

## **Examiners Comments**

### **Assessment of Professional Competence**

### **November 2017**

#### **OBJECTIVES OF THIS REPORT**

This report has been compiled from the analysis of examiners on candidates' performance in the Assessment of Professional Competence (APC), which is Part II of the Qualifying Examination and which was written in November 2017. Its objectives are to –

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

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

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

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

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

- Background and acknowledgement on the setting of APC November 2017
- Statistics and detailed comments by section/required

**More detailed statistics can be found on the SAICA website at [www.saica.co.za](http://www.saica.co.za).**

## **BACKGROUND AND ACKNOWLEDGEMENT ON THE SETTING OF APC NOVEMBER 2017**

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

### **Source of the questions**

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

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

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

In this regard, the following applies:

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

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

Anyone involved in the professional programmes may not be engaged by SAICA to perform the role of external reviewer.

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

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

The external reviewers have the following tasks:

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

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

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

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

Christo Landman	Mandi Olivier
Ferdinand Mokete	Marielienne Janeke
Frans Prinsloo	Nico van der Merwe
Greg Beech	Nomonde Holomisa
Janine Claassens	Paolo Giuricich
James Rowson	Petri Strauss
Gregory Plant	Sphiwe Stemela
Jacques van Rooyen	Terry Moore
Keshni Kuni	Zuleka Jasper

### **COMMENTARY ON CANDIDATES' PERFORMANCE IN THE APC 2017**

The 2017 case study was based on a hypothetical online learning business, namely Metagog Institute (Pty) Ltd ('Metagog'). The feedback from the professional programme providers was that the case study and the tasks were real-life and topical. The tasks themselves were well triggered in the pre-released information, although it was difficult to anticipate the exact nature of the tasks on the day of the assessment.

Candidates generally coped well with tasks (a), (c) and (f) whilst tasks (b), (e) and (h) were moderately difficult. Most candidates struggled with tasks (d) and (g). A balance of easy, moderate and difficult tasks in the APC is deliberate and assists in the overall evaluation of professional competence.

The senior markers noticed a decline in the quality of responses to the 2017 APC in comparison to prior years. In particular, the following were a concern:

- Many candidates were writing far too much in response to the tasks. One candidate wrote over 50 pages manually! In real life, your immediate boss would reject lengthy email responses to particular tasks. While the length of a response to tasks is a matter of professional judgment, 12-page emails expanding upon accounting or taxation matters is inappropriate;
- We noted that certain candidates responded to tasks with a brief email and a lengthy attachment. This does not overcome the issue raised above of responses that are too lengthy. Future candidates are warned to refrain from responses that are too long;
- We noticed ITC type responses in tasks (a), (c) and (d). Granted that these tasks were technically orientated, but explaining accounting and taxation issues to a non-accountant requires technical competence and pervasive skills. For example, listing tax case law in support of arguments in tasks (c) and (d) is inappropriate; and
- We noticed an increasing incidence of no attempts (NA) to particular tasks. A NA to any task places candidates at enormous risk of being deemed limited competent overall.

The section below contains a summary of candidates' general performance for each part of the case study. These should be read in conjunction with the published examples of actual candidate attempts per task, based on mark team assessments of 'limited competence' (LC), 'competent' (C) and 'highly competent' (HC) attempts.

Task (a)

Competence area	APC 2017 candidate results		
	Not competent	Borderline	Competent
Accounting & External Reporting	5,69%	34,41%	59,90%

(a)	<p><i>Review and comment on the draft goodwill workings as requested by Ingrid Jansen in her email (document 1).</i></p>
	<p><b>DOCUMENT 1</b></p> <p><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p>
	<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 7:17 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Acquisition of shares in Vame</p> <p>Good morning</p> <p>I received the attached documents from Azania last night. Metagog wants us to assist them with working out the accounting for the acquisition of shares in Vame in Metagog's statement of financial position on the acquisition date of 1 November 2017. We are under a bit of pressure to get this done asap as I have a meeting with Azania and Tyler on Friday. Metagog acted quickly to reel in Vame, but the accounting considerations were left behind somewhat.</p> <p>Azania forwarded the draft goodwill calculation that has been prepared by Metagog's financial manager (see extract 1.3 attached). Kindly send me specific comments/critique on this calculation. I only need you to consider the effect on the consolidated financial statements as the impact on the separate financial statements is straight forward. Also, there's no need at this stage to do further number crunching; just high-level commentary for now.</p> <p>Please keep in mind that Azania, Tyler and I are not qualified accountants, so don't make it overly technical ☺</p> <p>Thanks, looking forward to your input.</p> <p>Regards  Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See <a href="http://www.millennialconsultsa.co.za/disclaimer/email.htm">http://www.millennialconsultsa.co.za/disclaimer/email.htm</a> for more details.</small></p>

