ASSESSMENT OF PROFESSIONAL COMPETENCE
November 2017

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 2017 assessment. This may assist in preparation for the 2018 APC.

We recommend that the 2017 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 2018.

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

TASK (a)

Review and comment on the draft goodwill workings as requested by Ingrid Jansen in her email (document 1).

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

ATTACHMENT TO EMAIL
Vame due diligence and other documents related to the acquisition (extracts)

<u>Extract 1.1: Extracts from auditor's report on the 2017 annual financial statements of Vame</u>

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-imbursement 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.

<u>Extract 1.2: Explanatory notes prepared by Azania Njeke</u>

- 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).

<u>Extract 1.3: Draft goodwill calculation prepared by Metagog's financial manager</u>

	R'000
What we pay	
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
	3 251
What we get	
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	**4 786**
55% share	**2 632**
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.

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.

Highly competent

TASK A

To: Ingrid Jansen
From: Junior Consultant
Sent: 22 November 2017
Subject: Acquisition of Vame: Goodwill calculation review and comments

Hi Ingrid,

Thank you for forwarding me the relevant workings and documents on the goodwill calculation from Azania. I have created a table below where I have included commentary on the amounts that appear to be incorrect or need further consideration, and any omissions that have been made.

Item	**Component of Calculation**	**Commentary**	**Proposed action**
	Consideration for Vame		
1	Upfront cash payment	No issues noted - as the discounting period is only 30 days this will result in a negligible difference.	None
2	Issue of 200 shares	Total equity: the share purchase agreement makes reference to 'new shares' which could be open to the legal interpretation that the shares issued would be in the combined entity of Vame and Metagog. As such, the value of the equity of the new combined entity should be calculated as the total equity to use for the calculation. Shares: as 200 new shares are being issued and there are already 1500 Metagog shares in issue, the total equity should be divided by (1500+200 = 1700) and then 200/1700 of the value should be allocated as the purchase consideration for Metagog.	Recalculate the total value of equity and then divide this by the appropriate numerator to allocate 200/1700 of the equity as purchase consideration
3	Take on bonus	The appropriate IFRS3 guidance on this is that payments for post-acquisition services, such as the take-on bonus due to Tebogo and James, should not be considered part of goodwill as they relate to future services to be received by the business and not part of the acquisition payments. One indication of this is that these payments will benefit the group going forward (by retaining James and Tebogo's services) and as such relates to post acquisition services and not acquisition consideration. This can be considered a pre-payment by Metagog in the consolidated financial statements and de-recognised over the employment period. The amount would be reversed in the P&L if they were to leave and it is clawed back.	This should be excluded from the calculation but recognised as a group prepayment.
4	Additional cash payment	As this is a contingent payment based on the future performance of Vame, management needs to seriously	Calculate an appropriate

		estimate the likelihood of the goal being met. Given that Vame has sustained losses, it could be questionable that there is 100% probability of this being met. Furthermore, as the cash outflow may take place more than one year from the date of acquisition, Metagog need to discount the expected future cash flow to its present value using an appropriate discount rate.	probability off outflow. Discount (R2mil x probability %) for 2 years 2 months at an appropriate discount rate, such as SA prime (10.25%) or R186 bond rate (9.4%).
5	Restructuring costs	These costs relate to the post-acquisition adjustments for the group and are not related to the actual acquisition of Vame. As such, they should be excluded from the calculation as they are not consideration for Vame but a post-acquisition expense.	Exclude from the calculation.
6	Attorney's fees	Transaction fees may be related to the acquisition of Vame, but IFRS3 specifically prohibits these from being included in the consideration and dictates that they must be recognised as an expense by the group. If any amounts of the attorney fees related to the issuing of equity to Metagog (the new 20 shares), they costs may be included.	Exclude from the calculation.
	Assets and Liabilities		
7	Property, plant and equipment	This amount is from the 30 June 2017 financials. The acquisition date (01 November 17) fair value of the computers and the property in Rosebank needs to be calculated. This may differ considerably to the last balance sheet date values as the assets will need to be depreciated further, and for property the fair value per IFRS 13 is likely to be the market value associated with the property and not the historical costs.	Recalculate at fair value on acquisition date.
8	Capitalised technology costs	These costs are the 30 June 2017 historical costs as recognised by Vame, and need to be recognised at the acquisition date (01 November 2017) fair values. These assets were internally generated and hence recognised inline with IAS38, but the fair values may differ significantly as their market value would be considerably higher and have more value in practice and application that simply the historical costs. These should be measured separately at their highest and best use in the market with reference to the guidelines in IFRS 13. In addition to the above considerations, any in-progress research and development which may not have been capitalised by Vame because it did not meet the criteria under IAS 38 can now be capitalised on acquisition as allowed by IFRS 3 as it will have a value associated with it. This will result in additional assets being	Recalculate at fair value on acquisition date. Recognise asset for in progress research and development.

		recognised for in-progress work.	
9	Intellectual capital	The expertise of James and Tebogo may be a valuable business asset, but per IAS38, only 'separately identifiable' intangible assets should be considered for recognition. James and Tebogo's knowledge exists in their heads and future potential but not in separately identifiable assets, such as patents, products and rights. These would be recognised but their expertise is not separately identifiable or reliably measurable. Furthermore, IFRS 3 does not allow assembled workforce to be recognised as assets as they cannot be controlled like an asset.	Exclude from the calculation.
10	Customer relationships	Although Vame may have a loyal customer base, simply having the relationships is not enough to ensure that the asset is reliably measurable and the inflow is probably. If these customers are secured by contract, that would be compelling evidence, but as it stands there is no guarantee of revenue. If management do deem the revenue is probably, the future revenue less any costs associated with that revenue (i.e net cash flow into the business) should be the value of asset as this valuation technique overvalues the assets by only considering revenue. There should also be adjustments for the risks of the market and customers.	Review is inflows are probable and adjust fair value to reflect the income approach accurately: excluding costs associated with revenue.
11	New contract	Similar to the notes on 'customer relationships' above, the net income (revenue less costs) should be calculated and the present value considered. Once adjusting for credit and market risk, this could be a reliable figure. This amount is allowed under IFRS 3.	Re-perform the calculation to recognise costs of revenue and the risk adjustment.
12	Assessed loss	A deferred tax asset should only be recognised if Metagog has deemed it is probable that Vame will have sufficient taxable income in future to set off against the assessed loss, arising in the asset. If Metagog considers all the sources of future taxable income of Vame and determines that this is probable, a deferred tax asset can be considered based on the assessed losses on the acquisition date (01 November). This should be reassessed annually.	This should be based on assessed losses as on acquisition date.
13	Omission - contingent liability	IFRS 3 will require the contingent liability to be recognised on acquisition rather than simply disclosed. Based on information on the acquisition date (01 November), Metagog should determine the probability and the potential outflow and treat it as if it is due to a past event. The present value of this potential outflow should be recognised as a liability on acquisition.	Calculate and include the contingent liability
14	Omission - deferred tax	Based on the fact that assets and liabilities will be recognised at their fair values, temporary differences may arise on items such as PPE, contingent liabilities and intangible assets. All temporary taxable differences (differences between the tax bases of assets and	Calculate the deferred tax balance and include it in the calculation.

		liabilities and the carrying amount) should be calculated and applied against the corporate tax rate or capital gains rate as appropriate. This will result in the recognition of an additional deferred tax asset or liability. Please note goodwill should be excluded from this calculation.	
15	Omission - Non-controlling interest	As Metagog is acquiring only 55% of Vame, the remaining 45% ownership vesting in James and Tebogo needs to be recognised as a non-controlling interest (NCI balance). Per IFRS 3, this could be their proportionate share of net assets or the fair value of their proportionate share of the business. The use of fair value is likely to reflect in the most fair presentation as the current equity balance is negative, but the company has a choice.	Calculate the NCI balance and include it in the calculation.
16	All other items	All other items not individually discussed above need to be recognised based on their acquisition date (01 November) fair values and not the 30 June values as included in Azania's calculation, although this should be a straight forward update of the accounting balances.	
17	Goodwill	Recalculate this based on the adjustments proposed above. Metagog has 1 year to finalise their acquisition accounting.	Recalculate this based on the adjustments proposed above.

