Act and IRBA guidance added credibility to the letter. It was refreshing that the relevant aspects of the Companies Act and IRBA guidance were summarized without repeating too much detail.

The candidate grasped the fundamental concept of auditor independence and applied this specifically to the circumstances. The audit partner would have been impressed with the draft letter, which would have required minor amendments before sending to Arubah.

Competent

D Artz & Co
138 Blue Str
Durban
1234

18 November 2016

Mr B Malcolm
Chief Executive Officer
Arubah Healthcare (Pty) Ltd
PO Box 234
Port Charles
3373

Dear Mr Malcolm

RENDERING OF TAXATION SERVICES

This letter serves the purpose of detailing the taxation services that myself and my firm can perform and those we cannot, along with the justified reasoning.

Computing income tax liability

Preparations of the calculations of current and deferred tax balances that will subsequently be audited by us, your auditors, will create a self-review threat. That is, we will be auditing our own work.

The significance of the threat will depend upon:

- Complexity of relevant tax law and degree of judgement: Arubah has a fairly straight-forward business model and does not engage in overly complex transactions.
- Level of tax expertise at Arubah: Arubah does not have a very strong tax team as evidenced by the non-processing of deferred tax.
- Materiality of tax balance: The tax balance may be material to Arubah.

If you are interested in having us calculate your tax liability, we certainly can, after applying the following safeguards to ensure our audit independence:

- We will use professionals who are not part of our audit team.
- However, if we do not have capacity to do that, as may be the case, we will use a member of the audit team and then use another partner or senior staff member who has the appropriate expertise to review the work (tax calculation).
- We may also obtain advice from an external tax professional.

I bring to your attention the fact that this will be an additional cost to Arubah and will not form part of the audit fee.

I wish to clarify that if I feel our independence cannot be maintained, or if we do not have sufficient capacity, we will be unable to perform this service.

Tax return

Sins tax return preparation services are generally based on historical information and simply entail presenting it to the tax authorities in terms of tax law, this should not create a threat to independence, if management, that is, your management finance team, is willing to take responsibility for the returns, including any significant judgements that may be made.

Furthermore, I must clarify that this service will be subject to a fee separate from the audit fee and will only be done if sufficient capacity within my firm exists.

Directors' tax returns

This can be performed by us as there will be no threat to our independence and upon completion of the audit we should have capacity. There should be no information from directors, such as should the audit report not go as Arubah wants, this service will not be offered to D Artz & Co to perform.

The cost of this will not form part of the audit and I must clarify with you that this is not a deductible business expense as it is performed for the directors in their personal capacities. Furthermore, Arubah should not pay for this service as Arubah would be paying for a personal expense of a director. This will also result in a misstatement in the directors' emoluments (as this fringe benefit will not be included).

I must stress the fact that the audit is our main engagement with Arubah and is our number one priority and that the tax services will only be performed should we still be able to be independent in mind and appearance and should we have sufficient capacity.

The services should be pre-approved by an audit committee and fully disclosed to shareholders and those charged with governance. As auditors we should generally not function in the role of management, audit our own work unless the necessary safeguards can be put into place and our independence maintained.

We should be able to perform the above services should we have capacity.

Please feel free to contact me should you have any questions.

Yours sincerely

Joe Tick
Partner
D Artz & Co

The draft letter was a reasonable first attempt. The audit partner would need to revise sections of the letter but overall, it was a competent attempt at the task. The candidate recognized the independence issues arising and reached appropriate conclusions. It was concerning that the letter referred to Arubah's lack of tax expertise – even if this were true, it is not appropriate to include such statements in a client letter. Also, the statement that D Artz could not perform the tax computation if it felt its independence was not maintained or it had insufficient capacity is problematic. D Artz needs to make an assessment whether it can or cannot perform the requested services, with reasons.

Reference to fees for services was a good practical insight. Also, questioning whether Arubah would pay for preparation of directors' tax returns was insightful (although recommending that Arubah do not pay for this could be construed as over-bearing – Arubah could pay for services but then include that as a fringe benefit).

Limited competent

To Mr Malcolm
Arubah Healthcare (Pty) Ltd
50 Primerose Avenvue
PO BOX 5589
Pretoria, South Africa

Our ref:
PN 843//Non-audit services// Arubah
18 November 2015

Dear Mr Malcolm

RE: THE PROVISION OF NON AUDIT SERVICES TO ARUBAH HEALTHCARE (PTY) LTD

This letter serves a response to the request for the provision of non-audit services required by Arubah Healthcare (Pty) Ltd ('Arubah'). The non-audit services required by Aruba:

- Taxation services
- Matters relating to other services rendered

It is of utmost important to understand that the audit profession is governed by set rules and regulations. These set rules and regulations, set out in the companies act and the code of professional conduct, ensure that a quality services is provided to all clients, and ensures that reliance can be placed by the users of financial statements on the audit opinion expressed by registered auditors.

<u>Taxation services:</u>
The provision of non-audit services to an audit client fundamentally changes the auditor's role from outside perspective to inside advisers and decision makers. This can compromise the auditors ability to be independent. An auditor can only provide non-audit services to an audit client if these services will not influence the auditors independence, and does not create a threat of self-review. The above can only be achieved if the following safe guards are in place:

- The non-audit services provided does not relate to a material section, where the auditor will perform audit procedures during the execution of the audit.
- The fees charged relating to the non-audit services provided does not constitute a major part of the total fees charged to the client

Firstly I would like to address the possibility of providing Tax services to Arubah:
As the we will express an opinion on the compliance with laws and regulations by Arubah, we will be performing audit producers to ensure that the tax disclosed in the financial statements are free form material misstatement. We will also perform procedures to ensure that Arubah comply with the tax laws set out by the South African Revenue Service (SARS). By providing tax related services to Arubha we will compromise our independency and create a threat of self-review as we will be performing audit procedures on the work that we have done.

Secondly I would like to address the provision of tax related services to the directors of Arubah:
By providing tax related services to the directors of Arubah our independency are influence. By providing tax related services to the directors of Arubah we treat our ability to provide an unbiased opinion when performing the audit of Arubah. The reason for this is that we now have an obligation to the directors of Arubah as well as its directors.

Based on the above mentioned we will not be able to provide any tax relating services to Arubah or the directors of Aruba.

<u>In order for us to provide non-audit services in relating to any other services needed we will need the following information:</u>

- The extent of work that needs to be done by us?

- Will Arubah need any agreed upon procedures to be performed with regards to the assessment of the implementation of the new ERP system?
- Is there any agreed upon procedures that we will need to perform in relation to the legal action taken against Arubah

<u>Compliance issues</u>
In order to provide any services relating to the 2 compliance issue detected during the year we will need information regarding the following:
- Will Arubah need advice regarding the implementation of controls to prevent this from occurring again
- Will Arubah need any agreed upon procedures done to assess the of non-compliance within the company as a result of the compliance issues identified during the year

For more information please feel free to contact me

Kind regards

Joe Tick
Enragement partner
D Arts & CO

The language is the draft letter would not impress clients. Too many spelling mistakes too!

The candidate failed to distinguish between the three different tax services requested – compute tax liability, complete Arubah's and its directors' tax returns. The completion of tax returns does not necessarily create a self-review threat.

Suggesting that adequate safeguards could be the non-materiality of the financial statement item and/or immateriality of fees earned by D Artz may be indicative that the candidate does not understand the independence issues.

The reasons provided for not completing the directors' tax returns were unconvincing and illogical. Mr Malcolm is a director of Arubah and may not react kindly to this paragraph.

It is inappropriate to tout for additional work (ERP system implementation, control reviews etc) in a letter responding to specific taxation services. It is unlikely that Arubah would consider using D Artz's services in any event after the taxation services were declined.

Overall, the attempt was not competent – the audit partner is likely to ask another trainee to draft the letter as opposed to asking the candidate to revise.

PART (b)	
Assume you are the financial accountant at Arubah	
(b)	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.

Highly competent

From: Financial Accountant
To: Joanne Needham
Subject: Re: Day Clinic
Attached: Day clinic revised capital budget

Dear Joanne

Thank you for the validation on the work done so far. This is a very interesting part of the work that we do, so thank you for involving me.

I have revised the capital budget you sent me to ensure it is technically correct and I have updated it to accommodate the revised structuring of the deal. Please refer to the attached for the detailed calculation.

The revised calculation results in the following:

Net Present Value (NPV): R19 311 000
Internal Rate of Return (IRR): 40,8%

In arriving at the above figures, I was required to make the following adjustments:

- Certain costs were excluded because
  - i) They don't result in any additional cash flow for Arubah, being head office costs and the revaluation of land and buildings;
  - ii) Finance costs are excluded from the investment decision because they are accounted for in the cost of capital / hurdle rate, resulting in the exclusion of finance charges and borrowing costs.

- Taxation is a cost and must be accounted for. In arriving at this I have taken the following into account (in addition to the operational cash flows of revenue and costs):
  - i) Wear and tear on the leasehold improvement will be available under s11(g) of the Income Tax Act because this is an obligated leasehold improvement. This is claimed over the expected lease term, including renewals, of ten years. (will be profitable – renewal likely)
  - ii) The licence costs are capital in nature and will not qualify for wear and tear under s11(gC) because it is not similar to a design/patent. No tax deduction is therefore available.
  - iii) I have assumed that any assessed loss from tax must be carried forward because this is a new legal entity and can't be used against Arubah's taxable income.
  - iv) Wear and tear on medical equipment is over six years (s11(e) and is apportioned for the six months we operate for in year 1

- Working capital must be considered as we must invest in inventory and there will be time delays in terms of trade receivables, trade payables, etc. I determined this using the days on hand / collection period / payment period of the hospitals using the following:
  - i) For inventory and trade payables I have used pharmaceutical costs which are the driver;
  - ii) For debtors days and accruals and income tax liability I have used sales.

  Note: I am unsure of the nature of other receivables and provisions and have therefore excluded them.

In all scenarios I have used the budget figures because these are approved and the Board therefore considers it achievable. These days were applied to the clinic.

- The current (original) calculation also discounted the Year 0 cash flow to determine the NPV. I have changed this as year '0' is 'today' and does not require discounting.

Other judgement areas

- Because the figures are obtained from an industry guru, I have made no changes. I do however wish to draw your attention to the following:
  i) There does not appear to be maintenance costs factored in;
  ii) There are no costs for annual licence renewals, which are currently R1 000, excluding legal fees;
  iii) The direct and indirect operating costs, as well as the admin costs in Year 1 appear to be for a full year. While these are fixed, will we incur these in the six months to opening?

- I have maintained the assumption that we will generate sales from Year 1, but only halfway through the year.

- I have maintained the sale of business with an earnings (EBITDA) multiple of 5 to represent the future income-earning ability. Given the relationship the Kennedy Family Trust has with Arubah and Arubah properties, the lease will likely be renewed for the foreseeable future, beyond the initial agreement.
  Also, because the new clinic will be a new legal entity, I have not included tax in the sale of business, as it is not the underlying assets that will be sold but the shares.

- I have assumed the lease rental and advertising will only apply from halfway through Year 1 once the building is complete.

- The rates and taxes saving I have applied for the full year, from Year 1. This would have been payable from purchase of the building.

Hurdle rate

I prepared a rough cost of capital calculation and came to 13%. The hurdle rate of 15% therefore appears reasonable.

The IRR of the project exceeds 40%, far above the hurdle rate, indicating it is a good investment. The 40% IRR may be slightly skewed because of the sale of business figure; however, I think it is relevant to include it, or alternatively extend the budget period for the full life of the clinic. Either way, the result will tell us to pursue the project.

I trust you will find the above in order. Please let me know if anything is uncertain and we can discuss it.