## ATTACHMENT TO EMAIL

### Vame due diligence and other documents related to the acquisition (extracts)

#### Extract 1.1: Extracts from auditor's report on the 2017 annual financial statements of Vame

### Independent Auditor's Report (extracts)

*To the Shareholders of Vame (Pty) Ltd*

#### *Qualified opinion*

We have audited the financial statements of Vame (Pty) Ltd as set out on pp. 4–37, comprising the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the *Basis for qualified opinion* section of our report, the financial statements present fairly, in all material respects, the financial position of Vame (Pty) Ltd as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

#### *Basis for qualified opinion*

The company has failed to disclose a contingent liability stemming from an ongoing legal dispute with a major customer, while there is a possibility that the claim will be successful, according to independent legal opinion. In terms of International Financial Reporting Standard IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, such contingent liabilities shall be disclosed. The claimed amount is R2,5 million and the amount to be awarded as well as the timing of any outflow will be determined by a court of law. Furthermore, no re-imburement will be possible.

#### *Material uncertainty related to going concern*

We draw attention to note 24 of the financial statements, which indicates that Vame (Pty) Ltd incurred a net loss of R1,3 million during the year ended 30 June 2017 and, as of that date, the company's current liabilities exceeded its current assets by R28,1 million. As stated in note 17, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on Vame (Pty) Ltd's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Extract 1.2: Explanatory notes prepared by Azania Njeke

- Though Vame is currently making losses, we are prepared to pay the amount per the sale of shares agreement for amongst others the following reasons:
  1. With Vame's intellectual capital (mainly vested in Tebogo and James) and Metagog's established relationships with educational partners, Vame can become profitable within the next 2–3 years, if not sooner. The company has huge potential.
  2. In addition to owning a property in Rosebank, Vame has top-end computer equipment.

3. Vame has unique game design and rendering technologies that were developed and patented by the company.
  4. Though the business is young, there seems to be a loyal customer base.
  5. Vame has an existing contract with a leading local university to design a number of online learning games for it over the next three years.
  6. Vame has a sizeable assessed loss that it is for some reason not carrying as an asset on its balance sheet.
- We plan to restructure Vame's operations at an estimated cost of R500 000 after the acquisition.
  - The attorney's fee for drawing up and advising on the agreements amounted to R277 480 (paid by Metagog).

Extract 1.3: Draft goodwill calculation prepared by Metagog's financial manager

	<b>R'000</b>
<b>What we pay</b>	
Upfront cash payment	1 000
Issue of 200 shares ((15 195 000) total equity Metagog x 200/1 500 shares)	(2 026)
Take-on bonus	1 500
Additional cash payment (highly probable)	2 000
Restructuring costs	500
Attorney's fees	277
	<b>3 251</b>
<b>What we get</b>	
Property, plant and equipment	6 983
Capitalised technology development costs	13 205
Trade receivables	520
Other assets	378
Cash and cash equivalents	2 145
Intellectual capital (note 1)	1 500
Customer relationships (note 2)	4 920
New contract with local university (note 3)	3 845
Assessed loss (8 998 000 x 28%)	2 519
Bank loans	(21 000)
Trade payables	(4 731)
Accruals	(2 450)
Deferred revenue	(3 048)
Total net assets acquired	<b>4 786</b>
55% share	<b>2 632</b>
Therefore, goodwill is 3 251 000 – 2 632 300 =	619

**Notes**

1. The amount for intellectual capital represents the expertise of mainly Tebogo and James, the founding members of Vame. This asset is valued at R1 500 000, being its cost price. That is the amount of the take-on bonuses payable to Tebogo and James to stay with the company until at least June 2021.
2. The value of customer relationships was determined by discounting expected

	<p>revenues from existing customers, as estimated by Vame, over the next five years (conservative) at the SA prime interest rate.</p> <p>The value of the contract with the university was determined by discounting expected revenues from this contract, as estimated by Vame, over the next three years at the SA prime interest rate.</p>
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In task (a), the task at hand was that the junior consultant (represented by the candidate), was required to review a draft goodwill calculation received from Azania (the client), which was prepared by the financial manager of Metagog (the client), in connection with the acquisition of another company (Vame – a third party).

In answering this task successfully, the candidates needed not only to demonstrate the technical competence in connection with IFRS 3 *Business Combinations*, but were also required to exhibit the pervasive skills of being able to evaluate information (i.e. being able to work through the given draft goodwill calculation in a systematic, analytical and critical manner) and being able to present their findings in an appropriate manner to Azania with an appropriate professional tone.

There was a trigger in the pre-released information to research how the acquisition of the shares in Vame should be accounted for. It was also clear that a controlling interest was obtained, with some detail on what the consideration consisted of. The latter gave candidates a clear indication that IFRS 10 *Consolidated Financial Statements* and IFRS 3 *Business Combinations* were important areas within Financial Reporting that they may have needed to research before the APC.

The information on the day presented the actual draft goodwill calculation, which required the candidates to perform the following:

- Send Ingrid (the candidate's senior) comments/critique on this calculation;
- by only considering the effect on the consolidated financial statements;
- not providing any further calculations (number crunching); and
- while keeping it simple and not overly technical as the audience (Azania, Tyler and Ingrid) are not qualified accountants.