Although the auditors noted a going concern material uncertainty, now that Metagog has acquired them, the assets and liabilities will be reflected at fair value so this does not have an immediate impact.

Please let me know once you have reviewed my commentary and any adjustments or updated you would like me to make.

Kind Regards,
Junior Consultant.

Examiner Comments: n addressing this task, the candidate displayed a high degree of professional competence. The latter is specifically important as it was required from the candidate to comment/critique on the draft goodwill calculation prepared by the financial manager of Metagog. Hence, the tone used on delivering the commentary/critique is of utmost importance. Furthermore, it was also required that the commentary/critique should not be overly technical and should not be accompanied by calculations. The manner in which the candidate provided commentary, which included reference to only applicable technical principles, without it becoming a technical opinion of sorts, is commendable.

Various other aspects of the attempt also resulted in the candidate distinguishing him/herself from just being assessed as competent:

- The technical accuracy of the commentary.
- The ability to provide commentary with appropriate justification and a sound rational.

- Overall good coverage in addressing all the elements in the calculation provided.
- Identifying that Metagog will have 1,700 shares in issue post acquisition of Vame and not 1,500.
- Identifying that deferred tax has not been taken into account on the asset/liability adjustments due to possible revaluations on the acquisition date of Vame.
- Questioning whether any other intangible assets need to be recognised at fair value which were previously expensed in the individual financial statements, and may possibly now be allowed to be capitalised in the consolidated financial statements in terms of IFRS 3 Business Combinations.
- Advising that non-controlling interest can be measured at fair value as an alternative.

Overall, the task was addressed in a professional and highly competent manner.

Competent

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

Good day Ingrid Jansen

I have reviewed the drafted goodwill calculation and below please find my comments on the deferred calculations.

Overview considerations Metagog have to take into account:

- The drafted goodwill calculation is based on 30 June 2017 accounts and balances as goodwill is recognised at the date of acquisition of the 1 November 2017 as the excess of fair value of net assets acquired, whereby Metagog will own a 55% portion of it. The account balance of Vame at 1 November should be obtained. This will be in the form of a trail balance.
- As we received the extract of the Independent Auditors' report, Metagog should use it to advantage in supporting the basis of the goodwill calculations.
- In order to determine the correct goodwill, I have commented on the consideration paid as well as the net asset value. The consideration paid is required to be at value as well as the assets and liabilities, referred to onwards as net asset value.

Consideration paid

- Upfront cash payment: The upfront cash payment of R1 million is payable within 30 days of acquisition date. The financing component can be considered to be immaterial on the basis that it is only deferred 30 days. However, as Metagog I would consider the effect of R7 000 (based 9,4% for 30 days. Therefore it up to Metagog's discretion to adjust the R1 million to net present value or to keep it at R1 million as the interest is immaterial.

- Issue of 200 shares in Metagog: For the consideration paid to Vame, Metagog is required to place a fair value consideration on the shares offered to the shareholders of Vame. Therefore by taking the total equity, Metagog had calculated and determined the value per share. Thus is incorrect for a goodwill calculation.

- Take-on bonus: The take-on bonus related to shareholders of Vame not leaving Vame. Therefore payment that relates to future services are not included in the consideration paid as this does not serve part acquisition success.

- Additional cash payment payable 31/12/2019
  - Consideration should be given to the contingent consideration at the fair value of the amount payable.
  - The R2 million in the calculation is incorrect. The following two things need to be considered:
    - The present value of payment based on fact that it will only be paid in 2019.
    - The probability that Vame will meet the net profit criteria.
  - The fair value on the contingent consideration will be estimated at net present value based on the most likely outcome.
- Restructuring costs: These costs should be included as they are necessary in order for the business to operate more effectively and the tax saving of 28% should also be a consideration in goodwill calculations.

- Acquisition costs
  - In the goodwill calculation attorney's fees have been incorrectly included.
  - Any fees attributable to the acquisition will be an expense. These fees include attorney's fees for drawing up and advising about the Vame agreement.
  - Therefore attorney's fees should not be included in the consideration paid to Vame.

- Net asset values
  - The following assets, namely property, plant and equipment, capitalised technology development costs, trade receivables, other assets and cash and cash equivalents should be carried at fair value on 1 November 2017 at acquisition date.
  - Therefore based on the incorrect date and the assumption that the assets were not fairly valued, these values in the goodwill calculation are incorrect.
  - Consideration should be given to measuring these values at fair value.

- Intellectual capital (note 4)
  - Intangible assets are recognised in business combinations when it is identifiable. However, the intellectual capital of two shareholders cannot be separately identified and the value of the R1 500 000 of the bonus cost could not be the value of the two shareholders.
  - Therefore, based on the above, the intellectual capital should be excluded.

- Customer relationships
  - The customer relationships lists and existing relationships can be classified as an intangible asset in business combinations.
  - However, Metagog should determine a more appropriate rate for fair valuing the customers list and the relevant risks will either increase or decrease the interest rate.

- New contract: The new contract will be treated as an intangible asset as it is identifiable and the necessary interest adjustments need to be made at either prime plus/less rates based on risk.

- Assessed loss/deferred tax/deferred liability
  - The accumulated losses will result in a deferred tax asset, as we may be allowed to use the unused tax losses to offset any future taxable profit.
  - However, the following should be considered when recognising a deferred tax asset: It should be probable that the tax profit will be made. If not a deferred tax asset is recognised to the

extent of the deferred tax liability. A deferred tax liability is any future tax outflow that Metagog or Vame will incur.
  - Therefore Metagog should give considerate to identifying a deferred tax asset or tax saving to the extent that it is probable that Vane will make a profit.
  - However, also the auditor discussions about concern have to take that into account.

- Liabilities
  - The following liabilities, namely bank loans, trade payables, accruals, deferred revenue, are at fair value at the acquisition date of 1 November 2017.
  - Therefore based on the incorrect date and assumption the liabilities were not fair valued as the values in the goodwill calculations are incorrect.

After all the necessary adjustments above are addressed, Metagog will either have goodwill value or a gain on bargain purchase.

However, attention should be raised in case of goodwill value. The Metagog Group has to establish the accounting policy now that they will account for the non-controlling interest as this will have an impact if Metagog will have 100% of goodwill value or only 55% of it or 45% of the non-controlling interest.

The deferred tax considerations need to be taken into account when fair valuing assets and liabilities at acquisition.

Thanks, Junior

Examiner Comments: Overall good coverage of the issues (i.e. commentary on the consideration and net assets obtained) to be addressed was displayed in this attempt. The tone used and technical accuracy was appropriate overall. The depth and rationale of the response were appropriate.

Although a good response, some aspects of the attempt detracted from the quality of the response. These included:
- In the introduction to the response, an unnecessary discussion on how goodwill is calculated, is provided.
- Some technical errors, which are forgivable, were noted in connection with the suggestion to discount the upfront cash payment and the capitalisation of the restructuring costs incurred.
- Some aspects of the response were a bit technical, but still understandable by a non-accountant.

The candidate also identified the fact that deferred tax should be accounted for as a result of recognising assets and liabilities at fair value as part of the business combination in the consolidated financial statements. This suggestion adds value to the overall response.

Overall, this attempt displayed the required competence in completing the task at hand.

Limited competent

(a)
From: Junior Consultant
Sent: Wednesday 22 November 2017 09:05 AM
To: Ingrid Jansen
Subject: Acquisition of shares in Vame

Good day Ingrid,

I have reviewed the goodwill calculation and I have provided my comments regarding the impact on the consolidated financial statements below as requested:

1) **Issue of 200 shares**
- The calculation for the 200 shares issued should have been based on the current issue price per share of R1500 000/1500 shares=R1000 per share instead of the market value of the Metagog.
- Thus the value to be used should have been 200 shares multiplied by R1000 which is equal to R200 000.
-Impact on the consolidated financial statement will be a change in the cost of the investment in Vame this will in turn affect the final goodwill amount calculated on acquisition.