Kind regards
Financial Accountant

Attachment

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Revenue		2 689	11 510	15 394	19 766	24 675	26 402
Pharmaceuticals		(538)	(2 302)	(3 079)	(3 953)	(4 935)	(5 280)
Direct operating costs		(2 950)	(3 157)	(3 377)	(3 614)	(3 867)	(4 138)
Indirect operating costs		(2625)	(2 809)	(3 005)	(3 216)	(3 441)	(3 682)
Admin costs		(2 400)	(2 568)	2 748)	(2 940)	(3 146)	(3 366)
HO Cost (excluded)							
Deprecation (excluded)							

Finance charges (excluded)							
Revaluation (excluded)							
Lease rental		(330)	(712,8)	(769,8)	(831,4)	(897,9)	(969,8)
Rates and taxes saving		36	38,5	41,2	44,1	47,2	50,5
Advertising revenue		45	90	90	90	90	90
EBITDA		(6 073)	89,7	2 546,6	5 705,7	8 525,3	9 106,7
Taxation		–	–	–	–	(19 026)	(2 302,6)
Investments							
Medical equipment	(5 000)						
Leasehold equipment	(500)						
Working capital		(130)	(426)	(187)	(211)	(237)	(83)
Sale of business							45 534
Net cash flow	(5 500)	(6 203)	(336,3)	2 351,4	5 494,7	6 385,7	52 255,1
NPV (@ 15%)	19 311						
IRR	40,8%						
Excluding sale of business							
NPV	(3 747)						
IRR	14%						
Taxation							
EBITDA		(6 073)	89,7	2 546,6	5 705,7	8 525,3	9 106,7
Wear and tear							
Leasehold improvement		(50)	(50)	(50)	(50)	(50)	(50)
Medical equipment (s11€) apportioned for 6 months in year 1		(417)	(833)	(833)	(833)	(833)	(833)
Taxable income (a loss)		(6 540)	(793,3)	1 663,4	4 822,7	7 642,3	8 223,7
Assessed loss brought forward			(6 540)	(7 333,3)	(3 669,9)	(847,2)	–
Tax at 28%			–	–	–	1 902,6	2 302,6
Working capital							
Inventory days	25						
Collection period	35						
Payment period	70						
Accruals and including tax	8,39						

The capital budget calculations were near flawless - a minor error with taxation in Year 5. The impressive part of this answer was the explanatory notes to the capital budget, which, explained the changes to the budget and the amendments for leasing versus owning property. Higher level indicators included wear & tear calculation, inclusion of working capital and rates & taxes saving.

The tone in the email was professional and summarized the results of the analysis upfront. Ms Needham would have been impressed to receive such a comprehensive and technically accurate capital budget.

Competent

From: Financial accountant
To: Joanne Needham
Date: Today
Subject: Re: Day clinic

Dear Joanne

I refer to your email where you requested the amendments to the capital budget and provide you with the resultant IRR and NPV and my thoughts about the hurdle rate.

Please find attached the amended file and my thoughts about the hurdle rate (attachment 1).
Please let me know if you require more information.

Regards
Financial Accountant

Attachment 1

	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Acquisition property	–						
Licence application	(450)						
Renovation / improvements	(500)						
Borrowing cost (excluded	–						
Medical equipment	(5 000)						
Revenue		2 689	11 510	15 396	19 764	24 675	26 402
Advertising income		90	90	90	90	90	90
Pharmaceutical and surgical supplies		(538)	(2 301)	(3 079)	(3 953)	(4 935)	(5 280)
Direct operating costs		(2 950)	(3 157)	(3 377)	(3 614)	(3 867)	(4 138)
Rent		(660)	(7 137)	(770)	(831)	(898)	(970)
Admin cost		2 400)	(2 568)	(2 748)	2 940)	(3 146)	(3 366)
Indirect costs (irrelevant)	–	–	–	–	–	–	–
Head office (irrelevant)	–	–	–	–	–	–	–
Depreciation (irrelevant)	–	–	–	–	–	–	–
Finance cost (excluded)	–	–	–	–	–	–	–
Free cash flow, before tax	(5 950)	(3 769)	2 861	5 512	8 516	21 789	12 648
Taxation				(573)	(2 146)	(5 862)	(3 303)
Free cash flow after tax	(5 950)	(3 769)	0	4 939	6 370	13 927	9 345
Taxation							
Profit before tax		(3 769)	2 861	5 512	8 516	21 789	12 648
Assess loss			(4 622)	(2 614)			
Wear & tear on medical equipment (5 000 / 6)		(833)	(833)	(833)	(833)	(833)	(833)
Improvement allowance		(20)	(20)	(20)	(20)	(20)	(20)
(Assessed loss)/taxable income		(4 622)	(2 614)	2 045	7 663	20 936	11 795
At 28% tax paid				(573)	(2 146)	(5 862)	(3 303)
Free cash flow	(5 930)	(3 679)	0	4 939	6 370	13 927	9 345
Terminal value assessed GPP at 2%							79 433
Terminal value (9 345 x (1 + 2%)) / WACC (14%) – 2%	(5 930)	(3 679)	0	4 939	6 370	13 927	9 345

NPV @ 14% = 75 277
IRR 72,63%

Hurdle rate

Our standard starting point is to establish the suitable hurdle should be our WACC, which is the weighted expected return our investors require being fund providers, shareholders and debt providers. And then we need to adjust our current WACC to a target WACC based on our optimal capital structure. The hurdle rate is therefore a forward-looking measure.

I have recalculated the hurdle rate based on our current capital structure which is 27% / 73% debt to equity. Here are my calculations:

		Weight	Cost	After tax	Contribution
Short-term debt	7 550	7%	9%	6	0,45%
Long-term debt	21 972	20%	9,5%	7	1%
Equity	79 669	73%	16%	n/a	11%
	109 191	100%			13,2%

Cost of equity 16%
Ke = Rf + B (Rm – Rf)
Rf = 8,6% 10 year RSA government bonds
Rm – Rf = 8,6 Risk equity premium
Beta = 0,61 leverage used 0,12 Beta of Life Healthcare

Unlevered beta and re-levered based on the industry target of debt to equity ratio of 4%/60%, as the above calculated hurdle rate was 13,2% and I have also risk adjusted this rate to reflect the risk of the project, as this project is a brownfield project, meaning it is the first time our business is doing it.

The draft capital budget contained very few errors. The discussion re WACC was insightful and evidence of a strong technical knowledge base. The attempt was a strong C but could have been assessed as HC if the following was present:

- More explanations in the introduction regarding the key amendments to capital budget;
- Consideration of working capital and/or rates & taxes savings; and/or
- Some commentary on the estimated NPV/IRR.

Limited competent

From: Financial accountant
To: Ms Needham
Date: 18 November 2016
Subject: Day clinic

My response to your email dated 17/11/2015 is shown below:

New Arubah day clinic – summarised capital budget							
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Licence application and fees	(450)	0	0	0	0	0	0
Improvements		(2 500)					
Medical/theatre equipment		(5 000)					
Pharmaceuticals and surgical supplies		(538)	(2 302)	(3 079)	(3 953)	(4 938)	(5 280)
Direct operating costs		2 950)	(3 157)	(3 377)	(3 614)	(3 867)	(4 138)
Indirect operating costs		2 625)	(2 809)	(3 005)	(3 216)	(3 441)	(3 682)
Admin costs		(2 400)	(2 568)	(2 748)	(2 940)	(3 146)	(3 366)
Head office costs		(750)	(1 605)	(1 717)	(1 838)	(1 966)	(2 104)
Depreciation		(15)	(16)	(18)	(20)	(22)	(24)
Revenue		2 689	11 510	15 394	19 766	24 675	26 402
Sale of business							39 163
Rental (note 1)		(660)	(713)	(769)	(831)	(898)	(969)
Rates and taxes (note 2)		(36)	(38)	(41)	(44)	(47)	(50)
Advertising revenue			90	90	90	90	90
Medical equipment		(500)					
	(450)	(15 285)	(1 608)	730	3 400	6 443	47 942
Less: Taxation (28%)	(126)	(4 272)	(450)	(204)	(952)	(1 804)	(13 424)
	(576)	(19 557)	(2 088)	526	2 448	4 639	34 518

The IRR calculation was not done as I ran out of time in the exam.

To calculate the IRR we have to reduce the NPV for all six years to zero. It will therefore be necessary to increase the discount rate of 12% to reduce the NPV to zero.

Notes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
1 Rental expense calculated as follows	(R55 000 x 12) = R660 000	R660 000 x 1,08 = R712 800	R712 800 x 1,08 = R769 824	R769 824 x 1,08 = R831 410	R831 410 x 1,08 = R897 913	R897 913 x 1,08 = R969 757
2 Rates and taxes calculated as follows	R36 000	R36 000 x 1,07 = R38 520	R38 520 X 1,07 = R41 316	R41 316 x 1,07 = R44 102	R44 102 x 1,07 = R47 189	R47 189 x 1,07 = R50 492

This candidate admitted that he/she had run out of time. The task was not completed. It was concerning to note the numerous errors in the draft capital budget such as:

- Including depreciation;
- Taxation (including cash outflows yet losses in years 0, 1 and 2);
- Inclusion of renovation costs of R2.5m when this was clearly for the landlord's account;
- Repetition of medical equipment expenditure; and
- Obvious calculation errors.

The candidate provided no context in terms of explaining any adjustments made or discount rates used. Overall, this attempt was a clear LC.

PART (c)	
Assume you are the financial accountant at Arubah	
(c)	Prepare the internal report as requested in Ms Needham's email dated 16 November 2015 (attachment H).

Highly competent

Report on the assessment of risk of misstatement in respect of revenue

FOR INTERNAL USE ONLY

Terms of reference

This report has been prepared at the request of the Chief Financial Officer, Ms Joanne Needham, and is to be used for internal purposes only.

Objective of the report

This report arises as a result of the need to gain a better understanding of the risk of material misstatement of revenue relating to the completeness and cut-off assertions due to the external auditors' identification of risks of material misstatements in Arubah's 2015 financial statements.

Scope of report

As per Ms Needham's request, this report will cover the following areas: inherent risk factors, relevant controls already implemented to minimise this risk, any procedures that could be performed by the financial accountant and Ms Needham to further mitigate inherent risks and conclusions on the risk assessment.

Inherent risk factors

Per a risk assessment conducted at the overall financial statement level, I identified the following inherent risk factors which would result in or contribute in material misstatement of revenue at the overall financial statement level:

- The board has raised concerns around the legacy issues regarding Arubah's IT system and its effectiveness and efficiency. The system currently leaves much room for manual intervention and human error. As billing is a process covered by this system, linked to recording revenue in the GL, this increases the risk of material misstatement of revenue. This is specifically relevant given that revenue is only recorded in the general ledger on discharge of the patient, and not when services are rendered to the patient, affecting cut-off and completeness of revenue. Specifically:
    - The current system is very paper-based and requires the nurse to write down the start and end time of theatre in the theatre register, leaving room for human error in that she may write down the incorrect time or forget to write down the theatre time at all in the register, understating time spent in the theatre. The number of minutes from this is manually calculated, which presents the risk of further compounding of errors, as nurse may record too few minutes, understating the time spent in the theatre and thus the associated theatre revenue.
    - The theatre nurse may make corrections to the register if she deems this necessary and may choose to omit a theatre time, if she is given the right incentives, as no one is required to authorise corrections or inspect them for validity.
    - In addition, the nurse is required to write down theatre time on the patient file's theatre charge sheet, which

she may forget to do, resulting in an understatement of theatre minutes and revenue.