Candidates who displayed competence showcased not only the ability to evaluate the draft goodwill calculation adequately, but also addressed several key issues in the draft goodwill calculation provided. The latter included the following:

- Good coverage and technical accuracy of the principles in connection with the consideration transferred for the shares (i.e. what we pay).
- Good coverage and technical accuracy of the principles in connection with the assets obtained and liabilities assumed (i.e. what we get).
- Good arguments on whether the different intangible assets, which included the intellectual capital, customer relationships and the new university contract, qualified for being recognised in the consolidated financial statements (i.e. whether they were separable).
- Presenting a discourse that was not overly technical and with an appropriate tone.

Overall, the majority of the candidates addressed the first three aspects adequately, but lacked the ability to keep the comments/critique from being overly technical. Candidates who excelled in this task meticulously worked through the calculations and identified not only the key issues noted earlier, but also other, more technical errors and omissions, in the calculation. The latter was only displayed if the candidate had an in-depth knowledge of IFRS 3 *Business Combinations*. Candidates who did not perform well in this task lacked the ability to identify the technical errors and omissions in the draft goodwill calculation provided, and did not deal with the specific issues such as the various intangible assets adequately.

This task is a good example of what candidates would be exposed to, and be required to do, in practice.

Task (b)

Competence area	APC 2016 candidate results		
	Not competent	Borderline	Competent
Audit & Assurance	17,87%	53,20%	28,93%

(b)	<p><i>Respond to Ingrid Jansen's email by –</i></p> <ul style="list-style-type: none"> <li>• <i>preparing the internal control checklist in the format requested; and</i></li> <li>• <i>providing further advice to assist Metagog with managing the 'crisis of confidence'. (document 2)</i></li> </ul>
	<p style="text-align: center;"><b>DOCUMENT 2</b></p> <p style="text-align: center;"><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p> <div style="background-color: #e0e0e0; padding: 5px; margin-bottom: 10px;"> <p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 7:40 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Fwd: Crisis of confidence</p> </div> <p>Please note that our 10:00 meeting has been cancelled. Instead, could you please prepare a first draft of a reply that I can send to Azania Njeke, in response to her email queries below, for me to review?</p> <p>Regards Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See <a href="http://www.millennialconsultsa.co.za/disclaimer/email.htm">http://www.millennialconsultsa.co.za/disclaimer/email.htm</a> for more details.</small></p> <p>Begin forwarded message:</p> <div style="background-color: #e0e0e0; padding: 5px; margin-bottom: 10px;"> <p><b>From:</b> Azania Njeke  <b>Sent:</b> Wednesday 22 November 2017, 6:17 AM  <b>To:</b> Ingrid Jansen  <b>CC:</b>  <b>Subject:</b> Crisis of confidence</p> </div> <p>Dear Ingrid</p> <p>Unfortunately, I must cancel our meeting scheduled for 10:00, as I have to deal with a crisis. Our content providers are now questioning the integrity of the figures that we have reported and paid to them as their share of the revenues.</p> <p>This crisis resulted from an anonymous email that was sent to all our content partners. I suspect that this was done by a competitor, but I have no evidence ... As I am sure you will understand, this could have dire consequences for Metagog, if not managed properly. My point of departure, in dealing with this matter, will be to evaluate whether those aspects of our internal control system aimed at ensuring that the revenue share due to each of our content partners is not understated, are strong (as has been claimed by my staff).</p> <p>Therefore I would like your firm to prepare a checklist reflecting (i) the areas that we</p>



should consider when undertaking the evaluation, as well as (ii) the nature/examples of the internal controls that should be operating in each area, to ensure that our system does not understate the share of revenues due to each content partner.

I attach a brief outline of the systems description, prepared by my team, to this email – but unfortunately it seems rather light on internal controls (I can only hope that these have been omitted!). I will use your checklist to engage with my team on the matter.

Also: Any further advice you can provide in assisting us to manage this situation will be greatly appreciated!