2)**Upfront cash payment**
-The cash payment should be included at the fair value of R1000 000 as the amount is not paid on acqusition date.The present value should be discounted using the prevailing prime interest rate.
-Impact on the consolidated financial statement will be a change in the cost of the investment in Vame this will in turn affect the final goodwill amount calculated on acquisition.

3)**Take on bonus and Additional cash payment**
-The amounts should be treated as a contingent consideration as there are contitions atthached to their payment. The contingent consideration should be calculated by discounting the amounts to their present values using the prevailing prime interest rate.
-Impact on the consolidated financial statement will be a change in the cost of the investment in Vame this will in turn affect the final goodwill amount calculated on acquisition.

4)**Restructuring and Attorneys fees**
-These are acquisition cost which are only recorded in the separate financial statements of Metagog against the cost of the investment in Vame and will have no impact on the consolidated financial statements.
-The amounts should not have been included in the cost of the investment on acquisition in the consolidated financials.

5)**Assessed loss - Dereffet Tax Asset**
-The deferred tax asset should only be recognised if it is probable that the business will generate profits in the future.
-There is currently a material uncertainty and doubt regarding the ability of Vame to continue as a going concern thus it is not justifiable to recognise the deferred tax asset.
-Thus the deferred tax asset of R2 519 should not be recognised on acquisition.
6)Intellectual capital
-This Intangible assets was correctly recorded at cost on acquisition date and thus there will be no additional impact on consolidated financials.

-The intangible asset has a definite useful life and should be amortised until 2021 as the directors are legally contracted to be at Vame until then.

7)Customer relationship and New contract with University
-This Intangible assets was correctly recorded at fair values on acquisition date and thus there will be no additional impact on consolidated financials.
-The intangible assets has a definite useful life and should be amortised for 5 years and 3 years respectively.
8)Contingent liability
-The contingent liability of R2.5 million should be recognised as liability as it is a present obligation resulting from past events and its fair value can be measured reliably.
-An indemnification asset of R2.5 million should be recognised on acquisition on the same basis as the indemnification item at fair value.

I hope you consider the above insights and comments meaningful. Please let me know if I can be of any additional assistance.

Kind regards,
Junior Consultant

Examiner Comments: Overall this attempt did not display the required competence in the task.

Although the candidate did address most of the issues in the goodwill calculation (i.e. commentary on the consideration and net assets obtained), several inappropriate, inaccurate and unjustified comments/critique were provided which showcased limited competence in this task.

The latter was evidence, amongst others, by:

- Several technically inaccurate suggestions in connection with the consideration paid, specifically with regards to, the shares transferred, discounting the upfront cash payment, suggestion that the restructuring costs is an acquisition related cost and conclusion that the take-on-bonus is a contingent consideration.
- Several technically inaccurate conclusions and suggestions in connection with the capitalisation of the intellectual capital and in the other assets and liabilities.
- Suggesting that assets, specifically the intellectual capital, should be recognised at cost and not at fair value. The latter indicated a lack of understanding of the key principles of IFRS 3 Business Combinations.
- Most arguments lacked justification and some conclusions lacked justification and were contradictory. The latter is in contrast to what the task required from the candidate.

Overall, this attempt was disappointing and in practice would be referred to another individual to re-perform.

TASK (b)

Respond to Ingrid Jansen's email by –

- *preparing the internal control checklist in the format requested; and*
- *providing further advice to assist Metagog with managing the 'crisis of confidence'.*

(document 2)

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

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

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 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.

Highly competent

Task B

To: Ingrid Jansen
From: Junior Consultant
Sent: 22 November 2017 11:00
Subject: Internal Controls in the revenue cycle

Dear Ingrid

I trust this email finds you well. In response to your email about the draft mail prepared for Azania Njeke with regards to the internal control checklist and additional support to assist Metagog with the crisis of confidence

Checklist

Areas To Consider	Nature/Examples of internal control that needs to be implemented
Agreements with content partner	1.Management to review and sign of on agreement with content partners after the review and approval by legal experts. Content Partner to sign off on agreement as part of approval 2. 40% percent paid to partners needs to be reconciled to the register delegate listing to ensure that payments made agrees to listing 3. Remaining fee to partners needs to be reconciled to the registered delegate listing who has completed the course to ensure that the payment made agrees to the listing of delegates that completed the course.
Service agreement with Amazing Web Services.	1.Agreement to be compile by legal expert to detail the terms of the service agreement and a list of controls to be performed ensuring the accuracy and completeness of data basis. Examples Reconciliation of data on data basis and server 2. Access controls 3. Data integrity and confidentiality controls. 4. Segregation of duties
Service agreement with Amazing Web Services detailing ISAE 3402.	1. Request from Amazing Web Services and auditors from Amazing Web and Services to compile a ISAE 3402 document which we can share with the content providers. The ISAE 3402 will consist of the following information which will be verified by the External Auditors of Amazing Web Services: 1. System description 2. Control Objectives 3. Risks that threaten controls 4. Design, implement and maintain controls to provide reasonable assurance that the control objectives is achieved. 5. Provide a written assertion to accompany the description of the completeness and accuracy of the information provided and the state the criteria used as a basis for making the assertion
Registering as a Metagog Delegate	1. Email link verification for account setup needs to be send directly to the delegate to approve before account is registered.

	2.Appropopriate application controls needs to be put in place to ensure the accurate and complete information is ascertained from the delegate 3.Back up of all date needs to be performed on a daily basis and stored of site. 4. Appropriate access controls for the delegates needs to be put in place 5. Automatic daily reconciliation needs to be performed to reconcile all active profiles to the customer masterfile
Registering for online course by delegate	1. Course database needs to be reviewed by finance and operations to ensure all the details are correct (Price, Duration) 2. Access controls needs to implemented for the Course Catalogue to ensure that no adjustments are made. 3. A log needs to maintain all adjustments to the course database which needs to be reviewed on a weekly basis 4. Reconciliation needs to be performed between the course database and the partner course price list 5. Orders should be processed via unique sequentially numbered purchase orders (Missing Purchase Orders should be reviewed)
Completion of registration	1. Registered application as per listing needs to be reconciled to payment made to content partners. (Same as above) 2. All sales orders reviewed by financial manager 3. Calculation of payment should be performed automatically. (Payment made to content partner reconciled to calculation)
End of month procedures: Extracts of report	1. MS Excel sheet needs to be reconciled to the database to ensure that it is accurate and complete. 2. The parameters of the reports needs to be reviewed to ensure the dates is accurate from when the reports were pulled. 3. The MS Excel sheet should be amended that it only has read access that no adjustments can be made after the review. 4. New course registrants needs to be reconciled to all purchase orders places 5. Completed courses delegates needs to be reconciled to completion certificates.
End of month procedures: Sorting of data	1. Automatic controls should be put in place to sort content providers automatically. 2. After the data has been sorted, the sorted data totals should be reconciled to the extracted reports. 3. The reconciliation should be reviewed by management. 4.
End of month data: Preparation of payment schedule	1. Formulas should be reviewed to ensure it is 40% for all new delegates and 60% for all completed delegates 2. The total of the course fees per the schedules needs to be reconciled to the data that has been sorted in the previous step. 3. All payment schedules to be reviewed for accuracy and agreed to data that has been sorted 3. The credit note should be reviewed by the Financial Manager before posting by agreeing it to the payment schedules 4. The creditors ledger needs to be reconciled to the payment schedule on a monthly basis 5. All payment schedules should be matched to the creditors ledgers.

	Any missing amounts should be followed up 6. Creditors statements to be reconciled to creditors ledger on a monthly basis and all differences investigated
Debit note processing for delegates with lower then 60% rate achieved	1. The 10% discount that will be given to delegates needs to be agreed upon by Metagog and the content providers via formal agreement 1. Report needs to be extracted for all completed courses detailing all results lower then 60%. 2. 10% of the course fees needs to be calculated for these course fees per delegate 3. Senior position to review calculation and parameters of report. 4. All debit notes signed of by financial manager 4. Every debit note is reconciled to the calculation. 5. All debit notes is traced to creditors ledger 6. Creditors statements to be reconciled to creditors ledger on a monthly basis and all differences investigated
EFT Payment processing	1. EFT Batched compiled by different person 2. EFT Payment reconciled to creditors ledger before payment is processed by financial manager 3. EFT payment is released by different employee after the EFT payment has been reviewed
After EFT payment	1. All payments per bank statement traced to creditors ledger and creditors statement. All reconciling items needs to be followed up

Please go through the above checklist to ensure these specific controls are implemented

General Matters

It is very important to ensure there is appropriate segregation of duties. All duties should be clearly specified and designated to the appropriate skilled employee. The environment in which Metagog revenue system is computerized and the use of computer automated controls should be implemented more efficiently to reduce human errors.

