



# Assessment of Professional Competence November 2017 Information on the day of the assessment Metagog Institute (Pty) Ltd

November 2017						
SUN	MON	TUE	WED	THU	FRI	SAT
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Inbox <a href="mailto:Junior.Consultant@millennialconsultsa.co.za">Junior.Consultant@millennialconsultsa.co.za</a>					
Mail	INBOX				
Calendar	<b>Doc</b>	<b>From</b>	<b>Subject</b>	<b>Attachment</b>	<b>Received</b>
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Metagog Institute (Pty) Ltd is a fictitious company, and all events as well as the names of all persons associated with this company, as mentioned in this Assessment of Professional Competence, are purely fictitious in nature and any resemblance to real persons, living or dead, or to an actual business entity is purely coincidental.

## DOCUMENT 1

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 7:17 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Acquisition of shares in Vame

Good morning

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.

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.

Please keep in mind that Azania, Tyler and I are not qualified accountants, so don't make it overly technical 😊

Thanks, looking forward to your input.

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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## 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 revenues from existing customers, as estimated by Vame, over the next five years (conservative) at the SA prime interest rate.
3. 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.

## DOCUMENT 2

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 7:40 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Fwd: Crisis of confidence

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?

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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Begin forwarded message:

**From:** Azania Njeke  
**Sent:** Wednesday 22 November 2017, 6:17 AM  
**To:** Ingrid Jansen  
**CC:**  
**Subject:** Crisis of confidence

Dear Ingrid

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.

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).

Therefore I would like your firm to prepare a checklist reflecting (i) the areas that we 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

<b>Description of system used to compute share of revenue due to content partners</b>
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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 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.
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.
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.
11. Once the payment has been effected, the accountant sends the credit and debit notes to each content partner.

### DOCUMENT 3

#### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 7:55 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Fwd: Accounting and VAT treatment

Hi again

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.

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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Begin forwarded message:

**From:** Azania Njeke  
**Sent:** Wednesday 22 November 2017, 7:01 AM  
**To:** Ingrid Jansen  
**CC:**  
**Subject:** Accounting and VAT treatment

Hi Ingrid

Our Board needs preliminary advice regarding issues we had identified during our last Audit Committee meeting.

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 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?

Please keep it reasonably simple as I will forward your response to the rest of the Board.

Regards  
Azania Njeke

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

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



## DOCUMENT 4

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 7:59 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Tax treatment of loan

Hi again. I would appreciate your views on the tax implications of Ron Langley's loan.

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.

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.

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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## DOCUMENT 5

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 8:01 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Fwd: Work plan for Audit Committee during FY2018

Hi again

Please see another request from Metagog below – this time from the Chair of the Audit Committee.

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.

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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Begin forwarded message:

**From:** Patsy Zieberman  
**Sent:** Wednesday 21 November 2017, 11:12 PM  
**To:** Ingrid Jansen  
**CC:** Azania Njeke  
**Subject:** Work plan for Audit Committee during FY2018

Dear Ingrid

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.

Following an item that I tabled at last week's Board meeting, I can confirm that the Board has approved –

- 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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## DOCUMENT 6

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 8:11 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Help!

Hi again

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.

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.

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.

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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## ATTACHMENT TO EMAIL

### PROPOSED METAGOG INSTITUTE EMPLOYEE INCENTIVE SCHEME

<b>Proposed Metagog Institute employee incentive scheme</b>	
<b>Key principles</b>	
▪	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	

<b>Proposed Metagog Institute employee incentive scheme</b>	
<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>	<p><math>A \times B \times C = \text{bonus amount due}^*</math></p> <p>Where</p> <p>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%)</p> <p>* Annual bonus to be paid in cash within three months of the year end</p>
Slide 2	

<b>Proposed Metagog Institute employee incentive scheme</b>	
<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>	<p><math>A \times B \times C = \text{bonus amount due}^*</math></p> <p>Where</p> <p>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%)</p> <p>* Annual bonus to be paid in cash within three months of year end</p>
Slide 3	

## DOCUMENT 7

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 0:15 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Vame acquisition

Hi there

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?

Please drop me an email with your thoughts on the above issue in the morning. Thanks. Sleep tight.

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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## DOCUMENT 8

### EMAIL FROM INGRID JANSEN TO JUNIOR CONSULTANT

**From:** Ingrid Jansen  
**Sent:** Wednesday 22 November 2017, 8:30 AM  
**To:** Junior Consultant  
**CC:**  
**Subject:** Metagog in the press

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?

Regards  
Ingrid

**Partner:** Millennial Consultants SA

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## ATTACHMENT TO EMAIL

### *Yet another IT blip – Tuesday 21 November 2017*

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.

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 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.