    - Following a patient's discharge, the case manager is required to take the theatre time sheet and upload this onto the system: this presents the risk of human error, as she may fail to input theatre time onto the patient's account, resulting in incomplete revenue.
    - In addition, as a result of the fact that the patient is only billed and revenue is only recorded in the GL upon discharge, this could result in cut-off issues, with patients being discharged after year-end and billed for services rendered prior to year-end and revenue recorded in the incorrect period, and understatement of revenue, as revenue is recorded is not recorded when services are rendered to patients and is effectively deferred until discharge, which may be after year-end.
- Per inspection of the shareholder register, many of the board members hold beneficial interests in Arubah and could be incentivised to try inflate share value through the manipulation of revenue to improve the bottom line by aggressively recognising revenue upfront and in the wrong period. This, however, is mitigated by the fact that Arubah is not listed and share value will only be realised upon retirement/exit from Arubah, with the consideration of the sale of shares will most likely be determined by the board and will involve a robust and objective process, and by the fact that currently the IT system only records revenue upon discharge and thus aggressive revenue recognition upfront is not an easy possibility..
- Due to the changes in BEE legislation during May of this year, Arubah may be under pressure to retain a BEE status and may need to conduct further BEE deals in order to do so and could feel pressure to manipulate revenue to improve the bottom line to attract investors by aggressively recognising revenue upfront and in the wrong period. This is mitigated, however, as explained above.
- Arubah has an interest in pursuing an investment into a day clinic in Pretoria starting in 2016. As a result of Arubah's low cash reserves, it is likely that Arubah will need to acquire financing in order to pursue this initiative, and may feel pressurised to manipulate revenue to paint a more promising picture of profitability by aggressively recognising revenue upfront and in the wrong period. This is mitigated, however, as explained above.
- Segregation of duties: based on an inspection of the revenue description process regarding theatre time, there appears to be undue reliance on the theatre nurse in recording the start time of the operation, the end time, calculating the minutes in theatre, writing this on the theatre charge form and recording the quantities of gases used as recorded by our sophisticated equipment. This affects cut-off, as revenue is only recognised once the case manager uploads this theatre sheet onto the system.
- Following on from the limited segregation of duties, there appears to be an inherently weak control environment over the revenue system, with minimal controls in place and an inadequate monitoring of controls from management which affects all revenue assertions, including cut-off and completeness.

Controls implemented to minimise risk

Regarding controls already implemented to minimise risk, the following have been noted:

- The head theatre nurse reconciles the theatre register to the bookings and investigates any omissions.
    - This mitigates the risk that the theatre nurse does not enter minutes into the theatre register and that the theatre register contains an understatement of time spent in the theatre; however, this control is only effective to the extent that the theatre register is used as the basis on which to write down theatre time on the patient's file and that the head theatre nurse does this recon before the theatre nurse writes the theatre time on the theatre time charge sheet, otherwise any omissions which are corrected are made by the head theatre nurse do not filter to this sheet.
- Upon discharge of a patient, the case manager review the theatre time charge sheet and checks this against the theatre register in respect of minutes spent in the theatre, the diagnosis, and for reasonableness, the volumes of gases used during the procedures, and initials the sheet charge as evidence of this check.
    - This mitigates the risk that the nurse fails to record theatre time on the sheet (if gases are used and this is checked for reasonableness, the patient must have been in theatre), mitigates the risk that the head nurse may have made an error in her recon, whether intentionally or negligently, and that any corrections made by the head nurse do filter to the theatre time charge sheet and are reflected there.

Controls still available for implementation

There are several controls which are still available for implementation by the financial reporting and accounting staff, which could greatly improve the control environment of revenue and the entity's ability to monitor existing controls adequately. These are as follows:

- All corrections made by the head theatre nurse are authorised by the one of the financial reporting and accounting staff and are verified for validity through inspection of supporting documentation, such as the theatre bookings register.
- Where the case manager feels that theatre minutes are not reasonable, a formal system needs to be implemented for an investigation to follow. Currently there is no mention of the process she would follow if she found an issue, as she simply initials each sheet. There needs to be a person separate from the case manager review the case manager's recons for evidence that she has performed them properly - inspection of her signature as evidence of her performance thereof is not sufficient.
- A person separate to the nurse and case manager need to capture time from the theatre charge sheet onto the system in order to bill the patient.
- Build in simple edit/validation input checks into the system to prevent data capturing errors such as failing to capture theatre time.
- A reconciliation between theatre minutes captured on the system and theatre minutes per both the theatre charge sheet and the theatre register needs to be performed by a person separate from the theatre nurse, head theatre nurse and case manager.
- An exception report of all discharged patients for which no theatre time was billed needs to be produced and reviewed, with all exception items investigated.
- As soon as a patient is out of theatre, the case manager should obtain the file and load these theatre minutes onto the system (as opposed to waiting for discharge) to bill the patient and record revenue. An exception report can be produced of the dates on which theatre charges for a patient were input into the system on the same day as the patient was discharged, matched through the patient's account number can be produced to monitor people's responsibility in timely input in this regard.

Conclusions on the risk assessment

Based on the above, firmly compounded by the ineffectiveness and room for manual intervention of the current legacy IT system which is used for recording revenue, coupled with a weakness in segregation of duties, and management's current inability to monitor controls due to their being limited or no monitoring controls in place results in the risk assessment material misstatement of revenue around the cut-of and completeness assertions being classified as significant. It is strongly recommended that a stronger system of internal control is designed and implemented, possibly through consultation with external experts, until such time as a new Enterprise Resource System can be introduced to address the above deficiencies and weaknesses.

The assessment of inherent risks was comprehensive and insightful. It was pleasing to note the integration of pre-research and related issues in the case study eg. legacy IT systems. The allegation of inadequate monitoring of controls by management may however, not be well received.

The identification of existing and additional controls & procedures was impressive for a trainee accountant. Reference to the proposed ERP system as a further enhancement in controls displayed good insight and absorption of pre-released information.

Ms Needham would have been most impressed with this candid and comprehensive risk assessment. The report format and communication skills of this candidate was superb.

Competent

Internal report

Date: 18 November 2015
Topic: Meeting with auditors - Risk of material misstatement of revenue

Content
1) Inherent risk factors
2) Relevant controls already implemented
3) Procedures to perform by management to further mitigate inherent risks
4) Conclusions on risk assessment

Introduction
By assessing the risk of material misstatement, management can assist the auditors is addressing the risk of material misstatement and possibly decrease the risk to a lower level.
Considering ISA 315, an assessment has to be made for financial statement level risk and at assertion level for significant accounts (such as revenue)
Risk of material misstatement is a factor of both inherent and control risk.
Both inherent and control risks are the entity's risk and exist independently of the audit of the financial statements in that they are directly controlled by management.

1) Inherent risk factors - specifically regarding revenue

- The largest inherent risk is that the process of recording revenue is largely a manual intervention and the capturing of the information on the system is manual.
- A lot of paperwork is involved in the revenue process as various elements have to be added to a patient file at various stages of the process.
- At operational level, many elements, such as ICD-10 codes, pharmaceutical supplies, time in ward, time in theatre, etc., has to be manually entered to the patient file for the appropriate revenue to be recognised.
- Revenue is also recognised from various documents and does not have one centralised document that incorporates the different documents required to record the revenue.
- Another inherent risk, specifically in the Arubah structure is that non-financial personnel handle most of the paperwork in the patient file, not always having the knowledge of how revenue is ultimately treated.
- As a result of the healthcare industry, it is understood that daily emergencies and unknown factors occur which makes the patient file a very flexible element of revenue as it is not always easy to forecast future events.
- Lack of segregation of duties in that very few reviews are performed for information captured.
- The lack of accountability in the issue of medication or other stock from the storerooms to the nurses and having this information being accurately recorded in the patient file.
- The quantities of supplies used for medicine and gases are many times an unknown variable and has not be recorded on the job.
- A risk of material misstatement relating to fraud with regards to revenue is a presumed risk as per the accounting standards. This results in auditors paying specific attention to the revenue recognition.
- This presumed risk is inherent to revenue, as it is presumed that management may have an incentive to overstate revenue as revenue is directly linked to the performance of the company.
- Another presumed risk is management override of control, in that journals are processed to account for revenue. As journals could be manipulated or processed without the appropriate supporting documentation, revenue can be misstated accordingly.

2) Relevant controls already implemented

Firstly, it is important to note the difference between a process and a control, it that a relevant control must be a control that addresses a specific risk and not only a process implemented which is part of the operational activities.

- The ward clerk checks that the stock and quantities indicated on the medication charge sheet is reasonable given the patient's diagnoses and procedures performed. It will be picked up here if medication would have been needed for a procedure but not included in the sheet, thereby addressing completeness.
- The time spent in the ward is automatically calculated by the computer system based on the admission and discharge times. The control is that the case manager reviews the billed amount for the ward usage to ensure it agrees to the data in the patient file and makes adjustments if necessary. This address both completeness and cut-off.
- For theatre usage, following a patient's discharge, the case manager reviews the theatre time charge sheet and checks this against the theatre register in respect of the minutes spent and specifically the reasonableness of the volume of gases used in the procedure. The case manage initials the charge sheet as evidence of the control.
- A variance report is processed by the system between what was recorded on the system and the fixed price for service to indicate any differences.
- At the end of each day, the head theatre nurse reconciles the theatre bookings with the entries in the theatre register and investigates any omissions.

3) Procedures to perform by management to further mitigate inherent risks

- For the sequentially number patient files, a review can be performed to ensure that no patient file number has been processed twice and that all patient files have been recorded at year end.
- A review of selected journals processed, specifically before and after year end to address the cut-off risk. Explanations of these can be given and a check can be performed to ensure these journals were processed in the correct accounting period in line with the revenue recognition principles.
- Review the variance report to pick up any issues that could be communicated to the auditors or in fact follow up on these issues and address it accordingly.
- Provide the auditors with journal policies and implement a control to review journals.
- Communicate that fraud is not prevalent in the revenue system and discuss what measures we take to mitigate the fraud risk and that the only area of possible misstatement will be due to error which would ultimately result in being immaterial.

4) Conclusions on risk assessment

- It can be understood that completeness is assessed as a high risk, however, with appropriate controls in place, we can ensure that less audit procedures need to be performed and thereby reducing the work to be performed by the auditors and saving costs.
- Ensuring that revenue is complete, specifically with the supplies and consumables issued is very difficult as it involves a very manual process and does not have sufficient segregation of duties.
- Because revenue is captured on a daily basis and adjustments for cut off is a simple task, it can clearly be concluded that cut-off is not a high risk and that any possible errors will be immaterial. Controls over journals are easy to test and additional controls are easy to implement and thereby reducing the risk to low or medium should not be a problem. Patient turnover is relatively fast and extended periods after financial year end whereby a patient is still in the hospital is firstly easy to pick up after year end and simple to make the necessary entries to ensure that revenue is recognised in the correct period.

This candidate displayed a good understanding of risks and controls in the healthcare environment. Discussions should have been restricted to theatre revenue and not be extended to ward revenue etc. but this was forgiven in the circumstances.

The identification of additional controls and procedures was the weakest part of this candidate’s attempt. The candidate could also have addressed the cut-off issue more effectively in terms of the revenue recognition currently being on discharge of the patient.

In practice, the financial accountant would have been complimented on the first attempt at addressing theatre revenue and risks and been given some guidance on improving.

Limited competent

Inherent risk factors

There are staff constraints at the accounting department; error or misstatements might not be detected.

Auditors suggest adjusting journals for material misstatements; show lack of competence and experience of accounting staff of Arubah.

Revenue transactions are complex at Arubah; errors and misstatements might occur due to …

Judgement is impaired in the classification between fixed fee for service and the fee for service; error in classification will lead to incorrect recognition.

Recording of revenue is performed in a highly manual environment; highly prone to errors and omissions.

There are no checklists prepared for admission clerks and staff doing the billing to confirm that all information required to be included in the patient's file is included.

Employee files might be lost, due to lack of organisation of hospitals.