Regards

Azania Njeke

**CEO: Metagog Institute (Pty) Ltd**

*'An investment in knowledge pays the best interest' Benjamin Franklin*

### **ATTACHMENT TO EMAIL**

#### **Description of system used to compute share of revenue due to content partners**

1. In terms of the agreements we concluded with our content partners, the partner's share of the revenue from a short course is settled in two payments:
  - Forty percent of the partner's share becomes due when delegates register for a course.
  - The remainder becomes due upon the completion of a particular course offering.
2. Our website, the online learning platform, as well as much of our software and databases, are hosted on servers operated by Amazing Web Services, a service organisation with whom we have contracted for this purpose.
3. When a person wishes to register as a Metagog delegate for the first time, s/he provides all relevant personal information on the registration page of our website. This information is used to update our delegate database.
4. When the registered delegate wishes to register for an online course, s/he selects the course from the course catalogue pages of our website. The course information displayed (e.g. course outcomes, syllabus, course fee, duration) is extracted from the course database for the delegate's review. Once the delegate has confirmed the course selection, s/he has to indicate whether the registration is to be paid by a corporate client, or by the delegate him/herself.
5. Once all the pertinent data required for completion of the registration has been captured, and the necessary verifications undertaken, the course registrant database is updated.
6. At the end of every month, our accountant extracts two reports from the course registrant database: one report reflecting all new course registrations for the month, and a second report reflecting completed courses for the month. The details in these reports include the course registration date, course completion date, course fee and the content partner. These reports are downloaded and imported into an MS Excel spreadsheet on the accountant's computer.
7. The accountant then sorts this data by content partner and uses the '=sum function' to cast the course fee column to determine the fees generated by each content partner with regard to new registrations and completed courses.
8. The accountant then prepares a schedule (spreadsheet) summarising these

	<p>totals and uses an MS Excel formula to multiply the amounts with the appropriate percentages, depending on whether the amount relates to new course registrations or completed courses. This amount is recorded on a credit note and posted to the content partner's account in the creditors' ledger.</p> <p>9. In the event that delegates for a particular short course on average give a course evaluation of below 60%, a 10% discount is granted to the participating delegates (which is shared equally by Metagog and the content partner). This amount is recorded on a debit note and posted to the content partner's account in the creditors' ledger.</p> <p>10. The CEO and CIS authorise the EFT payment in respect of each content partner's revenue share, after agreeing the EFT amount to the balance on the partner's account in the creditors' ledger.</p> <p>11. Once the payment has been effected the accountant sends the credit and debit notes to each content partner.</p>
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The majority of candidates were assessed as being borderline competent on the task, which was in line with the expectation for this task. The task is considered to be difficult in that candidates needed to 'wrap their heads' around the entire revenue generation process (requiring breadth in the response) and to provide a checklist of appropriate, feasible controls that the management of Metagog needed to implement to reduce the risks in each stage of the revenue process. The fact that the revenue generation process is heavily automated but also relying on manual interventions (inputs into the registrant database and the Excel spreadsheet application), meant that candidates needed to provide a good mix of both manual as well as automated controls. A generic list of controls does not fly for this task and neither did a list of audit procedures.

The role in which the candidate was placed here was to provide controls that management could implement. Where candidates did not achieve sufficient coverage in terms of their suggested controls in relation to the entire revenue generation process, they could not be assessed as competent. Neither could they be assessed as competent if the controls were superficial, inappropriate and not targeting the risks to which Metagog were exposed.

However, the task had a further element and that was to respond to the request for appropriate responses to the crisis of confidence. Candidates were expected to mention at least two suitable responses to be assessed as competent here, which could have included the following:

- Tasking the Metagog auditors to prepare an ISAE 3402 type 2 report;
- Engaging with the partners; and
- Providing the partners with an opportunity to be able to check the calculation of the revenue share.

A competent candidate on this task was therefore a candidate who –

- provided a broad enough list of appropriate controls to target the risks Metagog is exposed to in the revenue generation process; and
- responded to the request for initiatives to be undertaken to address the crisis of confidence.

Task (c)

Competence area	APC 2016 candidate results		
	Not competent	Borderline	Competent
Accounting & External Reporting and Taxation	10,07%	56,09%	33,87%

(c)	<p><i>Draft a response to Azania Njeke on behalf of Ingrid Jansen as requested in her email. Ensure that both the financial accounting and VAT implications relating to revenue and to the existing revenue-sharing arrangements with the respective partners are covered (document 3).</i></p>
<p><b>DOCUMENT 3</b></p> <p><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p>	
<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 7:55 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Fwd: Accounting and VAT treatment</p>	
<p>Hi again</p> <p>Looks like today is going to be a long day. Please see Azania's request below. Could you draft a response to her for me to review? Thanks a mil.</p> <p>Regards  Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p>	
<p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See <a href="http://www.millennialconsultsa.co.za/disclaimer/email.htm">http://www.millennialconsultsa.co.za/disclaimer/email.htm</a> for more details.</small></p>	
<p>Begin forwarded message:</p>	
<p><b>From:</b> Azania Njeke  <b>Sent:</b> Wednesday 22 November 2017, 7:01 AM  <b>To:</b> Ingrid Jansen  <b>CC:</b>  <b>Subject:</b> Accounting and VAT treatment</p>	
<p>Hi Ingrid</p> <p>Our Board needs preliminary advice regarding issues we had identified during our last Audit Committee meeting.</p> <p>Patsy has this idea that we can present our revenue line item on a gross basis before deducting our partners' share? For me this just does not sound right from an accounting perspective. We currently treat it on a net basis – i.e. we present revenue net of our partners' revenue share in our accounting records and financial statements. Also, Metagog currently charges delegates VAT at 14% on the tuition fees and claims input</p>	

	<p>VAT on our South African partners' 50% share even though they do not issue VAT invoices or credit notes to us. Is this the correct VAT treatment?</p> <p>Please keep it reasonably simple as I will forward your response to the rest of the Board.</p> <p>Regards Azania Njeke</p> <p><b>CEO: Metagog Institute (Pty) Ltd</b></p> <p><i>'An investment in knowledge pays the best interest' Benjamin Franklin</i></p>
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This task required candidates to respond to two elements, namely whether Metagog should account for its revenue on the gross or net basis and to address the VAT implications relating to revenue. In answering this task successfully, candidates needed to demonstrate technical competence in both financial reporting and taxation, as well as the pervasive skills to present findings in an appropriate manner to a non-financial accountant with professional tone.