Furthermore i recommend that Metagog utilizes the ISAE 3403 report which entails the following:
1. System description of the revenue share
2. Control Objectives in the system description
3. Risks that threaten controls in the system description
4. Design, implement and maintain controls to provide reasonable assurance that the control objectives is achieved.
5. Provide a written assertion to accompany the description of the completeness and accuracy of the information provided and the state the criteria used as a basis for making the assertion

The external auditors from Metagog will audit the report and the design and operating effectiveness of the various controls included in the report. This report can be shared to the auditors of the content providers which will give them comfort around the control environment of the revenue sharing processes and the reliability of the accuracy of the revenue figures. The report will also benefit Metagog to the extent that it gives Metagog extra assurance on their controls and potentially a competitive advantage for when universities consider outsourcing work for Metagog. It is thus evident that this report will assist Metagog in identifying risks, ensuring controls are effective, and ensuring that risk of misstatements are mitigated. This will ensure that confidence in the revenue share figures are restored by Metagog and the content partners

For any further information after your review of the above please do not be hesitant to contact me

Kind Regards

Junior Consultant

Examiner Comments: The candidate displayed a high level of competence in their response as evidence by the following:

- The candidate addressed both aspects required by the task – i.e. providing appropriate controls, which will prevent and/or detect the understatement of revenue AND provides means to address the crisis of confidence.
- The layout used by the candidate and the communication skills displayed are most impressive!
- The candidate furthermore displays an understanding of the revenue generation process of Metagog and links the controls to each part of this process. The controls suggested are appropriate and suitable and address the risks prevalent in each part of the revenue generation process. Superb coverage of the issues was achieved.
- The candidate correctly focused on the understatement of revenue through the suggested controls. They also differentiated between the electronic and manual parts of the process.
- The initial commentary on the service level agreements to be in place are insightful and value adding.
- The recipient of this report would have been very impressed with the candidate's response to the task!

Competent

Task B

From: Junior Consultant
Sent: Wednesday 22 November 2017
To: Ingrid Jansen
Subject: RE: FWD: Crisis of confidence

Hi Ingrid,

Please find my draft suggested reply to Azania below.

Hi Azania,

I am sorry to hear about this situation which Metagog faces. Please find our response to your queries as follows:

1. Internal control checklist (attached)

Areas to consider during Evaluation		Examples of Internal Controls
Masterfile database	1	The course fee, duration and Partner should be linked to the relevant course in the masterfile. There should be access controls over the masterfile: - Password protection - Access tables ensuring only certain employees have Access authorisation
	2	Masterfile changes should be authorised before they are made. Changes should only be authorised where supporting documentation for the change exists.
	3	Reports of all master file changes should be generated and reviewed at least weekly by an independent person (who does not have access to the masterfile)
	4	A contract should be in place with Amazing Web Services in which they state their responsibility for the security of Metagog's data and to inform Metagog immediately in the case of any data security breaches.
Registration by delegates to course	1	The system should not allow a delegate to register without completion of mandatory input fields such as a unique ID number and course selction.
	2	The system should not allow delegates to register for a course unless they have selected a method of payment.
	3	A verification email should be sent to the newly registered delegate confirming their ID number, email and course registration and fees.
	4	A reconciliation of number of courses registered for on the website to number of registrations on the masterfile database should be performed
	5	When delegates select the course for which they register the course fee and Partner should automatically be prepopulated from the masterfile.
Access to Course Content	1	Access controls to the online learning platform to ensure that only delegates who have paid for the course content have access: - Username and password required to be entered to gain access to course content - Encryption techniques to prevent non-registered delegates from accessing the content - Firewalls to prevent non-registered delegates from accessing the content
	2	A limit test should be performed on the number of devices from which a delegate accesses the course content. If it is over a certain limit an enquiry should be made to the delegate.
	3	Access to course content should be restricted until course payment has been received.
Reconciliations	1	A control total test should be performed between the number of new registrations/ completions on the database and the new registrations/completions as per the excel report
	2	The accountant should sign the schedule which she prepared, taking responsibility for its accuracy
	3	A control total test should be performed between totals as per the original excel report and the totals as per the accountants schedule.
	4	The accountants schedule should be independently reviewed and signed by her manager. It should be reviewed that all revenue is multiplied by 50% in terms of the partner revenue sharing agreement. It should be confirmed that all new registrations are further multiplied by 40% while course completions are multiplied by 60%.

	5	The amount should only be posted to the partners account in the creditors' ledger when the schedule has been reviewed and approved or the amount should be posted by an independent person from the accountant performing the schedule.
	6	The amount posted to the creditors ledger should be agreed to the accountants schedule and signed by a manager
	7	The list of course evaluations below 60% should be extracted from the master file and signed by the accountant. This number should be reviewed and authorised by a manager before the accountant posts to the creditors ledger
	8	A validation check should be performed on the delegates who give course evaluations below 60% to ensure that it is not continuously the same delegate taking advantage of this discount.
	9	The CEO and CIS should authorise EFT payment after agreeing the EFT amount to the balance on the partners creditors ledger account
	10	Validation checks should be performed on the number of registrations versus the number of course completions If course completions are lower than expected, this should be investigated by a manager.
	11	A monthly reconciliation should be performed comparing course completions to the amount of revenue paid to content partners to confirm that the full 50% of the delegates fees have been paid over to the relevant content partner once the course is completed.
Payments	1	A monthly reconciliation should be performed and signed by the accountant agreeing the payments expected to be received to actual payments received for course registrations. This reconciliation should be reviewed and signed by a manager and outstanding payments followed up on.

2. Advice for managing the crisis (below)

Advice for Managing the Crisis

It is important that Metagog reacts swiftly to limit any negative consequences. We advise that the following steps be followed:

1. Contact your content partners and communicate the following:
- Thank the content partner who informed you of the email
- Let them know that you are aware of the email and that it is now your priority to deal with this
- Let them know that Metagog has the best interest of the content partners and values their relationship and would never purposefully not comply with the revenue agreement
- Let them know that it is managements priority to investigate the system of internal controls around revenue and that the consultants and independent external auditors will be involved where necessary
- Let them know that the results of the internal control evaluation will be communicated as soon as possible
- Ask the content partners to contact Metagog management with all of their concerns and not the media until the situation has been resolved
- Let them know that Metagog will keep open communication as results unfold

2. Consider whether Metagog should hire their external auditors to issue an ISAE 3402 report. This should be added to the audit committee agenda.

3. Investigate whether Metagog's IT experts are able to trace the email sent to the content partners

If it is someone internally at Metagog it will be important for there to be consequences.

Thank you for contacting Millennial Consultants for assistance. All the best with handling the situation and please let us know if you require any further advice.

Kind Regards,
Ingrid

Kind Regards,
Junior Consultant

Examiner Comments: This is a good example of a competent response to Task B of the assessment. The candidate is assessed as being competent for the following reasons:

- The candidate provides a good, comprehensive response to the crisis of confidence – not only requesting an ISAE 3402 being issued for Metagog but further appropriate actions to be implemented to address the crisis of confidence. The candidate "ticks all the boxes" in terms of displaying competence on this part of the task.
- The candidate displays breadth firstly in terms of the controls suggested. The controls suggested cover the revenue generation process in the main, in respect of automated and manual parts of the process.
- The controls provided, to a large extent address **the understatement** of revenue which is what resulted in the crisis of confidence arising.
- The candidate clearly has assessed the risks in the revenue generation and to a large degree provides appropriate control measures to be implemented, to reduce the risk identified above.
- The candidate displays depth in their response regarding the controls to be implemented.