Admissions made by the case manager are not reviewed and compared to the reviews recorded in the system.

Controls already implemented

- The case manager reviews the theatre time usage sheets and checks against the teather register.
- The case is managed throughout the patient's stay to ensure that what is billed is within the medical aid authorised limits.
- All patient files are sequentially numbered.
- The case manager verifies the patient's medical aid scheme benefits in respect of treatments that will be provided.
- If omissions are identified the case manager follows up with relevant staff members.

Procedures that could be performed by financial accountant and CFO

- Regular reviews of information processed by the finance team.
- Supervision of staff.
- Training on IFRS, especially review standards for staff.
- Spot checks – tracing of a few transactions to supporting documentation.

Conclusion on the assessment

- There are controls that the auditor can rely on.
- The staff and the environment here at Arubah.
- The risk is expressed as medium.

The accusation that the accounting staff at Arubah is incompetent and lack experience would annoy Ms Needham. Such allegations need to be substantiated by facts and it is inappropriate to communicate this in a draft report to the CFO – could be a career limiting move?

This candidate identified the major risk re theatre revenue. However, the remainder of the answer was generic and not specific to theatre activities. The additional procedures and controls were poor – not sure how IFRS training will practically enhance internal controls? The overall risk assessment was meaningless.

Cut off risks and controls were ignored, thereby not responding to the task its entirety.

PART (d)	
Assume you are the financial accountant at Arubah	
(d)	Redraft the revenue accounting policy in response to Ms Needham's email dated 17 November 2015 (attachment J).

Highly competent

DRAFT ACCOUNTING POLICY - AMENDED FOR NON-BOILERPLATE

Arubah Healthcare (Pty) Ltd obtains revenue from two types of agreements:
- Revenue from fixed fee for services agreements
- Revenue from fee for services agreements (not fixed)
- Revenue from fixed fee for services agreements (with a cap)

These fees include:
- Theatre charges
- Pharmaceuticals & supplies
- Equipment usage
- Ward usage

Revenue from fixed fee for services agreements

Fixed fee agreements are entered into whereby Arubah Healthcare agrees to perform a procedure based on an agreed upon upfront fee. Revenue is recognised from these agreements once Arubah Healthcare (Pty) Ltd has performed all the requirements set out within the agreement and the patient has been discharged from the hospital. The risks and reward transfer once the patient has been discharged from the hospital.

These fees are agreed and therefore the measurement of these fees would be the agreed upon upfront fee. This would be the fair value of the consideration receivable from the medical aid in exchange for the agreed procedures.

Arubah Healthcare (Pty) Ltd meets all the recognition criteria set on in IAS 18.

Revenue from fee for services agreements (not fixed)

The standard agreements entered into by Arubah Healthcare (Pty) Ltd which are not fixed fee are based on time spent in the ward or theatre; supplies or equipment used and an additional charges relating to the procedure or treatment performed. Revenue is recognised over the period which the patient stays at the hospital, this is measurable based on the consumption of time and materials.

These fees are based on the rate per unit of time or supplies consumed by the patient, which is therefore reliably measured. All the costs associated with the accommodatingly the patient and performing the necessary procedures are reliably measured. This would be the fair value of the consideration receivable from the medical aid in exchange for the authorised procedures.

Arubah Healthcare (Pty) Ltd meets all the recognition criteria set on in IAS 18.

Revenue from fixed fee for services agreements (with a cap)

The fixed fee for services with a cap agreements have been entered into with a medical aid whereby once the limitations set out in fixed fee agreement is reached, Arubah Healthcare (Pty) Ltd is entitled to reimbursements based on additional time or supplies consumed.

Revenue from the fixed fee element is recognised in line with the **Revenue from fixed fee for services agreements** set out in the accounting policies. Risks and reward transfer on this element once the patient has been discharged and has not reached the capped limits of time and supplies; or once the cap has been reached and Arubah Healthcare (Pty) Ltd commences billing the medical aid for additional time or supplies.

Once the cap the been reached, Arubah Healthcare (Pty) Ltd recognises revenue in line with the **Revenue from fee for services agreements (not fixed)** policy.

Arubah Healthcare (Pty) Ltd meets all the recognition criteria set on in IAS 18.

Part (d) was a difficult task. This candidate's attempt was a superb effort to move away from boilerplate disclosure and describe the recognition and measurement policies that Arubah has in practice. The description of the various revenue streams and fees earned provided good context.

The description of recognition policies for each service agreement was understandable and convincing.

Competent

To: Joanne Needham
From: Financial Accountant
Date: 18 November 2015
Subject: Re: Revenue Accounting Policy

Afternoon Joanne

I hope you are well.

Please see the attachment which contains the re-drafted revenue accounting policy. In order to ensure that boilerplate disclosures are removed, I have removed certain sections such as royalties and dividends as we have received neither of these in the current or prior years. Thus, the disclosures are not relevant.

Also, I have assumed that interest income is earned on positive cash balances as the source of the income should be disclosed so that the policy is more relevant. However, I suggest that interest income be disclosed in the Other Income note and not in the revenue note as it does not relate to the ordinary activities of the business.

Lastly, our policy for the recognition of fixed fee for service is not in line with IAS 18, as revenue should be recognised as the services are provided. I have amended the accounting policy to reflect his, but we should make the necessary adjustments in our financial.

Please let me know you thoughts.

Kind regards
Financial Accountant

REVENUE ACCOUNTING POLICY

Arubah has decided not to early adopt IFRS 15 *Revenue from Contracts* with Customers earlier than the mandatory effective date of 1 January 2018.

Measurement
Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for theatre usage, ward fees, pharmaceuticals, surgical supplies and equipment usage, as provided in the normal course of business. Revenue is recognised net of VAT and any amounts payable to third parties.

Recognition
Revenue is recognised according to the separately identifiable components of a transaction in order to reflect the substance of the transaction. Revenue from the sale of goods is recognised when the risk and rewards of ownership have passed, and revenue from rendering services is recognised according to the stage of completion of the transaction when the outcome of the transaction can be estimated reliably.

The stage of completion is determined according to the services rendered to the patient to date, such as theatre services, ward and equipment usage, over the total expected services to be rendered.

Arubah charges for patient care according to two different models:

Fixed fee for service: A flat rate is charged for specified treatments where the outcome of the treatment is highlight predictable. Arubah bears the risk of deviations in the cost of surgical procedures and length of stay. Under this model, revenue is recognised according to the stage of completion.

Fee for service: Arubah charges patients for all costs of care, including ward fees, theatre charge, equipment usage, pharmaceuticals and surgical supplies used. Arubah bears no risk relating to the length of stay or the cost of surgical procedures. Under this model, revenue from the sale of pharmaceuticals and surgical supplies is recognised when the supplies are dispensed to the patient. Theatre, equipment usage and ward fee revenue is recognised when the patient receives the services according to the stage of completion.

Significant areas of judgement
The total expected services can be considered one of the significant judgements made by management. The estimate is made based on past trend analysis and data for different patient treatment and profiles.

New medical aid contract
A new contract was entered into during the current year with one of the larger medical aids. This contract terms differs from the revenue two models Arubah normally uses. It is a fixed fee for service arrangement with a limit on the number of days, theatre and stock used. As such, any additional costs incurred over the limit are charged and the additional revenue is recognised.

Other income note *(to be disclosed separately)*
Other income comprises of interest income earned on cash and cash equivalents. This is recognised in profit and loss using the effective interest rate method.

It was insightful to mention that Arubah's recognition policies are not in accordance with IAS18.

Overall, this was a good attempt at redrafting the accounting policy. Perhaps the description of the various types of service agreements was too long – could have been more concise. The fixed fee for service recognition policy did not make sense given the earlier distinction between the sale of goods versus services.

Despite the above constructive criticism, the CFO would have been pleased with the draft and provided some guidance in improving the stated policy.

Limited competent

REVENUE ACCOUNTING POLICY

Adoption of IFRS 15 will only occur as of the mandatory effective date of 1 January 2018. Therefore IAS 18 will be applicable as follows:

Revenue outlines the accounting requirements for when to recognise revenue from the sale of goods, rendering of services, and for interest, royalties and dividends. Revenue is measured at the fair value of the consideration received or receivable and recognised when prescribed conditions are met, which depend on the nature of the revenue.

The entity has the following revenue streams:

- Theatre fees
- Accommodation fees
- Pharmaceutical and surgical supplies
- Equipment income
- Other income
- Interest income.

The entity has two ways in which it charges its customers:

- Fixed fee for service
- Fee for service.

Theatre fees, accommodation fees and equipment income

These revenue streams can be described as sales of services, as the hospital provides a well-rounded healthcare service to its patients.

Revenue for rendering services should be recognised with reference to the stage of completion. The outcome of a transaction can be estimated reliably when all the following conditions have been satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The sage of completion of the transaction at the end of the reporting period can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The stage of completion for the theatre fee is based on minutes spent in the theatre.

The stage of completion for accommodation is based on the duration of days spent in the hospital.

The stage of completion for equipment income is based on whether equipment was used in the theatre or during pre- and post-operative care.

Fee for service

The amount to be recognised will equal the amount charged to the patients for each service utilised.

Fixed fee for service

The amount to be recognised will be the costs of the service provided, together with a reasonable profit on each of the services, to come to a total of the flat fee charged.

It the flat fee will not cover the full costs of providing the service, then the contract is onerous and IAS 37 will apply.

In the current year, the entity entered into a special contract with one of the larger medical aids. It is a fixed fee for service arrangement, but there is a limit on the number of days, theatre time and stock used for the fixed fee to be charged.

Pharmaceutical and surgical supplies

This revenue is a sale of goods and will be recognised when the following conditions have all been satisfied:

- Significant risks and rewards have been transferred;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership;
- Award of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Other income and interest income

Other income represents leasing of office space to doctors and will be recognised in terms of IAS 17, on a straight-line basis.

Interest income will be recognised using the effective interest method in terms of IAS 18.29–30.

Ms Needham sent the financial accountant an email – hence, the response should have been in email format?

The accounting policy drafted appeared to be an extract from an accounting standard as opposed to summarizing how Arubah recognizes revenue. The policy with regards to pharmaceutical and surgical supplies listed the criteria to be satisfied before recognizing revenue but failed to answer the question of 'when' in practice. The candidate could have simply stated that revenue is recognized when pharmaceuticals are dispensed.

The description of the recognition of fixed fee for service and fee for service revenue was very confusing. Reference to onerous contracts was inappropriate.

In practice, the CFO would have asked someone else to redraft the revenue accounting policy – the first attempt was that poor.

PART (e)	
Assume you are the financial accountant at Arubah	
(e)	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 – • outline the key financial reporting considerations with regard to the legal claim against Arubah; and • list any concerns you may have with regard to the actions of and opinions expressed by the directors at the above board meeting.

Highly competent

To: Joanne Needham
From: Financial Accountant
Subject: RE: Day Clinic
Attachment: Financial reporting considerations

Hi Joanne

Hope you are well.

Please find attached the relevant financial reporting considerations with regard to the legal claim and any concerns I have with regard to the actions of and opinions expressed by the directors at the above board meeting as requested.

Hope you have a great day further

Kind Regards
Financial Accountant

Please consider the environment before printing this email

Attachment

Below I have discussed the financial reporting considerations and any observances of the Board members.

Financial reporting considerations

The death occurred on the 13th of October 2015, this takes place after the financial period ended 30 September 2015 and it is therefore an event after the reporting period as per IAS 10.