There was a clear trigger in the pre-released information to research the following:

- Metagog's presentation of the revenue line item; and
- Value-added tax (VAT) treatment of the revenue.

Most candidates displayed competence in this task (c). These candidates –

- identified that the financial reporting issue was whether Metagog should be accounting for its revenue as an agent or principal;
- in sufficient depth and breadth debated whether how the indicators as per IAS 18 or IFRS15, relating to agency or principal would apply to Metagog;
- in terms of the VAT debated whether Metagog was an agent or principal for VAT and then how Metagog should account for its output tax, on both local supplies as well its export supplies; and
- appropriately considered the input tax considerations for Metagog.

While there was no correct or incorrect solution to this task, candidate were expected to debate the alternatives and reach an appropriate and consistent conclusion

Candidates who excelled in this part, appropriately debated the financial reporting and VAT considerations for Metagog as above and in addition –

- considered the effective date of IFRS 15 as Metagog would still be applying IAS 18;
- showed a clear understanding of Metagog's business model and the information provided in the pre-released information;
- debated whether Metagog was providing educational services that would be exempt from VAT in terms of s12(h);
- identified the correct VAT treatment consistent with their financial reporting element to the task; and
- reached conclusions that were consistent and solutions that would be easily understood by a non-accountant.

While most candidates demonstrated competence in this part, the mark team noticed that many candidates displayed very limited technical competence and understanding in their application of VAT principles. Often candidates' solutions relating to the VAT element of this task were incoherent and lacked logical thought and application.

Task (d)

Competence area	APC 2016 candidate results		
	Not competent	Borderline	Competent
Taxation	26,34%	46,17%	27,49%

(d)	<p><i>Respond to Ingrid Jansen's email regarding the income tax implications for Metagog if it agrees to the restructuring of the loan terms as requested by Ron Langley (document 4).</i></p>
	<p><b>DOCUMENT 4</b></p> <p><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p>
	<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 7:59 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Tax treatment of loan</p>
	<p>Hi again. I would appreciate your views on the tax implications of Ron Langley's loan.</p> <p>Azania asked me about this recently after discussions at the last Metagog Audit Committee meeting and I said that I would get back to her. She apparently attended a seminar recently in which she gathered that the tax consequences of convertible loans (and specifically hybrid interest in relation to any debt issued by any company) are fairly complicated. I'm not sure if those complications apply to Metagog.</p> <p>Azania also mentioned that Ron requested that the terms of his loan be reviewed as he feels that the fixed rate of interest does not give him an appropriate return in view of the high risk he is taking on the unsecured loan. He suggested a profit share of 2,5%, calculated with reference to Metagog's net revenue as disclosed in the annual financial statements, over and above the fixed rate of 12%, which will give him an adequate return for the risk he perceives he is taking. Metagog will therefore pay a fixed rate of interest of 12%, plus a profit share of 2,5%. What are the tax implications (income tax and VAT) for Metagog if it agrees to the restructuring request from Ron? I was also wondering whether the profit share will be treated in the same manner as the profit share of the partners.</p> <p>Regards  Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p>
	<p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See <a href="http://www.millennialconsultsa.co.za/disclaimer/email.htm">http://www.millennialconsultsa.co.za/disclaimer/email.htm</a> for more details.</small></p>

This task required candidates to address the income tax implications for Metagog if it were to restructure a loan from Ron Langley. In answering this part, candidates needed to consider three sections of the Income Tax Act and its application, namely sections 8F, s8FA and s24J.

There was a clear trigger in the pre-released information to research the tax treatment on the loan from Ron Langley to Metagog, in particular whether the loan would be considered a hybrid instrument in terms of section 8F and an the income tax consequences on the 12% interest in terms of section 24J.

In answering this task competent candidates –

- discussed and correctly concluded that the initial loan from Ron Langley to Metagog did not meet the definition of a hybrid instrument in terms of section 8F(1);
- discussed the requirements of section 24J(2), the deductibility of interest and concluded on the interest deduction of the 12% interest; and
- discussed whether the additional 2,5% profit share that would be paid to Ron would be considered a hybrid interest in terms of section 8FA.