Limited competent

Task B

From: Junior Consultant
Sent: 22 November
To: Ingrid Jansen
Subject: Internal control checklist

Dear Ms Jansen

Please see below a first draft of a reply to the e-mail you received from Azania Njeke, where she requested our assistance regarding their internal control system over the revenue share for their content partners.

Dear Anzania

Thanks for your e-mail. Please find below a checklist reflecting the areas that you need to consider as well as the nature/examples of the internal controls for the relevant areas.

Internal control checklist

Areas to consider	Internal controls
1. Agreements with content partners	Inspect the contracts with the partners to make sure it includes the correct payments terms.
2. Online course registration	Extract report from the system and review the course information. Compare the fees as per the report to the fees as set by the company to ensure it is correct. Compare course duration as per the report to the duration set by the partners.
3. Report for new registrations from course registrant database	Compare the report extracted from course registrant database against a report from the delegate database with new registrations. Investigate any discrepancies
4. Report for completed courses for course registrant database	Compare the course completion dates as per the report against the completion dates set by partners. Compare the fees as per the report against the set fees for the course Compare the completed course against the content partner to ensure the content partner is correct. Investigate any discrepancies. Extract a report by content partner from the database and match the total against excel file sorted by partner.
5. Schedule with summarised totals	Calculation of content partner revenue needs to be checked by CIS.
6. Content partner account	Financial manager need to reconcile partner account with extracted reports on monthly basis. Reconciliation needs to be reviewed by CIS or CEO.
7. Discount	Any discount needs to be approved by CIS or CEO before processing. All discounts needs to be compared against course evaluation to ensure it is correct.
8. EFT payment	Partner account needs to be submitted as support for EFT payment. CEO and CIS needs to sign to show they have agreed account to EFT payment.

Advice on crises

I would setup meetings with the partners, to reassure and explain to them that Metagog has sound internal controls to ensure that the correct share of the revenue is paid to them.

You also might consider getting a ISAE3402 report done. You mentioned it to me before and I think it will be beneficial to the company to have such a report drawn up. By doing such a report you can show your partners that the company has sound internal controls over the revenue sharing.

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

Regards
Ingrid

Examiner Comments: Although the candidate attempted to address both parts of the task (i.e. responded to the request for controls which management could implement in the revenue generation process as well as to provided appropriate means to manage the crisis of confidence) the following issues evidence limited competence:

- Instead of providing a suitable list of control measures addressing the risks of an **understatement of revenue at Metagog**, the candidate provide a list of tests of controls to be performed – this does not address the task. The candidate should have provided a list of controls, which should be implemented.
- The candidate does not display an understanding of the entire revenue generation process nor the risks posed in each. Some of the key risks, for instance those be addressed through access controls – for instance to limit unauthorised changes to the course database – are not addressed by the candidate.
- The candidates does not adequately address the **understatement of revenue risk** resulting in an incorrect profit share amount.
- Notwithstanding the fact that the candidate did address the crisis of confidence (although the response could have been clearer regarding in respect of whom the ISAE 3402 report needed to be obtained [namely for Metagog]), the candidate did not appropriately respond the request for examples of **controls** to be provided so that the management of Metagog could implement these.
- Overall the candidate displays a lack of depth and breadth in their approach.

Task (c)

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).

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

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

Highly competent

Task (c)
TO: Azania Njeke
FROM: Ingrid Jansen
DATE: 22 November 2017

SUBJECT: RE: Accounting and VAT Treatment

Dear Azania

As Metagog is a South African registered company it is required to comply with the Companies Act, which requires the application of IFRS. Furthermore, the correct treatment of VAT is required under the VAT Act. Please find below how we believe the revenue and VAT should be treated.

Revenue
There are currently two accounting standards that apply to revenue. As Metagog has not decided to early adopt IFRS 15, IAS 18 will apply. However please note that IFRS 15 will become effective and be applicable to Metagog's 2018 financial year.

The issue of whether to account for revenue on a gross or net basis depends on if Metagog is acting as a principal or as an agent. This is not straight forward and IAS 18 provides guidance on determining if an entity is in fact an agent or a principal. This does however require judgement and consideration of all relevant facts and circumstances. Please find below my assessment given my understanding of Metagog's revenue arrangement as is applicable to the standard:
Under IAS 18 the following indicate that an entity is acting as a principle:

- The entity has the primary responsibility for providing the goods or services to the customer or fulfilling the order, for example by being responsible for the acceptability of the product or service purchased by the customer. Metagog is responsible for dealing with the customer and the customer interacts with the service using Metagog's portal. The partners are not responsible for managing access to the site. However regarding 'fulfilling the order', the content partner is still responsible for online lectures and interacting with the student. As Metagog and the content partners both fulfill the order, this would indicate an agency relationship.
- The entity has discretion in setting the price. From our understanding it appears that Metagog sets the price for the courses. We have not been given any information that I am aware of indicating the partners have a strong say in setting price. Furthermore Metagog is responsible for advertising the course and thus have responsibility for accessing (and increasing) the popularity of the course, thus in gauging the correct price that should be set. Please let me know if I am incorrect in this understanding. This suggests that Metagog is acting as the principle.
- The entity bears the customer's credit risk for the amount receivable from the customer. Metagog has allowed corporate customers 30 days from registration to pay, however Metagog is required to pay the partners 40% of the fee upon registration. This indicates that Metagog is supposed to have already paid the content partner before receiving the funds from the customer. If the customer does not pay it appears the risk lies with Metagog. Furthermore Metagog is accessing the customer's credit worthiness by allowing 30 day payment terms and thus it would make sense for Metagog to take on the risk if they granted credit to an unworthy customer. As the content partner does not decide who the customer is and the payment term, I think it is safe to conclude that Metagog takes on the credit risk. Please let me know if I am incorrect in my

understanding but from this is appears that Metagog is acting as the principle.

Based on the above, by assessing both the number of factors and the weighting of each factor, I would conclude that according to IAS 18, Metagog is acting as the principle. According to the standard, if acting as a principle, the gross amount must be shown as revenue, with the partner's share being shown separately. Therefore Metagog's current revenue treatment is incorrect. I would recommend an explanatory note describing the profit sharing arrangement and that the revenue amount is shown as a gross amount. This will provide useful and relevant information to the users.

It is important to comment on the effect on the financials next year. As preciously stated, IFRS 15 will be applicable to Metagog's 2018 financial year. IFRS 15 is unchanged in terms of IAS 18 in the respect that if we conclude that Metagog is acting as a principal, the revenue amount must be shown as a gross figure, whereas it should be shown as a net amount if it is concluded that Metagog is acting as an agent. The only major difference is that in determining if Metagog is acting as a principal, the credit risk feature has been removed. However I would still conclude that Metagog is acting as the principal by weighting the different factors. I would also recommend a note in the financials stating that Metagog will be adopting IFRS 15 in the 2018 financial year, but this will not change the way that revenue is shown as a gross figure and under the new standard Metagog is still acting as the principle.

VAT

The levying of VAT has a few factors to consider. These factors broadly can be divided into agency, imports and exports. We can split this between the local and foreign partners as they will be treated differently, depending on how we conclude on agency.

Agency

Similar to accounting standard, the VAT Act (s54) requires an entity acting in an agency relationship to treat the VAT differently to if the entity was acting in a principle arrangement. However the VAT Act differs to the accounting standards as it does not provide much assistance or definitions in determining if a relationship is in fact principle or agent. We would apply our judgement. Metagog is not acting on the partner's behalf, nor does Metagog act and contract on behalf of the partners. Metagog is in fact a legal party to the transaction and not an agent acting for someone else. Metagog takes the content from the partner and repackages and edits it into a different format, Metagog is acting as a principle. Taking guidance from the revenue standards where we conclude that Metagog is a principle. Thus, in concluding that Metagog is acting as a principle for VAT purposes, s54 does not apply.

Vattable Supplies

Metagog is conducting an enterprise. Per the definition of an enterprise, the services do not relate to exempt supplies. As Metagog is making taxable (vattable) supplies of over one million rand per year, Metagog is a vendor as defined, irrespective of if Metagog has registered for VAT with SARS. Our supplies to customers are not educational services as defined, as Metagog is not registered under any of the mentioned legislation. Thus all sales of our services will have VAT levied on them. The VAT treatment may differ depending on local or foreign partners as well as if we are exporting or not.