This can be considered a non-adjusting event which is an event that does require any change to the numerical values of the financial statements, i.e: no provisions need to be raised for the event.
This is due to there being no evidence of conditions that existed at the period end as there was no indication as at year end that a death would occur based on the following factors:

- The operating doctor being arrested for driving under the influence as this occurred in April and after hours.
- A power failure, as there is no way of knowing when this will occur or what will be happening at this time

Therefore the financial statements will need a paragraph on events after the reporting period which explains the nature of the situation. This is compliant with the standard which specifically speaks to major litigation arising solely our of events that occurred after the reporting period (IAS 10,par 22(j)). The paragraph should contain the nature and an estimation of the financial effect.

The following paragraph can be included in the financial statements as an example:

Note 17: Events after the reporting period

A legal claim has been instituted against Arubah Healthcare (Pty) Ltd claiming negligence on behalf on the hospital and the operating doctor. The event occurred after the current financial period and the legal claim has been submitted to management and the Board of directors. The situation is still under investigation and it cannot at this stage be concluded with certainty whether the hospital can be held accountable. Should the claim be successful the monies claimed will amount to approximately R25 000 000 (25 million rand).

We will also need to consider any going concern issues we may have due to the payment of this claim due to the substantial amount, we are required to consider reporting on the going concern basis whether there is an adjusting even or not. As we are both solvent and liquid (2.08 and 1.44 respectively), should we need to repay the amount, a loan could be obtained which would not affect our cash-flow substantially, we also have a good payment history which is likely to work in our favour should we consider the negative rise in the repo-rate. Based on our financial position we would still be able to continue as a going concern and therefore reporting on this basis is appropriate.

Concerns with regards to the directors

The directors were split in their opinions,

1. Mr Malcolm expressed disappointment with regards to the a clearer indication of Arubahs chances and Dr Kennedy and Dr Sexwale suggested obtaining a second opinion,
2. Dr Connelly and Dr Coben believe it will be difficult to prove
3. Dr Finder expressed concern about the insurance pay-out.
4. Dr Coben, Dr Sexwale and Dr Connelley believe that profits look positive and should provide for the claim in full.

1. A second opinion and the disappointment in a less clear opinion

I believe that a second opinion will grant the same answer. Mr Scarbenga showed insight into the situation and spoke of his experience. There is no way to tell what the outcome will be and no further investigations have been done to determine the true factor of Mr Mokoenas death. Unfortunately this situation will unfold as time does and there is no way to obtain an answer that will put the Boards mind at ease. However it is commendable that they do apply their minds to the situation and would not blindly follow any professional opinion without considering a second opinion. Their concern for the situation and its effect on the company are clearly evident.

2. The difficulty of proving but it is difficult to predict the out-come of long-term litigation

This opinion can be taken that these two doctors do not believe that the court case will end with a payment by Arubah and could show a lack of concern for the consequences. As this matter affects Dr Connelly directly and could possibly have a financial interest he should not be involved in the decision making as per the companies act. In further instances he should only disclose material information and should excuse himself from voting on the matter.
I also believe that it is the directors' responsibility to act in the best benefit of the company and this could be contradicted here as the two doctors assume that the issue will go to court. Should the matter go to court this could seriously harm Arubah reputation in their stakeholders eyes which could cause the patients to go to another hospital and medical aid administrators to not recommend them as a facility. Should the matter go to court, pro-active engagement with their stakeholders should be a priority in order to minimise the risk caused by the court-case regardless of the outcome.

3. Concerns over insurance paying for the claim

Should Arubah be found guilty of not maintaining their generators and the fuel level, it is highly likely that insurance will not pay and is a valid concern.

Should Dr Connelly be found guilty for having drinking while operating then his insurance is also not likely to pay.
The concern of who will pay and how this will be paid should be considered and is a very valid point and should be considered in depth by the board.

4. Raising of the provision in full

The motive of raising the provision on the amount in full due to good profits of the year would be incorrect. Firstly a provision can only be raised for the 2016 period end as the event did not occur in the 2015 period as discussed above and secondly as per the legal letter there is no likely event that would arise from this case which would then not allow for a provision to be raised at all.
The directors may see this as an opportunity to decrease the profits of the entity and possibly any tax liability of which us as management cannot allow and I am certain the auditors will question.

In conclusion, the overall concerns raised from the Boards comments is that there is a large concern over the litigation and that they appear to be focused on the financial implications only should there not be a favourable outcome. The Board should also consider strategic implications and other possible issues from this court-case that could occur in order to maintain a sustainable business.

The byline "*Please consider the environment before printing this email*" at the bottom of the email provided a real-life feel to the response.

The summary of the financial reporting consequences was clear and concise. This reflects a excellent technical knowledge – sometimes a paragraph explaining financial accounting in layman's terms is much more effective than 2 pages of explanation. Providing a draft note to the financial statements was constructive and useful.

The key governance issue was identified – Connelly should have recused himself from the board meeting. It was enlightening to read the consequences for Arubah of the claim being contested in court. The governance issues were approached in a balanced and mature manner.

Competent

To: Joanne Needham
From: Financial Accountant
Subject: Legal opinion

Hi Joanne

I hope you are well.

I have gone through the legal opinion and board minutes you sent me and I have a number of considerations and concerns to bring to your attention.

The legal claim needs to be properly accounted for in anticipation of the arrival of the auditors and I believe the proper treatment to be disclosure as a contingent liability, as explained below.

The incident happened subsequent to year end and thus all conditions that led to the legal proceedings are considered non-adjusting events. If not for the materiality of the claim, it would not be necessary for the claim to be included or disclosed in the current financial statements at all. However, the amount, despite the legal opinion stating that it may be inflated, is material enough to influence the decisions of our stakeholders and therefore disclosure is required. The auditors will also consider whether this affects our ability to continue as a going concern. However, there is no risk of that when viewed in relation to our current financial position.

The next consideration was whether a provision or a contingent liability was appropriate, as it is clear that the directors are in favour of raising a provision. Unfortunately for them, the facts once again point to a contingent liability as there is currently only a possible obligation to pay. If payment was remote, there would be no disclosure required, but the legal opinion suggests payment is possible.

We are therefore required to disclose:

- The nature
- The estimated financial effect, currently R25 million
- Any uncertainties in the amount
- Possibility of re-imbursement, with consideration to the insurance concerns.

Please feel free to make any queries on the above and provide any suggestions.

I would also like to raise a few concerns regarding the actions and opinions of the directors expressed in the board minutes. I would appreciate it if this remained confidential.

Arubah may not be a listed entity and is therefore not officially required to comply with the principles of King III, but that should not prevent us from applying the principles of good governance. We are however governed by the Companies Act and the directors, who are responsible for the fair presentation of the financial statements, have a fiduciary duty to act in good faith.

During my review of the board minutes, I noted various instances where a lack of ethics was shown, particularly with regard to seeing the legal case as an opportunity to shift profits between periods by raising a provision. The fact that they will not be able to go forward with this does not negate the fraudulent mindset displayed in its consideration. The directors even displayed a willingness to obtain a legal opinion that better suits their intentions.

As a second note, it is also not good governance for Dr Connelly to be involved in decisions around this case in which he is involved.

I hope you do not feel that it is not my place to criticise the company's leaders, but I have a duty as a CA(SA) to act ethically, just as they have a fiduciary duty to do the same.

Kind regards
Financial Accountant

The explanation of the financial reporting consequences of the legal claim was clear and understandable. The candidate correctly identified that it is a non-adjusting event for FY2015. Furthermore, the claim is a contingent liability for the purposes of FY2016. After reading, the financial reporting issues, this candidate was heading for an HC assessment. Unfortunately, the governance issues were not adequately covered.

The candidate identified that Connelly should not have been involved in the decision given his conflict of interest – not well explained but gather the candidate understood this.

It is inappropriate to refer to the directors of Arubah has having a 'fraudulent mindset' – this is a major allegation which requires more evidence before reaching this conclusion. Ms Needham is a director of Arubah and may not react kindly to such a sweeping allegation?

There were numerous other governance issues, which could have been discussed. The candidate's response was too brief in the circumstances.

Limited competent

From: Financial Accountant
To: Ms Needham
Date: 18 November 2015
Subject: Mr Scarbenga's legal opinion

Please see my response shown below regarding the legal matter in question.

1 Key financial reporting considerations with regard to the legal claim against Arubah

Provisions and contingent liabilities covered in IAS 37 need to be considered regarding the claim against the company.

A provision is defined as a liability of uncertain timing or amount. Consequently a provision cannot be raised unless there is a liability. In order for a liability to exist, there needs to be a present obligation due to a past event, which is expected to result in an outflow of resources embodying economic benefits as a result of the settlement of the obligation.

There are two types of obligation, namely a legal and a constructive obligation. A legal obligation will arise from a contract that the company has entered into. A constructive obligation occurs when an entity's actions create a valid expectation on the part of other parties that it will discharge those responsibilities.

Only those provisions where the outflow of economic benefits in order to settle the obligation is probable and a reliable estimate can be made of the amount of the obligation should be recognised in the statement of financial position (balance sheet).

In some cases it may be difficult to determine whether there is a present obligation arising from a past event. A legal claim against an entity is an example, where it may be unclear if there is an obligation.

If it is more likely than not that a present obligation exists at the balance sheet date, a provision will be recognised provided that the recognised criteria of probability and measurement have been satisfied.

A contingent liability is not recognised as a liability, but may be disclosed in the notes to the annual financial statements.

Since a contingent liability is one that exists at the balance sheet date, but is not recognised as the recognition criteria have not been recognised. However, where the possibility of an outflow of resources is remote, no disclosure is required.

The following points should be noted in the legal opinion received from Mr Scarbenga:

i) It seems that Eskom cannot be held liable for the power outages and the courts are likely to find that the hospital could have planned for an alternative electricity supply when needed. However, it is not clear from the lease contract who is responsible for maintenance and it is unclear whether the refuelling of generators forms part of the maintenance contract. Furthermore, it could be difficult to prove that the generator was indeed low on fuel or whether there are other reasons why the generator did not work.
ii) The alleged failure to service its back-up generator is unlikely to stand up in court.
iii) Since the claim is multi-faceted and complex, it cannot be concluded with certainty whether the hospital can be held accountable. However, there are sufficient grounds for legal proceedings to be instituted against the hospital.
iv) The outcome will depend on more specific eyewitness and other evidence.
v) Based on experience with other cases, awards to the amount of Prof. Makoena's claim are not often given and would likely be a smaller amount, although this will depend on the circumstances.

Based on the above, I will only recommend the disclosure of a contingent liability by way of a note to the financial statements.

2 Concerns regarding its actions and opinions expressed by the directors at the Board meeting

As mentioned in point 1 above, it seems that the raising of a provision for the claim would be inappropriate and instead a contingent liability should be reflected in the note to the financial statements.

I hope that the above is of assistance to you.

Kind regards
Financial Accountant

The email starts off poorly by paraphrasing accounting statements re liabilities versus contingent liabilities. Not entirely sure what the relevance of legal versus constructive liabilities are in the context of the claim against Arubah?

The candidate failed to recognize that the claim occurred after year-end and was not specific regarding which financial statements the contingent liability needs to be disclosed in (FY2015 or FY2016?).

The candidate seemed to be covering all bases stating that there is a present obligation but then indicates that only disclosure is required because of the difficulty in proving the claim in court?

The governance issues were ignored. Overall, the assessment of LC for this task by the mark team was potentially kind - could have been NC.

PART (f)	
Assume you are the financial accountant at Arubah	
(f)	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.

Highly competent

From : Financial Accountant
To : Joanne Needham
Date : 18 November 2015
Subject : SARS query

Hi Joanne

I hope this finds you well.

I have read the e-mail you sent to Mr Malcolm on 4 November 2015 relating to the SARS queries around the 2012 B-BBEE deal and have included my responses below.

Background

The deal that SARS is referring to related to the following facts:

- We obtained a loan from First Regional Bank (FRB) for R30.2 million on 30 September 2012
- A special dividend was declared to the shareholders for R25 million on the same date
- DOC Investment Holdings (DOC) subscribed for 151,000 Class A shares on 1 October 2012.