Candidates who performed well not only responded to the core elements of the task but also showed insight and broader understanding of the case study, recognising that Metagog's liquidity issues and paying an additional 2,5% of profits would further strain cash flow. In addition, these individuals also recognised that should Metagog pay the 2,5% profit share the amount would not be deductible but would be subject to dividend withholding tax. These candidates therefore recognised the punitive tax consequences of the payment.

Most candidates failed to display competence in this task, as often solutions lacked depth and application of the applicable sections of the Income Tax Act, despite the task being clearly triggered. Candidates displayed a very superficial understanding of the applicable sections.

Furthermore, it was of concern that many candidates either incorrectly interpreted section 24J(12) and therefore deemed section 24(2) to be not applicable. Some on the other hand concluded that interest was deductible under section 11(a) without considering section 24J.

Task (e)

Competence area	APC 2016 candidate results		
	Not competent	Borderline	Competent
SRMG	15,46%	46,13%	38,40%

(e)	<p><i>Prepare a work plan for the Audit Committee of Metagog for the next 12 months that reflects the information requested by Patsy Zieberman (document 5).</i></p>
	<p><b>DOCUMENT 5</b></p> <p><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p>
	<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 8:01 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Fwd: Work plan for Audit Committee during FY2018</p> <p>Hi again</p> <p>Please see another request from Metagog below – this time from the Chair of the Audit Committee.</p> <p>Could you please draft the Audit Committee work plan for the next 12 months, in the format requested by Patsy Zieberman, for me to review.</p> <p>Regards Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See <a href="http://www.millennialconsultsa.co.za/disclaimer/email.htm">http://www.millennialconsultsa.co.za/disclaimer/email.htm</a> for more details.</small></p> <p>Begin forwarded message:</p> <p><b>From:</b> Patsy Zieberman  <b>Sent:</b> Wednesday 21 November 2017, 11:12 PM  <b>To:</b> Ingrid Jansen  <b>CC:</b> Azania Njeke  <b>Subject:</b> Work plan for Audit Committee during FY2018</p> <p>Dear Ingrid</p> <p>In recent months, I have become concerned that the agendas for our Audit Committee meetings are rather ad hoc, and that the scope of our work is too limited. I previously rationalised this on the basis that Metagog has voluntarily established the Audit Committee, but I think that the time has now come for the Audit Committee to become fully functional and effective.</p> <p>Following an item that I tabled at last week’s Board meeting, I can confirm that the Board has approved –</p>

- the appointment of Millennial Consultants to advise the Audit Committee on how to become fully functional and effective – also taking into account the recommendations of the recently published King IV Report; and
- the establishment of a separate Risk Governance Committee.

As you are no doubt aware, the next Audit Committee meeting is scheduled for 12 December 2017. With our financial year end of 31 December 2017 fast approaching, we must get our ‘ducks in a row’ for the FY2017 audit, while not forgetting about FY2018.

I would therefore appreciate your assistance with the preparation of a work plan that will guide the Audit Committee for the next 12 months in carrying out its responsibilities in the following areas (which are of greatest concern to me):

- External audit-related responsibilities;
- Fraud, bribery and corruption; and
- Committee matters (to ensure the effective functioning of the Audit Committee).

I would like the work plan to reflect –

- the specific tasks/matters that the Audit Committee should attend to in relation to each of the abovementioned areas; and
- an indication of how these tasks/matters should be allocated to, and dealt with at, the next four scheduled meetings (to be held in December 2017, March 2018, June 2018 and October 2018), together with explanations for the proposed timing.

Please email your proposed work plan to me asap, so that I can revise the December 2017 agenda in line with your suggestions, and include the full proposed work plan as part of the agenda pack.

Thanking you in advance.

Kind regards  
Patsy

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The majority of candidates were assessed as being borderline competent on the task, which was in line with the expectation for this task. The task is considered to be difficult given that candidates would not have the practical experience of audit committee matters scheduling. Whilst the candidates would have the required technical knowledge from legislation and codes, they would need to apply themselves practically in the relevance and scheduling of the tasks. The task required candidates to prepare a “work plan” comprising of:

- the specific tasks/matters that the audit committee should attend to in relation to three areas, namely: external audit-related responsibilities; fraud, bribery and corruption; and committee matters; and
- an allocation of the tasks/matters to the relevant meetings.

The issue was triggered clearly in the pre-release information, where reference is made to the effective functioning of the audit committee and the role and responsibilities thereof. Candidates should have also considered the appropriateness of the audit committee members during the pre-release period.

A generic list of audit committee responsibilities would not be appropriate for this task. Candidates would have to make an attempt at scheduling the activities to the relevant meetings. Further, candidates had to address the basics within each of the 3 key areas – for example - core issues pertaining to the independence of the auditors, fraud and independence of the committee members. High level application and thinking involved integrating the matters from the case study into the work plan, such as the adoption of the new revenue standard (IFRS 15) and addressing the revenue internal controls issue. Candidates that made use of a logical layout such as a table orientated by the dates of the meetings or the 3 main areas were able to communicate more effectively.