Output VAT

S1 of the VAT Act defines "export" as moveable goods. "Goods" is defined as corporeal and moveable We are thus not exporting goods. However as per s11(2), exported services (services rendered outside of South Africa) are zero rated. It is naturally difficult to determine where the customer is situated given the nature of the business, thus SARS determines the service to be exported if payment is received from a foreign bank account. If the money is received from a local

bank account the service is not exported.
Thus the location of the customer matter. If they are in South Africa (paying with an SA bank account) the invoiced amount must include VAT levied at 14%. If the customer is not in SA (paying with a foreign bank account), the service is zero rated and the invoiced amount must include VAT levied at 0%.

<u>Input VAT</u>
Metagog's local partners are also carrying on an enterprise. Thus as discussed they will be VAT vendors and must levy VAT on their supply. The value of the supply is the amount we charge for our services, being 50% of the revenue. Thus the amount Metagog's local partners charge and invoice us for, should include VAT levied at 14%. Metagog can claim this VAT back from SARS as input VAT. However as you mentioned, the local partners do not invoice Metagog. Input VAT can only be claimed upon issue of a valid VAT invoice. This invoice must state the amount, description and quantity of goods and services, both party's VAT numbers and state that VAT is levied and at what amount. **<u>Therefore, Metagog is currently in violation of the VAT act.</u>** I would recommend obtaining these invoices with immediate affect from your local partners as you may be liable for fines as it currently stands.
With regard to foreign partners, they are unlikely to be registered for VAT in South Africa. Thus their invoices will not have VAT levied on them. However SARS only requires VAT to be paid over to SARS for imported services if the importer is not a VAT vendor or makes 100% exempt supplies. Thus Metagog is not required to pay VAT on imported services from foreign suppliers and thus cannot claim input vat on amounts paid to foreign suppliers.

However I must stress that I am not a tax expert and Metagog should consider hiring a Tax/VAT expert.

Please let me know if you need any more assistance or have any queries with this

Sincerely
Ingrid Jansen
Partner: Millennial Consultants SA

<u>Examiner Comments:</u> This candidate identified and addressed all the financial reporting and VAT issues to be considered. The candidate solution addresses the IAS 18 considerations as to whether Metagog should be accounting for revenue as an agent or a principal. The candidate has in sufficient depth and breadth considered the indicators per IAS 18 and applied the indicators to Metagog. The solution shows a clear thorough understanding of the pre-release information in terms of Metagog’s Partner’s and the service solution offered which has been correctly applied to the IAS 18 indicators.

In answering the VAT component of this task, the candidate’s solution correctly deals with the supplies made by Metagog which should be charged VAT at 14% as Metagog is not providing educational services, the export supplies which will have VAT charged at 0%, the Input Tax on services acquired from Partners and that valid tax invoices are acquired to claim an Input Tax. The following issues raised elevated the attempt from a solid C to highly competent:

- The depth, breadth and coverage of the candidate solution in both the financial

reporting and VAT components of the task.
- The layout, language, structure of the solution presented which could be easily understood.
- The candidate's conclusions are consistent and concur with discussion.
- Referring to the effective date of IFRS 15 and that Metagog will need to apply the standard soon.
- Identifying the correct VAT treatment that should be followed by Metagog.

The marking team was particularly impressed that the solution was logical and consistent argument presented in addressing the VAT consequences.

Competent

(c) Financial Accounting and VAT implications of Revenue sharing agreement

From: Junior Consultant
Sent: Wednesday 22 November 11:00am
To: Ingrid Jansen
Subject: Draft response on Accounting and VAT Treament of Revenue sharing agreement

Hi Ingrid

I have prepared a draft response to Azania with regards to the financial accounting and VAT implications relating to the revenue sharing agreement for you to review.

Accounting implications:
In order to determine whether Revenue should be recognised by Metagog on a gross or net basis it is important to first determine whether Metagog is acting as a principal or agent in terms of the partnership.

An agenet acts on behalf of a principal whereas a principal acts on their on behalf. A principal will be exposed to signficant risks of invetory and credit. Metagog appears to be acting on their own behalf and not on behalf of the partners based on the fact that:

Metagog is responsible for providing delivery of world class online learning interventions and soultions, the raw content from the partners is converted into online learning material thus they are not simply offering what the partner provides and there is a process of converting that material to be suitable for online learning. Metagog mainains the responsibility for the intergrated online learning platform which facilitates the following:
- Content development and management
- Delegate aquisition tools and methodologies
- Admission applications
- Delegate and faculty support
- Virtual classrooms

Metagog also has its own studios in which video sessions are recorded.

The risk related to provding online education lies with both Metagog and the partners as a poor product will affect both and thus they will share in the risk as this is likely to lead to a decrease in the course subscribers which will affect the revenue of Metagog and the partners 50% share as well as any reputation damange that may result from a poor service.

The price of the courses is likely to be discussed between the partners and Metagog so that both parties will be satisfied with the prices charged on courses.

The credit risk is shared by Metagog and the partners as in the event that a delegate course evaluation is below 60% a 10% discount is granted which is shared equally by Metagog and the partners thus the credit risk is shared.
Based on the assessment above most of the risks related to the provision of online services are shared by Metagog and the partner but due to the fact that Megagog can operate indeperndatly from the current parners and are able to work with diffirent parners this suggested that they are acting in their own capacity and thus should be treated as a principal for accounting purposes, thus revenue should be recognised on a gross basis, the partners share is a cost that is directly related to the revenue generating activities and thus should be recognised as an expense, the appropriate presentation is to show the partnership as cost of sales.

VAT implications
Due to the fact that Metagog has been concluded to be a principal for accounting purposes, the VAT treatment will take into account the treatment of VAT from the perspective that Metagog is a principle.

Metagog are involved in the supply of taxable services as they provide an online platform for educational services and they do not personally provide educational services. Taxable supplies include services which will be charged at the standard rate of 14% as well as zero rated items where VAT is charged at 0%.

Metagog will charge output vat on their taxable supplies which includes the provision of services to both local and foreign delegates/professionals. The VAT charged on the local services will be charged at 14% where as the the export services will be charged at 0% as exports are zero rated.

Metagog should not claim VAT input on South African partners who are registered under the Higher Education Act as they are providing educational services and are thus exempt from tax, this is further supported by the fact that they do not issue VAT invoices or credit notes. In order for VAT input to be claimed there must be a valid tax invoice and thus the fact that VAT has been claimed proviously is a Non-Compliance in terms of the VAT Act and the Companies Act thus I would advise you (Azania) to take action to correct this to rectify this as it could lead to interest and penalties charged by SARS.
I trust this this will guide you regarding the accounting and VAT treatment of the revenue sharing agreement going forward. I advise that the Revenue be restated (revenue recognisedon gross basis) as from the earliest comparative period being 2014 for consistency of financial statements.

Kind Regards

Junior Consultant

Note:(drafted on behalf of Ingrid Jansen)

Examiner Comments: This candidate identified and addressed all the financial reporting and VAT issues to be considered. However the candidate solution was very limited in application and was more conclusive in nature with limited substantiation. The candidate's solution competently and correctly addresses the VAT component of this task. In particular the mark team was impressed that the candidate had recognised that Metagog was not providing educational services and therefore the exemption in terms of s12(h) would not apply.

However the financial reporting component of the task the solution addresses the indicators that would need to be considered as to whether Metagog should be accounting for revenue as an agent or a principal, however the solution lacks sufficient depth and breadth. While the solution provides details on Metagog's Partner's and the service solution which was contained in the pre-release the information is applied very superficially to the indicators. Furthermore it was not clear from the solution whether IFRS15 or IAS 18 was being applied.

Limited competent

Task C

From: Junior Consultant
Sent: 22 November 2017
To: Azania Njeke
Subject: Accounting and VAT Treatment

Dear Ms Njeke

With regards to your queries regarding the accounting and VAT treatment of revenue and the partner share.