These shares have equivalent voting rights to the existing shares but cannot participate in any dividends until the other shareholders have received cumulative dividends of R199 million.

The Board entered into the transaction as part of a plan to increase their black share holding In addition, DOC are considered to be strategic investors that can add value.

What the competitors have done

MediClinic entered into a similar transaction in 2005 by performing the following:

- They sold 15% of their total shares to black investors (11% of this to a strategic partner and 4% to staff)
- They then unveiled a capital restructuring programme and a special dividend
- They introduced debt financing of R700 million from Standard Bank
- The special dividend was payable after completion of the B-BBEE deal

Questions posed by SARS and possible tax consequences

I know you are concerned about the possibility of SARS claiming the interest on the FRB loan is not deductible. To this end, I have reviewed each of SARS's queries and have considered the tax effects for our company and the shareholders.

I do, however, feel that it may be necessary to have this reviewed by an expert seeing that I am not a tax expert.

1 Were the shares issued at fair value?

SARS may be asking this question as they would like to attempt to levy donations tax on the transaction. They would levy this at 20% of the difference between the cash we received (R1 million) and the fair value of the Class A Shares issued.

As Arubah is essentially making the donation by providing the shares at less than market value, we would be liable for donations tax.

Although we could have the fair value of the shares determined by an expert on the date of issue, I do believe that we could argue that this was not a donation, and thus donations tax should not be levied, for the following reasons:

- The issue of the shares was for a good faith business purpose. We, as Arubah, were aware that DOC were suffering from financial difficulties. As such, the shares were offered at a discount in order for our company to benefit from their value as a strategic investor and the improvement in the BEE rating.
- In addition, this is not considered to be a gratuitous disposal of property as we received R1 million for the shares as well as benefiting from their strategic value and improvement to the BEE rating.

Based on the above, I would argue that the transaction is not a donation and thus there are no donation tax consequences for Arubah.

For the individual shareholders, SARS may be asking this query as they are considering whether there has been a value shifting arrangement (which will be discussed under point 4).

2 The commercial purpose of obtaining the loan from FRB

SARS is asking this question in order to determine if there was a valid business purpose for obtaining the loan.

They may be concerned that the loan was taken out in order to obtain a tax benefit and to participate in tax avoidance.

It can, however, be argued that the loan was taken out for a valid business purpose as it was obtained to facilitate the new B-BBEE shareholdership. In addition to the above, there is no circular flow of cash and thus no tax avoidance.

SARS may also be asking this query as they want to determine whether the loan was taken out in order to produce income. This matter will be considered together with the tax treatment of the interest in point 3.

There are no tax consequences for the shareholders in their individual capacity.

3 Tax treatment of interest

This question is interlinked with the question relating to the commercial purpose of obtaining the loan from FRB.

For the purposes of this question, I have assumed that the interest was claimed as a deduction.

Essentially, SARS wants to know if the loan was taken out in order to produce income or whether the loan was taken out in order to pay the dividend.

If the loan was not taken out in order to produce income, this will mean that SARS will not allow the interest as a deduction. However, if we can show that the loan was essential to the production of income, we will be able to claim the deduction.

SARS takes this matter extremely seriously and has argued that taking a loan out to pay dividends is not in the production of income. They attempt to link the loan to the dividend paid.

In order to ensure that the interest is allowed as a deduction, we need to be able to prove that the loan was not taken out to pay the dividend.

There is a large volume of case law that we can consider to this end:

Guiseppe Brollo case

In this case, the court held that the vital question was the purpose for which the money was borrowed. If the money was borrowed as a means of earning income, the interest was allowed as a deduction.

For our purposes, we should consider why we took out the loan. To this end, we could argue that the loan was taken out in order to compensate the existing shareholders for their dilution of voting rights. Given the relationships between doctors and hospitals, if the shareholders are lost, we would not be able to produce income.

Ticktin Timbers case

In this case, the court held that the purpose of the loan was to pay a dividend. It was further held that the dividend would not have existed without the loan, and the loan would not have been taken out if it weren't to pay a dividend.

To this end, we could possibly argue that the loan was taken out to facilitate the B-BBEE transaction. We could also argue that the loan was also required in order to facilitate the implementation of the planned ERP system or the Pretoria day clinic. The key matter is to look at the minutes of directors meetings and the reasoning for the loan.

BP South Africa case

In this case, a dividend was issued to the holding company and a loan taken out at the same time. However, the company issuing the dividend had cash resources in excess of the dividend issued. The court held that the loan was taken out in order to ensure operations could continue for the next year.
We could possibly have a look at the financial records at the time that the shares were issued and determine if our cash resources were above R25 million.

The key matter here is that we need to determine if the loan was taken out to pay the dividend or if the loan was to ensure we could continue to generate income. I believe we should review the minutes of directors meeting to see the matter discussed and consider intention. It may also be necessary to consult with a tax expert.

If SARS is satisfied that the loan was taken out to produce income, the full amount will be allowed as a deduction.

Another consideration is the fact that the loan taken out was greater than the dividend. From our review of Board minutes, we may note that R25 million of the loan was taken out for a dividend and the other R5.2 million was taken out to produce income. In this case, SARS would allow the deduction of the interest incurred on the R5.2 million (which at 9% is R468 thousand) and not allow the deduction on the balance.

I believe it is of vital importance that we act ethically at all times and ensure that we thoroughly investigate the matter. If we discover that we have been claiming interest incorrectly, we should make use of the voluntary disclosure program.

This would involve us informing SARS that we have claimed a deduction that should not have been allowed and determining the way forward.

There are no tax consequences for the individual shareholders.

4 Do any of the shareholders have an interest in DOC

This affects the individual shareholders more than Arubah.

This is linked to the first question of whether the shares were issued at fair value.

SARS may be asking this question as they believe that the transaction with DOC is a value shifting arrangement. This was created by the Tax Administration Act in order to counter transactions that shift value by issuing shares between connected persons.

For tax purposes, a person will be connected to another when there is a shareholding of 20% or more or a directorship.

A value shifting arrangement would occur where, following the issue of shares to DOC< the individual shareholders share value decreases and DOC's increases, or they obtain an interest in the company.

If the shares were issued at fair value, there is no further consideration of a value shifting arrangement. To this end, it may be necessary for an expert to value the shares on issue date.

If the shares were not issued at fair value and it is a value shifting arrangement, this is considered to be a disposal for the shareholder. They would have to pay capital gains tax calculated based on the difference between the proceeds they receive and the change in the value of the share multiplied by the original cost.

From the analysis of the existing shareholding, it does not appear that any shareholders have an interest in DOC that is greater than or equal to 20%.

Although both Nicola and Peter are directors in Arubah and shareholders in DOC, they only obtained the directorship following the transaction.

As such, there do not appear to be any tax consequences.

5 Were any dividends declared in 2012, 2013 and 2014

SARS may be asking this query as they want to consider the impact of dividends tax.

From the analysis performed so far, the following dividends occurred
- 2012 : R25 million
- 2013 : More information is required
- 2014: R27.5 million

Please refer to point 6 for the discussion of the tax consequences

6 Treatment of dividends for tax purposes

SARS has asked this question to determine if we correctly withheld dividends tax.

Secondary Tax on Companies (STC) was replaced by the Dividend withholding tax on 1 April 2012. Any shares issued from 1 April 2012 are subject to the dividends tax. However, we would have been able to use any existing STC credit to offset the amount of dividends paid.

This was done in order to align local dividend tax law with International law and make South Africa more attractive for foreign investment.

Although there is insufficient information to be able to determine the treatment of the dividend, the following should have been done:

- As the issuer of the dividend, we have a responsibility to withhold15% of the dividend paid to the shareholders and pay this over to SAR by the end of the month following the one in which it is issued
- For example, in 2012 we would have had to wwithhold R3 million in dividends tax
- Although it can be possible for certain individuals to be exempt from the dividends tax, this will not apply to Arubah. This is as the Kennedy Trust will act as a conduit for Dr Kennedy (and is not exempt) and all other shareholders are natural persons (who are not exempt).
- Although DOC is currently not entitled to any dividends, when they do become entitled to such dividends they will be exempt from the withholding tax as they are a South African Resident company

In the individual shareholders hands, their dividends will be included in their gross income. However, as these are dividends from a South African resident company, they are exempt from tax.

Impact for DOC

The transaction with DOC may constitute notional vendor financing as we may have issued shares to DOC at a discount due to the possibility of improving our B-BBEE rating. DOCS shares are not entitled to dividends until other shareholders have received R199 million worth of dividends. Once this happens, DOC is entitled to the no par value shares.

If the transaction is structured in such a manner that DOC does not receive any rights to dividends until the conversion of the Class A shares, the conversion is not considered to be a disposal.

If you have any questions on the above, please do not hesitate to contact me.

Kind regards
Financial Accountant

The candidate made an insightful comment that Arubah should seek expert tax advice – always a good idea if the matter is material and complex.

The key tax issues arising namely; deductibility of interest, potential donations tax and dividend withholding tax were competently dealt with. The discussion of a potential value shifting arrangement and notional vendor financing elevated this candidate's response to HC.

It was pleasing to note evidence of pre-research of the tax issues (tax cases re deductibility of interest and Mediclinic's B-BBEE structuring).

The tone of the email was professional and the contents understandable. This was a superb response to the task. The email could have been too long (>5 pages) but this was forgiven due to the excellent content.

Competent

To: Joanne Needham
From: Financial Accountant
Date: 18 November 2016
Subject: B-BBEE taxation consequences

Hi Joanne

I hope you are well.

As per your request I have provided a detailed discussion about the tax consequences regarding the B-BBEE deal entered into in 2012.

Fair value

The shares were issued for a value of R1 million for 151 000 shares. This equates to a value of R6,62 per share. This is considered to be below the fair value, as we know that the B-BBEE consortium did not have sufficient funds to purchase the shares at fair value.

The fair value of the shares issued is of particular importance to determine whether donations tax per s58 of the Income Tax Act is applicable.

The share issue was not of a gratuitous nature as the transaction was motivated by economic business reasons. Nor can it be said to have been issued at less than adequate consideration. This would constitute a contravention of s40 of the Companies Act, which does not require that a share issue at market value, since benefits other than cash, such as a higher B-BBEE rating, may have been a consideration.

There are no other tax consequences for the issue of the shares.

Commercial purpose of the loan and interest deductions

The purpose of the loan was to fund the payment of the dividends to existing shareholders, as their shareholding would become diluted as a result of the new share issue.

The R25 million would be subject to dividends withholding tax of 15% and the shareholders are liable for the tax. However, Arubah could withhold the tax and pay it over to SARS. (25 million x 15%) = R3 750 000.

It was considered that the loan was necessary for the sustainability of our business. Therefore the interest was deducted in terms of s24 J.

However, per investigation of case law, namely Ticktin Timbers, Arubah was mistaken and the interest was not in the production of income.

By ascertaining the purpose of the loan, we come to understand that the R25 million was not used in the production of income, hence the interest is not deductible.

If a dividend is declared and a loan agreement is simultaneously entered into, and where the loan and dividend are interdependent, that is, one cannot exist without the other, the interest is not tax deductible.

Arubah did not have the financial resources to issue the loan without the dividend, hence the loan was not utilised in the production of income. Therefore the interest deduction will not be allowed.

The interest deduction may be allowed on the R5,2 million provided it is used in the production of income.

Arubah will be liable for the tax deduction for the interest on the loan amounts for 2013, 2014 and 2015, plus additional penalties and interest. There was no interest for 2012 as the loan was obtained on the last day of the year.

Assuming all 30,2 million is not in the production of income.