There was also an embedded element to this task relating to the provision of explanations for the proposed timing. Many candidates struggled with providing meaningful reasons or application.

A competent candidate on this task was therefore a candidate who –

- addressed the basic issues within the 3 main areas of external audit-related responsibilities; fraud, bribery and corruption; and committee matters; and
- made a reasonable attempt at scheduling the various activities to the four upcoming meetings of the audit committee.

Task (f)

Competence area	APC 2015 candidate results		
	Not competent	Borderline	Competent
Management decision-making and control & SRMG	12,98%	50,80%	36,22%

(f)	Respond to Ingrid Jansen's email regarding the proposed Metagog employee incentive scheme (document 6).
<b>DOCUMENT 6</b>	
<b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b>	
<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 8:11 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Help!</p>	
<p>Hi again</p> <p>Azania is clearly not getting enough sleep and rapidly becoming our major client! She has now requested that we review the attached slides prepared internally by the Human Resources Division at Metagog. The HR Division has only outlined a bonus scheme for the marketing and business development and delegate monitoring divisions. If this scheme works, they will roll it out to the other Metagog divisions. The proposed incentive scheme is in response to a directive from the Board of Directors of Metagog that such a scheme should be designed and implemented as a matter of urgency.</p> <p>Please review the attached slides and email your initial thoughts for my eyes only at this stage. Let me know what you think of the key principles and the individual schemes. Thanks.</p> <p>You probably will think that you need a performance bonus after all the stress I have put you under today! Sorry, but consulting is a dynamic and wild business! Hang in there dude.</p> <p>Regards Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p>	
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**ATTACHMENT TO EMAIL**

**PROPOSED METAGOG INSTITUTE EMPLOYEE INCENTIVE SCHEME**

**Proposed Metagog Institute employee incentive scheme**

**Key principles**

- The primary purpose of Metagog is to serve our customers (partners and ultimately delegates)
- Employees should act in the best interests of Metagog in the long term
- The incentive scheme should eliminate agency costs – Metagog and its employees' interests should be aligned
- The employee incentive scheme should lock in good staff, reward excellent performance and encourage underachievers to leave
- Incentives should be a cash bonus – share options are meaningless as Metagog is not a listed company
- Incentives need to be linked directly to key performance indicators (KPIs)
- Peer reviews are critical – each eligible employee should evaluate every other team member's performance, including those of managers. Results of ratings should influence the amount of the incentive bonus

Slide 1

**Proposed Metagog Institute employee incentive scheme**

<b>Target group</b>	Marketing and business development employees
<b>Main KPI</b>	Achieve budgeted number of delegates who register for short courses in any financial year
<b>Incentive basis</b>	$A \times B \times C = \text{bonus amount due}^*$  Where  A = 50% of employee's annual salary B = % of KPI achieved (minimum of 90% of budgeted delegate numbers to be achieved in order to be eligible for a bonus) C = average peer review rating (0% to 100%)  * Annual bonus to be paid in cash within three months of the year end

Slide 2

**Proposed Metagog Institute employee incentive scheme**

<b>Target group</b>	People champions – employees who monitor and support delegates
<b>Main KPI</b>	Achievement of an acceptable rating from delegates who complete an online survey after completion of a short course, preferably an 80% or higher rating
<b>Incentive basis</b>	$A \times B \times C = \text{bonus amount due}^*$  Where  A = 25% of employee's annual salary B = average rating achieved in delegate surveys

		(minimum of 80% rating to be eligible for bonus) C = average peer review rating (0% to 100%)  * Annual bonus to be paid in cash within three months of year end	
			Slide 3

The majority of candidates were assessed as being borderline competent on the task while the assessment of the level of difficulty of the task was that the task was moderately difficult. The main reason for this phenomenon is that many candidates did not address the second part of the task appropriately.

The first part of the task required candidates to provide their thoughts on the key principles overall of the incentive scheme. Here it was important that candidates were able to reason critically around the principles embedded in Metagog's incentive scheme. The main feature in respect of this part of the task of candidates not displaying competence was that they needed to critique a sufficient number of the key principles of the scheme.

The second part of the task required candidates to interrogate and critique the two specific schemes provided in slides 2 and 3 of the task. The main detractors from competence here were superficial responses that lacked depth (too generic and not addressing the specifics of the respective schemes and the performance to be measured through the particular key performance indicator (KPI)) or just simply not providing any critique on either scheme at all.

A competent candidate for task F was considered to be a candidate who –

- provided adequate commentary (in order for the assessor to have enough evidence that the candidate understood the performance measurement and performance management issues relating to the key principles), covering the majority of principles of the scheme; and
- interrogated the schemes and displayed an understanding of the appropriate drivers of the respective individuals' performance which should be measured in terms of each of the particular schemes; suggesting alternative KPIs (where appropriate) which could measure the performance more appropriately; and identifying other flaws in the schemes (such as the fact that there was a difference in the percentage of the employee's salary on which the calculation was based between the marketing and business development staff on the one hand and the people champions on the other).