Revenue
When looking at if you should be accounting for revenue on gross or net basis, you need to consider if you are acting as the agent or as the principal. Under IAS 18 (revenue) as well as IFRS 15 (Revenue from contract with customers that comes into effect 1 January 2018) it is pretty clear that you should not include amounts collected on behalf of other parties into your revenue.

In practice however it is not always that simple.

If you are acting as an agent, then you are limited to arranging the provision of goods or services for another party. In other words you are not responsible for providing the services.

You are acting as the principal when:
i) You are responsible for the goods or services.
ii) You establish the prices for the goods or services
ii) You bear the credit risk, if customer do not pay it is your loss and not the other party.

In Metagog's case the content is developed and owned by the partners. They are also responsible for driving the virtual classroom sessions and the academic support. Metagog markets the courses through online advertising.

Metagog do provide the partners with access to software solutions and facilities to help the partners transform the material into engaging interactive online content, but that is only to assist them. Metagog is not involved in developing the actual content of the courses.

Metagog also collect the fees from the delegates, so it does have some credit risk should a corporate client (who has 30 days to pay) not pay.

Although Metagog provide the software and access to the online course, ultimately the content is developed and owned by the partners. Metagog acts as an agent and should be accounting for the revenue on a net basis.

VAT treatment
Metagog is correct in charging the delegates 14% VAT on the tuition/course fees .

It is however not correct to claim input VAT on the South African partners share without an proper tax invoice from the partner. All the local partners operate an enterprise for VAT purposes, so they need to provide Metagog with an invoice for their revenue share. The tax invoice needs to show the full details as well as the VAT registration number of the partner.

Examiner Comments: This candidate attempts to deals financial reporting and VAT issues to be considered, but the candidate is assessed as LC because the solution is far too superficial and the candidate solution does not clearly deal apply the information on Metagog business model to the indicators used to assess the principal and agency relationship. The financial reporting component in this tasks is extremely weak and lacks the depth of understanding expected from an entry level CA and in a task which was clearly triggered.

Similarly the VAT component has almost no discussions and conclusions are presented no substantiation. The candidate concludes, incorrectly that the all Metagog's services would be considered a 14% taxable supply.

In practice, the candidate would have been asked to redo the task or someone else would have been asked to do so.

TASK (d)

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).

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

Highly competent

Part d)

From: Junior Consultant
Sent: Wednesday 22 November 2017
To: Ingrid Jansen
Subject: Re: Tax treatment of loan

Hi Ingrid

Thank you for your email regarding the tax implications of Ron Langley's loan. Please refer to the attachment I have prepared in response to your email.

Please let me know if you have any queries

Kind regards
Junior Consultant

Attachment

Tax consequences of convertible loans and specifically hybrid interest in relation to any debt issued to any company:

Currently, the loan from Ron Langley is classified as a financial liability. The loan granted by Ron is able to be settled in Metagog's own shares or in a single bullet payment of 50 million Rand in 2024. This does give it the potential to be an equity instrument, however, the number of shares to be issued in order to settle the debt is variable as it is determined by the value of 1 Metagog share at the date of conversion and therefore the conversion to shares option does not classify the loan as an equity instrument.

The loan is a present obligation triggered by a past event leading to the outflow of economic benefits (either in the form of shares or in the payment of cash), whereby the outflow is measurable and therefore it meets the definition of a financial liability.

The deductibility of interest expenditure for income tax purposes for a financial liability should be considered in terms of the Income Tax Act. Ron is an issuer of an instrument to Metagog and Metagog has an obligation to repay any amounts of interest in terms of the instrument. This therefore means that the 12% of interest charged every year is deductible for tax purposes. This interest is deductible under section 24J of the Income Tax Act.

Consideration should be given to the capitalisation of borrowing costs for the interest on the loan as the loan was borrowed from Ron specifically for the development of their technology platform used to provide their services. This qualifies to be capitalised on the balance sheet as part of capitalised technology and development costs and would qualify as a qualifying asset, however, I will not go any further into this as you have not requested that I address the accounting aspects of the loan.

Hybrid debt instruments are governed by section 8F of the Income Tax Act. Currently, this section does not apply to the loan from Ron as the number of shares into which the instrument is converted is not fixed and therefore it is not a section 8F instrument.

A section 8F hybrid debt instrument is any instrument in respect of which a company owes an amount during a year of assessment if in terms of any arrangement, that company is in that year of assessment entitled or obliged to convert that instrument (or any part thereof) or exchange that instrument (or any part thereof) for shares unless the market value of those shares is equal to the amount owed in terms of the instrument at the time of conversion or exchange.

However, as the conversion is currently for equity shares of equal value, the exemption specified in the Income Tax Act applies, in that this type of debt would be a hybrid debt instrument UNLESS the market value of those shares is equal to the amount owed in terms of the instrument at the time of the conversion or exchange. This means that the shares to be issued on conversion will be worth R50 million. As such, the loan is currently not considered to be a hybrid instrument and therefore interest is allowed as a deduction under s24J of the Income Tax Act

What are the tax implications for Metagog if it agrees to the restructuring request from Ron?

Should Metagog agree to the restructuring request, the following would apply:

The above will result in the interest rate being increased due to interest being paid on a basis of 2.5% of the net profit and therefore the interest will meet the definition of hybrid interest as follows:

Hybrid interest in relation to any debt owed by a company in terms of an instrument (Metagog owes Ron R50 million in terms of a debt instrument) means:

- Any interest where the amount of that interest is:
  - Not determined with reference to a specified rate of interest (there will be a profit share of 2,5% which is not a specified interest rate) or
  - Not determined with reference to the time value of money or (not applicable)
- If the rate of interest has in terms of that instrument been raised by reason of an increase in the profits of the company, so much of the amount of interest as has been determined with reference to the raised rate of interest as exceeds the amount of interest that would have been determined with reference to the lowest rate of interest in terms of that instrument during the current year of assessment and the previous 5 years of assessment

As can be seen from the above definition, the interest paid to Ron is dependent on the performance of Metagog and therefore, the interest is classified as hybrid interest.

Due to the interest being classified as hybrid interest, the interest that would be payable at 2.5% of the net revenue is no longer deductible for tax purposes, however, for accounting purposes, the interest will still be deductible and therefore this will create a permanent difference for deferred tax purposes.

The interest that would be payable at 2.5% of the net revenue would be declared as a dividend in specie and Ron would include this as a dividend received in his personal taxable income calculation.

The company would be liable to pay a 20% dividend tax to SARS and a dividends tax liability would be created.

In summary:

Currently, the loan is not a hybrid instrument and the interest is deductible under section 24J of the Income Tax Act, which means that the R6 million charged every year will be used to decrease the taxable income of the company.

If Metagog agrees to the new terms, the additional interest will not be deductible which would lead to deferred tax implications and a tax reconciliation would be required. The interest would be classified as a dividend in specie and dividend withholding tax liability is paid by Metagog at 20%, therefore creating a dividends tax liability to SARS.

This would be declared from after tax profits and the interest would not be able to be used to reduced the taxable income of the company.

The interest at 12% per annum would continue to be treated the same as currently.

Other considerations:

You have enquired if this would be treated in the same manner as the profit share for the partners and the short answer would be no, this would not be treated in the same manner.

The partners should be treated as a cost of sale as I explained in the email regarding the accounting and VAT treatment of the revenue line item. Although Metagog is currently not disclosing revenue as gross on the financial statements, the amounts payable to the partners are being deducted from the taxable income of Metagog, however, the additional interest payable to Ron would be paid out of after tax profits.

Consideration must be given to the cash flow that is needed to pay the additional interest to Ron. If we use the 2016 figures as an example, the net revenue figure was R83 516 000 and Ron's share would have been R2 087 900. This is more than 2 million rand extra for 2016 and the company has indicated that the revenue is expected to grow over the next years. This extra 2 million rand, added with the existing interest of 6 million rand per year would give us an effective rate of over 16% per annum. Whilst the dividends tax payable by Metagog would have been R417 580. The company needs to evaluate if they have the cash flow available for this extra outflow to Ron. The interest rate of 12% is already significantly higher than prime and, although the company has an assessed loss, this can be justified taking into account the expenditure spent on developing its technology platforms and systems. Perhaps thought should also be given to additional forms of finance. If additional finance could be obtained for less than 12% per annum, the company could use this to begin paying off its debt to Ron.
Consideration should also be given to the fact that the company is technically insolvent and the areas in the Companies Act that deal with this as well as sections dealing with the director's fiduciary duties. Ron could be using his position as a director to unduly benefit himself and not taking the best interest of the company into consideration. This is shown by him forcing the company to incur on average over the years as comparison to the prime rate an additional cost of over 2.25% per year and this could possibly be seen by a breach in fiduciary duty.