2013	30 200 000 x (9% / 12) = 226 500 x 12	= R2 718 000	
2014	(30 200 000 – 7 550 000) x 9/12% - 169 875 x 12	= R2 038 500	
2014	(30 200 000 – (7 550 000 x 2)) x 9/12% = 113 250 x 12	= R1 359 000	
			R6 115 500 x 28%
			R 1 712 340 tax

Interest in DOC investment

There are no ordinary shareholders that have an interest in DOC, therefore there are no connected parties in terms of Interpretation Note 67 of the Income Tax Act. Hence there can be no application of any value shifting arrangements.

Dividends

Dividends at
2012 R25 million x 15% =R3 750 000
2013: Lack of information to calculate
2014: R25 million x 15% = R3 750 000

All dividends are issued to parties who are not exempt from dividends tax. Hence all dividends are subject to dividends withholding tax at 15%.

There are no tax implications for DOC. There are also no dividends withholding tax consequences as they have not yet received any dividends.

There are no other tax consequences, other than those stated in this e-mail for Arubah, its shareholders or DOC.

Please feel free to contact me should you have any queries.

Yours sincerely
Financial Accountant

This candidates' response competently covered the key tax issues arising – deductibility of interest, DWT and potential donations tax. The assessment of C as opposed to HC was due to:

- Limited discussion regarding the tax implications for DOC (the task was to discuss tax consequences for Arubah, its shareholders and DOC)
- Limited or no discussion of the more complex issues such as value shifting arrangements, notional vendor financing and potential penalties re claiming interest deduction

Limited competent

To: Joanne Needham
From: Financial Accountant

18 November 2015

Re: Tax consequences of the BEE transaction

I have prepared in this e-mail the tax consequences of the BEE deal of Arubah for the interested parties.

Arubah
The interest from the loan will not be deductible in the books of Arubah as the loan was not obtained to pay dividends.

Shareholders
Shareholders of Arubah will be liable for a dividend tax of 15% on the dividend declared to the shareholders.

BEE partners
1 000 000 paid for the shares will be base cost of preparing for sahres for the 8th schedule.

Kind regards
Financial Accountant

The email was far too short in response to the task. The tax issues needed more consideration and discussion.

Stating that the interest is not deductible because the 'loan was not obtained to pay dividends' was contradictory.

The tax issues arising from Arubah structuring the B-BBEE deal in 2012 are complex. It is not clear that this candidate grasped any of these complexities. Also, simply stating the 'answer' is insufficient in the context – some discussion and reasons should be provided. Ms Needham did not ask the financial accountant for conclusions but rather a broader discussion of the potential tax consequences.

PART (g)	
Assume you are the financial accountant at Arubah	
(g)	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.

Highly competent

To: Joanne Needham
From: Financial Accountant
Subject: Arubah's Break-even 2016
Date: 18 November 2015

Hi Joanne

In response to the urgent email from Michael please find attached my workings of Arubah's break-even based on the 2016 budgeted numbers. (See attachment 1)

Based on the numbers available I have calculated a preliminary break-even occupancy for Arubah Healthcare at **57%.**

This number is not far off the 61% that you heard, Arubah is functioning more efficiently than the hospital in question.

It is important to bear in mind that hospitals do carry high fixed costs which make break-even numbers quite high (high degree of operating leverage), however, once break-even is obtained each sale thereafter will contribute substantially to profitability as witnessed by the high contribution margin of 72% (See attached spreadsheet for calculation)**.**

This could be of concern in the current operating environment with the competition commission inquiry ongoing, pending litigation against Arubah, the arrival of day clinics which may take business away from Arubah and the possible introduction of the National Health Insurance scheme which may also take patients away from Arubah.

In order to calculate a more accurate break-even the following information will be required:

1. An understanding of the nature of each cost. My classification of fixed vs.. variable could require some adjustments once further information is obtained.
2. Clarity regarding the new hospital in Pretoria. What are their margins? Paid patient day average revenue numbers? Incremental costs? Occupancies?
3. Actual number for the first quarter of the 2016 financial year- in order to assess the reasonability of the 2016 budgeted numbers.
4. It would be quite useful to understand the break-even levels of each discreet service offered by Arubah e.g. theatre revenue break-even, ward unit break-evens etc. for this we will require a cost breakdown and classification for each separate service, their current occupation levels as well as their revenues. This will be a helpful management tool to identify under-performing units or a potential lack of controls resulting in poor cost management or incorrect revenue recognition.

I hope my calculation of break-even will suffice in the mean time before we get actual data in and refine the cost classifications.

If you need any further assistance in this regard, please do not hesitate to contact me.

Kind regards
Financial Accountant

Attachment 1

Step 1: Cost classification		
Fixed	**R'000**	
Laundry	3511	
Cleaning	12 671	
Premises rental	37 124	
Administration costs	44 756	
Other indirect costs	33 076	
Finance Charges	2 087	
Water and electricity (10% is fixed)	898	
Employee costs	194 140	
Total fixed costs for 2016	**328 263**	
Variable costs		
Pharmaceuticals and surgical supplies	129 613	
Catering	15 604	
Water and electricity (90% is variable)	8 088	
Total variable costs for 2016	**153 305**	
Step 2 Contribution margin		
Sales	554 685	
Variable costs	153 305	
Contribution margin (Rand value)	**401 380**	
Contribution margin percentage	**0.7236179**	**72%**
Given that average revenue per patient	5 901	
Based on the contribution margin, calculated as 72%, average contribution per patient	**4 270.0693**	
Break-even units = total fixed costs / contribution per unit		
Fixed costs	328 263 000	
Contribution per patient	4 270.0693	
Break-even units	**76 875.333**	

Given that 94000 patient days = 69.8% occupancy, we can mathematically derive that 76 875 paid patient days is equivalent to a 57% occupancy to break even:

Full occupancy	94 000 x 100 / 69.8 = 134 870
Break even occupancy, therefore	76 875 / 134 870 = 57%

The email provided excellent context upfront - summarized the results of the breakeven occupancy calculations, compared results to competitor and discussed the high fixed costs of private hospitals.

The breakeven occupancy calculations were almost 100% correct – pity that depreciation was ignored. The majority of candidates struggled with part (g) and hence, a near 'correct' breakeven occupancy calculation would stand out.

This candidate suggested that breakeven should be calculated for ward and theatre activities. That is very perceptive and insightful as ward and theatre activities are co-dependent and may have different breakeven levels.

Overall, this was an excellent attempt.

Competent

To: Joanne Needham
From: Financial Accountant
Date: 18 November 2015
Subject: Break even occupancy calculations

Dear Ms Needham

I trust this email finds you well.

Please find attached calculations for the estimated break even occupancy in response to Dr Kennedy's email.

Please make it clear to Dr Kennedy that the breakeven he overheard is not applicable to Arubah and that the calculations would prove that the breakeven occupancy is lower that the 61% he overheard.

The breakeven based on paid patient days was calculated as 53.30%

Please also note, that as requested the numbers per the 2016 budget were used for the calculation.

Please also find the following list of information required to refine the calculation:

- Further information into the employee costs, on how the entire balance is split between fixed and variable costs. The current assumption was made to say 20% fixed costs to account for the high level management.
- Split in the pharmaceuticals and surgical supplies between fixed and variable costs. Currently it is assumed as 100% variable in nature.
- Specifics into the catering service costs, as to how many patients are admitted for accommodation purposes as the catering is solely variable based on accommodation.
- Accuracy of the numbers as per the 2016 budget.
- Further accuracy into the split of the revenues and the sensitivity into the change of paid patient days into the various revenue components because currently it was assumed as equal.

Kind Regards
Financial Accountant

Attachment 1 Estimated break-even occupancy of existing hospitals

Break- even occupancy is the fixed costs / the contribution per occupant

Fixed costs per 2016 budget	R'000	Comments
Laundry	3511	Specifically stated as fixed costs irrespective of activity levels.
Cleaning services	12761	Specifically stated as fixed costs irrespective of activity levels.
Premises rental costs	37124	Fixed in nature
Electricity and Water (10%)	897.5	Management accounts state it is 90% variable and 10% fixed
Other indirect costs	33076	Management accounts state it is predominantly fixed costs
Administration costs	44756	Management accounts state it is predominantly fixed costs
Employee costs	38828	Assumed as 20 % fixed costs to account for the high level management.
Depreciation	15200	
Finance charges	2087	Can be seem as financing the company on a yearly basis
Total fixed costs	188240.5	Sum of the above fixed costs

Total revenue per 2016 budget	554685	
Total patient days per 2016 budget	94000	
Average revenue per patient day	5.900904255	=B131/B132 See assumption below
Average variable costs per patient day	3.278260638	=B135/B132
Total variable costs	308156.5	Sum of below variable costs
catering services	15604	See below assumption
Electricity and water (90%)	8077.5	Management accounts state it is 90% variable and 10% fixed
Employee costs	155312	Assumed to be 80% variable based on the number of patients treated.
Pharmaceuticals	129163	Assumed to be 100% variable as these are only issued upon request of a patient
Contribution per paid patient day	2.622643617	=B133-B134
Breakeven in paid patient days	71775.097	
Total capacity paid patient days	134670.4871	As per 2016 budget. (94 000 / 69.8%)
Breakeven %	**0.532968273**	53.30%

Assumptions	**Reason**
Other income	This would not directly affect breakeven for the hospital and is a separate cash flow.
	It would also not be material to the outcome of the calculation
Depreciation	Currently, an accounting breakeven approach was taken, thereby having to include depreciation.
	Thereby, we did not take a cash flow breakeven into account
Interest income	Not seen as material in the calculation and is not affected by occupancy levels.
Catering	The catering is variable based on patients being admitted. Currently, it is included as being variable based on the total # of patients.
	The difference would not currently be material to the calculation.
Basis for calculation	The paid patient days is used to determine occupancy levels.
	Therefore, I determined the revenue per patient day

This was a good answer. The breakeven revenue occupancy calculations were technically correct – the only debate would be whether employee costs are fixed or variable in nature.

Including finance charges in the operating costs was insightful – here again, the debate would be whether this cost is fixed or variable.

This attempt could have been assessed as HC however, there was no comment on the calculation results and limited insightful comments on the complexity of breakeven in a hospital environment.

Limited competent

From: Financial Accountant
To: Joanne Needham
Subject: Break-even
Date: 18 November 2015; 12:00 pm

Hi Joanne

I thrust that this e-mail finds you well.

Please see below the break-even calculation for the hospitals for the year ended 2016 (budget):

	R'000
Fixed costs	
Laundry	3 511
Premises rental	37 124
Cleaning	12 671
Water and electricity (8 915 x 10%)	897,5
Other indirect costs	33 076
Admin costs	44 756
	132 035,5
Total revenue	554 685
Less: Variable costs	(217 821,5)
Employee costs	(194 140)
Catering	(15 604)
Water and electricity (8 915 x 90%)	(8 077,5)
Contribution	336 863,5
Number of surgical procedures (69,8% x 28 250)	19 718,5
Contribution per procedure (336 863,5 / 19 718,5)	R17 083

Break-even occupancy

$$\frac{132\ 035{,}5 / 17{,}08}{28\ 250} \text{ X } 100$$

= 27, 36%

Additional information

- The break-even occupancy is 27,36%, which is less than half of our budgeted occupancy of 69,8%. This is good news.
- The above figures will be refined with actual figures.
- We did not take into account the increased cost of water and electricity for 2016. Water shortages currently could result in there being a large increase in the cost. Electricity has also proved to be expensive in the current year and this could be the case going forward.

Employee costs were classified as variable in nature – this is a contentious issue as salaries and wages tend to be more fixed in nature than variable. Pharmaceutical & surgical supplies expenditure of R129.1 million was omitted from the calculations – surprising given the materiality of the amount.