**Task (g)**

Competence area	APC 2016 candidate results		
	Not competent	Borderline	Competent
Financial Management & SRMG	27.05%	42.36%	30.59%

(g)	<p><i>Respond to Ingrid Jansen’s email regarding Metagog’s acquisition of Vame by listing and explaining the five key issues for Metagog in unlocking value post acquisition of Vame (document 7).</i></p>
<p><b>DOCUMENT 7</b></p> <p><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p>	
<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 0:15 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Vame acquisition</p>	
<p>Hi there</p> <p>I was just thinking about Metagog’s acquisition of Vame. Strategically it makes sense for Metagog to expand into gamification and gain access to the skills at Vame. However, we know that strategic investments and acquisitions are always easier on paper than in reality. What do you think are going to be the key issues for Metagog in unlocking value post acquisition of Vame? In other words, what are the five practical things that Metagog and Vame will need to agree on and/or focus on to ensure that their partnership delivers the value they expect?</p> <p>Please drop me an email with your thoughts on the above issue in the morning. Thanks. Sleep tight.</p> <p>Regards Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p>	
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This task seemed easy at face value, but identifying key factors that might unlock value in the long term is a task with which even experts struggle. The mark team accordingly took the approach that identifying and explaining three or more valid factors would be a competent response.

Candidates did not generally perform well in task (g). They struggled to identify key long-term issues and instead focused on less strategic issues such as aligning financial year ends. Many also repeated the rationale for Metagog acquiring Vame or contradicted this! Candidates who were assessed as competent in task (g) covered three or more key issues such as the following:

- The importance of alignment of cultures;
- Retention of key Vame executives,
- The practicalities of incorporating gamification into Metagog’s offering;
- Increasing Vame’s customer base; and
- Addressing the group’s liquidity and solvency risks.

Task (h)

Competence area	APC 2016 candidate results		
	Not competent	Borderline	Competent
SRMG	16.01%	55.53%	28.46%

(h)	<p><i>Respond to Ingrid Jansen's email regarding the online press article about Metagog. (document 8).</i></p>
	<p><b>DOCUMENT 8</b></p> <p><b>EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT</b></p>
	<p><b>From:</b> Ingrid Jansen  <b>Sent:</b> Wednesday 22 November 2017, 8:30 AM  <b>To:</b> Junior Consultant  <b>CC:</b>  <b>Subject:</b> Metagog in the press</p>
	<p>Oh dear – refer attached for a press article that was published online overnight regarding our client, Metagog. I was certainly not aware of any of these allegations. Azania will probably be calling shortly for advice on how to respond to this. Your thoughts on what the Board of Directors of Metagog should do as a matter of urgency and some of the key issues that need to be addressed in the short to medium term?</p> <p>Regards  Ingrid</p> <p><b>Partner:</b> Millennial Consultants SA</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See <a href="http://www.millennialconsultsa.co.za/disclaimer/email.htm">http://www.millennialconsultsa.co.za/disclaimer/email.htm</a> for more details.</small></p>
	<p><b>ATTACHMENT TO EMAIL</b></p> <p><b><i>Yet another IT blip – Tuesday 21 November 2017</i></b></p>
	<p>A former employee of Metagog Institute alleged that the company failed to discipline a manager at Metagog for numerous misdemeanours. Simona Delerus, an educational specialist employed at Metagog from November 2016 to September 2017, made the allegations in a lengthy blog post. Delerus, now a fulltime online blogger, claims that her manager at the time sent her many WhatsApp messages while under the influence of alcohol. Her manager boasted that he had set up several fake Twitter accounts and had regularly posted nasty comments about Metagog's competitors. He also bragged that he hacked into Metagog's server using a password obtained from a friend in the IT division. Delerus's manager apparently accessed numerous personnel files to read job interview notes, disciplinary records and salary details of Metagog employees.</p> <p>Delerus allegedly reported the WhatsApp messages to the HR division prior to her resignation. She was told by HR and a senior executive that the manager in question had</p>

an exemplary record and that this was the first complaint made against him. Furthermore, she was told that Metagog would not be taking action against him and felt it more appropriate to give him a verbal warning. She also said that the working environment at Metagog was toxic. The working hours were insanely long and employees were encouraged to join in alcohol-fuelled dinners. It appeared that Metagog assumed that all its employees were single and had no lives besides work.

Ms Azania Njeke, the CEO of Metagog, was unavailable for comment on the allegations.

The majority of candidates were assessed as being BC in this task. Numerous allegations had been made in the blog and candidates were expected to address the majority of issues raised. It was also important not to jump to conclusions – allegations made by a disgruntled former employee may or may not be true. Candidates who did not provide both immediate actions by the board of Metagog and medium-term recommendations could not have been assessed as competent in this task. It was important to respond to both elements of the task.

It was disappointing to note the number of candidates who concluded emphatically that the manager was guilty and needed to be dismissed. Many candidates also referred to NOCLAR without explaining its relevance to the issues in the task.