The calculation of breakeven occupancy was difficult to follow. Reviewing the results of the calculations, the following errors were noted:

- Number of surgical procedures was incorrectly calculated as number of admissions x occupancy
- The maximum surgical occupancy was calculated as 28 250 – no information was supplied in the case study regarding surgery capacity

The candidate did not understand the concept of occupancy – pre-research would have revealed that occupancy is equivalent to actual number of paid patient days divided by maximum bed nights.

Overall, there was limited evidence of being able to calculate breakeven revenue and convert this into related occupancy.

PART (h)	
Assume you are the financial accountant at Arubah	
(h)	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.

Highly competent

To: Mr Malcolm
From: Financial Accountant
Date: 18 November 2015
Subject: Critical Commentary of key issues raised by Crackerjack & Co. and further suggestions

Good day Mr Malcolm

As requested, please find below a critical commentary on the key issues raised in the email received Stephanie from Crackerjack & Co, a management consultancy firm, who you met at the Food & Wine Show last week Wednesday.

Critical commentary of Key Issues identified in Stephanie's email:

'Allocate the necessary time and resources to the project - without a dedicated internal team to drive the project, your chances of success are minimal.
I strongly agree with this comment. It is crucial to appoint a dedicated IT team to oversee the implementation and to ensure that everything runs smoothly. The System will be used for many years therefore the initial investment is small in comparison to savings realisable in the future. For example, Life Healthcare, a listed competitor spent R49m in 2014 illustrating the importance of not restricting time and resources. Furthermore, the implementation of the new ERP system is likely to happen from 2017 which is only just over 1 year away. We need to make sure we find a provider soon so that we have sufficient time to test and implement the system.

'Get management buy-in'
This is crucial to the success of the implementation. Management need to be in full support of the ERP provider selected and the implementation of the system. Management will be able to make the most use of the vast array of reports expected to be extractable from the system and thus need to be enthusiastic and dedicated to participate in training as well as provide feedback on the system during the testing phase to ensure it is adequate for the needs of management.

'Choose an ERP suited to your industry - ERP systems are difficult to customise to your requirements so best go with a system that is inherently tailored to your industry dynamics'
This is a valid point as non-customised ERP systems are often cheaper and easier to implement which may be attractive to Arubah. There can however be a huge benefit in customising the ERP to suit the needs of the company however the cost vs. benefit would need to be further investigated to justify the additional expense. As Arubah is considered small in comparison to listed competitors (currently only 3 hospitals compared to Life Healthcare who have 56, I don't believe it is justifiable to customise the ERP system and rather purchase a shelf product as they are cheaper and will be easier to implement.

'Appoint external consultants to assist in preparing for the system changeover and in project planning the implementation - rather use objective third parties with deep experience in the ERP system than be blindly led by ERP vendors.'

ERP vendors have a history of merely selling the product and not offering sufficient after sales support. It is thus a good suggestion to have a separate after sales ERP implementation specialists should the vendor have a history of poor after sales support. Furthermore, one of the biggest risks with ERP systems is transferring of data from the old system to the new ERP system. An independent third party is suggested as they will be able to give unbiased opinions regarding the implementation, however this function may be performed by our auditing firm. This will need to be evaluated in terms of independence, however Arubah will benefit as the audit team can more easily gain assurance over the transfer of balances resulting in possible audit fee savings. The relevant safeguards will need to be in place to ensure separate teams perform the IT services and management needs to make all the major decisions to ensure the self- review threat to auditor independence is reduced to an acceptable level.

'Be Patient'
This is a valid key issue as often ERP implementations are rushed resulting in errors that are more difficult to fix after the system is live. sufficient time needs to be allocated to the project to ensure the correct system is implemented as this is vital to the success of the ERP. This is the phase where most other ERP systems fail as management are impatient during the testing phase and do not see the importance of not rushing the process.

'Accessible to most users - most users want to be able to connect via smart phones and tablets, so make sure this is feasible in terms of the ERP system and security is paramount'
The requirements of end users are paramount in considering which system to choose. I don't believe that personal smart phones and tablets of the nursing staff, case managers and administration staff should be used as this will open up an array of confidentiality and information security issues. The system should however allow for tablets to be used to capture data at the hospitals. Security is an extremely important issue and it is suggested that reputable vendors be used to ensure the patient data is kept as safe as possible.

Additional key issues that should be addressed when deciding the selection and implement of an ERP system:

- It is of vital importance that the correct advice is obtained regarding which ERP provider to select. As a result, I suggest getting a second opinion as even though Stephanie mentioned that Crackerjack & Co are not aligned with any ERP providers, they may still be rewarded based on a referral system they have in place with the various ERP providers.
- Before implementing and selecting the ERP system, we need to ascertain whether there is a cost benefit of the new system which will also impact the amount we are prepared to spend on implementing. Our current system has clear floors including too much paper usage, inefficiencies due to duplication of capturing information, and a large variety of errors that could occur resulting in lost profits. The ERP system, if selected and implemented successfully will address these issues and save costs.
- A key issue is the loss of data from the implementation of the new ERP system. As crucial patient data will be stored on the system, the system selected needs to have offsite backup capabilities in case of fires and theft at the hospital and ideally have cloud backup functionality to reduce the risk of data loss.
- The funding of the system is also a key issue when selecting and implementing the ERP system. As the First Regional Bank loan is to be settled in 2016, Arubah should not have any difficulty obtaining additional finance as we have a strong balance sheet and a debt to equity ratio of less than 1:1 showing that we will be able to obtain finance to implement the system.
- A key issue is the age of Doctors and whether they will be able to operate the new system. Extensive training will be required and this will influence the type of ERP system to implement. This emphasizes the importance of selecting and implementing an easy-to-use systems the requirements of the end users (Doctors, case managers, nurses, Medical Aid Schemes) need to be considered.
- The selection and implementation of the system needs to ensure compatibility with the new IFRS 15 standard effective 1 January 2018. The system will need to be operational and effective before this date to adhere to the new requirements of IFRS 15.
- The medical aid schemes need to be able to connect to the ERP to track their patients and billings which needs to be a key issue when selecting which system to implement
- The scalability of the system is also a key issue. As Arubah is growing and expanding it needs to be able to cope with sufficient data volumes in light of the new day care clinic likely to open in 2017.

Please do not hesitate to contact me should you have any further queries.

Kind Regards
Financial Accountant

Numerous insightful comment were made in this candidate response including:

- Arubah is small compared to larger hospital groups and hence, may not be able to afford customizing an ERP system to its unique needs
- Data migration is a key risk in ERP implementations
- Involving the auditors may be a wise move
- Whether the ERP system can address existing control weaknesses & cost benefit analysis
- Scalability of the system
- Access to ERP system by medical aids

The email response was balanced and contained many useful and valid issues to consider.

Competent

To: Brendan Malcolm
From: Financial Accountant
Date: 18 November 2015
Subject: ERP Systems

I hope you are well.

I have looked over Crackerjack and Co's issues regarding the possible ERP system implementation and have some comments and further key issues I would like to add.

Comments

- Crackerjack is correct in saying that time and resources will be required, and an internal team that is willing to make it work.

  The ERP system is likely to be very costly, not only for the ERP software but also new hardware that we may need to purchase to facilitate the new ERP system which will require advanced software.

  The ERP system will also be time consuming to implement in terms of training staff to use the system, resolve any system bugs or run a trial run period. The average time period to institute an ERP system is between 1 and 3 years.

  A dedicated internal team will be required to ensure that the system implementation is successful. The team should comprise people from different departments like finance, admin and medical staff to ensure everyone's needs are met.

  Management buy-in is essential. The key managers from all divisions need to be on board as they are the experienced employees who can ensure the implementation process is as smooth as can be. Key managers' involvement is will ensure that the ERP system is customised and is able to perform all that is required of it as they have the best understanding of the business. Management will need to understand how long the project will take and that a firm commitment from them upfront is needed, otherwise the ERP system will not be successful.

- Customised ERP system: This would be the best option; although a customised system is more expensive, it will be more valuable. Using a general ERP system and then trying to customise it may be too difficult and time consuming, also it might not work. Having a system that meets our needs will benefit Arubah tremendously.

- External consultants: Crackerjack may be pushing their services on us by saying that ERP vendors may not perform so well without Crackerjack being there to ensure our needs are being met. However, since only you, Mr Malcolm, have experience in utilising an ERP system and the fact that this is a first-time implementation for Arubah, it may be safe to make use of Crackerjack's services. Although this is an added expense, this will greatly minimise the chances of the ERP systems implementation failing and also ensure that our interests are well looked after.

- ERP systems are a long process, average of 1-3 years, which is a very long time considering the amount of effort which we, at Arubah, will have to put it. Implementing an ERP system can be very frustrating at times as bugging problems may arise and the system may not work as intended initially. Arubah will have to be very committed to completing this project and know that it may take a few years as once started, Arubah will only stand to lose if it has to be stopped.

- Accessible to mobile users: This may be a very efficient way to use the ERP system, whereby employees can update patient files using tablets located throughout the wards in the hospital. However, I don't think mobile access is necessary as this could lead to unnecessary security and system problems.

Further key insights

- How will the cost of the ERP system be determined, that is, will the amount at time taken to install be a factor or is a standard cost charged for full development and installation?
- Arubah must consider whether any additional costs may be payable after implementation.
- Is Crackerjack's service guaranteed? This is, how do we determine if Crackerjack has done their job correctly? If something is not done properly, who is to blame – Crackerjack or the ERP vendor?
- What will the implementation be like? Will the old system be shut down completely or will there be a phase-in period.
- There is a new IFRS 15 standard applicable in 2018. Should the ERP system not be based on the requirements of IFRS 15, since it may take a few years to be implemented and thus no additional costs will be needed to modify the system.
- Will the ERP system be able to extract relevant reports required for the auditors, and for medical aid schemes?
- Arubah needs to estimate costs to train staff employees and consider the fact that errors may be made in the initial start-up period.
- Implementing a new system will most likely increase the audit fee as the new system will need to be tested.
- It may be better to implement the ERP system on the new clinic and see how that works out before incorporating it into all three hospitals.
- Migration of existing data needs to be considered as this may be difficult and time consuming to do. Also loss of data may occur.
- Can the ERP system be customised to fully meet the needs at Arubah or will Arubah have to adjust their methods to conform to the ERP system?
- Any additional costs that the ERP vendor may require, such as unforeseen costs that may arise upon implementation.
- Crackerjack's reputation needs to be examined; try to obtain permission to contract previous clients or ask about their experience of Crackerjack's services.

Please feel free to contact me should you have any queries.

Yours sincerely
Financial Accountant

The commentary on the issues raised by Crackerjack was insightful and useful. The email lost impetus in dealing with additional issues to be considered. The list of factors was not as effective as discussing issues. There was some repetition of issues such as ERP system costs.

The task was competently attempted but did not stand out as HC.

Limited competent

To: Malcolm
From: Financial Accountant

18 November 2015

Re: ERP Systems

Dear Malcolm

I have read the e-mail from Stephen regarding the ERP system and I have the following comments:

- Feasibility of the ERP system needs to be conducted.
- Cost versus benefits needs to be performed.
- Advantages and disadvantages of the system need to be considered.
- Use capital budgeting principles to assess if investments in such a system will be worthwhile.
- Arubah must consider that such systems take a long time to be implemented.
- Arubah must consider if they have enough resources to invest in this system under current market conditions.
- This system will be good for expansion into day clinics.

Key issues to consider

- Loss of audit trail if ERP is implemented.
- Impact of load shedding on the data as generators sometimes do not work.

Kind regards
Financial Accountant

This attempt was far too short. It failed to respond to the entire task – there was no commentary on the issues raised by Crackerjack. Instead, it was a brief list of factors to consider with no explanation or discussion thereof.