Examiner Comments: The candidate identified and addressed all the key income tax issues to be considered in dealing with the current loan structure and the restructuring of the loan. The candidate appropriately addressed the application of section 24J as it relates to the interest, section 8F as it relates to the possible hybrid instrument and s8FA as it relates to the hybrid interest. Furthermore the candidate's solution has depth and breadth in its application, though potentially it could be considered too long winded, while the references to financial reporting are not necessary for the purposes of the task.
Despite that the following issues raised elevated the attempt from a solid C to highly competent:

- The layout, language and structure of the solution, which could be easily understood by a non-accountant (Ingrid Jansen).
- The warning that agreeing to the 2.5% profit share could have negative consequences for Metagog considering the company's liquidity and funding risks.
- Recognising the punitive consequences for Metagog of the 2.5% profit share would be a dividend in specie which would not be deductible for income tax purposes and that the company would have to pay the dividends withholding tax as well.

Competent

Part D) Income Tax Implications:

From: Junior Consultant
Sent: Wednesday 22 November 2017, 10:00
To: Ingrid Jansen
Subject: Tax treatment of loan

Good day Ingrid
I trust this email finds you well

I have addressed the following issues in this email relating to the tax implications of the loan:

- Tax Implications of the loan
- Hybrid interest
- Treatment of the profit share (Same manner as partners).

I would like to indicate that I am not a tax expert and it would be advisable for Metagog to confirm with a tax specialist on the matter.

I would firstly like to address the definition of a hybrid instrument and hybrid interest per the income tax act.
S8F defines a hybrid instrument as:
Any instrument in respect of which a company owes any amount during a year of assessment of an arrangement as defined in Sections 80L
The company is in that year of assessment entitled or obliged to:

- *Pay an amount in respect of a debt that is conditional on the market value of the assets of the company not being less that the market value of the liabilities.*

This would not be applicable as it is not a requirement by Ron for payment of the loan.

- *Repayment date is greater than 30 years*

This would not be applicable as the repayment date is in 2024 which is less than 30 years from now.

- *Loan is converted into a fixed number of shares*

This requirement is also not met, as Ron has requested an increase the interest rate. The current conversion option is also for a variable number of shares and is dependent on the value of the share at the time of conversion.

Based on the above, the Loan to Ron Langey does not meet the definition of hybrid instrument.

S8FA however deals with hybrid interest and contains the following definition:
Provides that where the interest rate on a debt is not determined with some specified rate of interest or time value of money, <u>or</u> the interest rate is increased by reference to the profits of the company, then the applicable portion will be re-characterised as a dividend in specie.

If the above criteria is met, it indicates that, the portion which relates to profits will be classified as dividend in specie. The implications relating to Hybrid interest specifically will be applicable to Metagog.

Ron Langley has requested profit share of 2.5%. in addition to the 12% interest rate. The profit share of 2.5% would meet the definition of "*interest rate increased by reference to the profit of the company*".

The following would be the VAT and income tax implications:

- VAT Implications: There would be no VAT implications on the loan, interest on the loan or any dividend payments arising from the above Loan from Ron Langley. The loan, interest an equity on the loan is specifically regarded as a financial service as is Vat exempt.
- Donations Tax Implication: The transaction does not contain any elements of a donation and as such would not attract any donations tax implications.
- Income Tax Implications: Metagog would be entitled to the interest deduction at a rate of 12% on the yield to maturity basis as per section 24J of the income tax act.
- Dividends Tax Implications: The additional 2.5% requested by Ron Langley would be seen as a dividend in specie. The deduction of interest relating to the 2.5% is disallowed for Metagog from taxable income. This dividend is deemed to be declared and paid on the last date of the year of assessment. Metagog will have to withhold and pay over dividends tax to SARS at a rate of 20% of the dividend amount.
- CGT Implications- There are no CGT implications are there has not been any disposal or discharge of debt.
- Securities tax: There would not be any securities tax as there has not been a transfer of shares.

I have also thought about the treatment of the profit share of 2.5%.
The additional 2.5% would not be deducted from the Net revenue figure. The revenue figure in the statement of Comprehensive income should be shown at a gross amount. The additional 2.5% paid to Ron Langley should thereafter be shown as an expense or profit share. There should be no effect on the revenue figure in the statement of comprehensive income relating to the 2.5%.

I hope my above responses provide clarity on the matters raised. Please do not hesitate to contact me if additional explanations are required.

Thank you and regards,
Junior Consultant

Examiner Comments: The candidate identified and addressed the application of sections 24J, 8F and s8FA. The attempt though as it relates to the deductibility of the interest in terms of 24J is very superficial and lacks depth in terms of a task that was clearly triggered in the pre-release information. Furthermore the solution is potentially too long winded with quotations from the Income Tax Act in terms of s8F.
In addition the candidate has incorrectly quoted the provisions of s8F(1) as it relates to the definition of a hybrid instrument, though reaches the correct conclusion that the loan from Ron is not a hybrid instrument.
It was disappointing to that the candidate in answering the task, which only requested for the income tax consequences also made references to a number of taxes; donations tax, securities tax, taxable capital gains; which was not relevant.
That being said the candidate's solution provided sufficient coverage of the issues relating to the loan and it possible restructure.

Limited competent

Task D
From: Junior Consultant
Sent: 22 November 2017
To: Ingrid Jansen
Subject: Tax treatment of loan

Dear Ms Jansen

The loan that Ron Langley provide to Metagog is a convertible loan because it can be converted into equity at any time.

It is therefore a hybrid debt instrument and is covered by Section 8F of the Income Tax Act. The hybrid interest payable is not deductible for tax purposes and deemed to be a dividend in specie that is declared and paid on the last day of the year of assessment.
If Metagog agrees to the restructuring of the loan, the tax implications will be as follows:

Tax implications
1. The 12% fixed interest paid will not be deductible for tax purposes. It will be deemed as dividend in specie, that is declared and paid on the last day of the year. The company will be subject to dividend tax on the dividend amount.

2. The profit share of 2.5%, calculated with reference to the net revenue, will still be classified as hybrid interest and therefore a dividend in specie. Although there is no specific rate of interest, it is still being regarded as hybrid interest under Section 8FA of the Income Tax Act. So the company will be liable for dividend tax on this amount as well.

Profit share
The profit share paid to Ron Langley is not the same as the profit share for the partners. It can therefore not be treated in the same way. The revenue for Metagog cannot be shown as net of this amount, only net of the partners revenue.

If you have any questions, please let me know.
Regards
Junior Consultant

Examiner Comments: The candidate identified that sections 24J, 8F and s8FA are applicable. But the candidate solution is far too superficial, the candidate solution contains very limited discussion and application of the applicable sections.

Furthermore the candidate's application of these sections, in particular s8F and s24J contains major flaws. The candidate incorrectly applied the definition of a hybrid instrument in terms of s8F(1) and incorrectly concluded that the initial loan from Ron is a hybrid instrument. The candidate conclusion then on s24J is therefore incorrect as well.
In practice, the candidate would have been asked to redo the task or someone else would have been asked to do so.

TASK (e)

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).

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

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

Highly competent

Task E

Audit Committee Work Plan

Tasks for meeting scheduled: December 2017

External audit-related responsibilities

- A concern was raised in the 2016 external audit report about the internal controls over revenue. Recently, an anonymous email was sent to the partners in respect of the same issue. As a result, Metagog decided to perform an evaluation of the internal controls.
- Discuss the results of the assessment of the evaluation of internal controls over revenue and how the audit committee will follow up on any weaknesses identified in internal controls to improve these in the future.
- Discuss the possibility and benefits of tasking the external auditors with issuing an ISAE 3402 report for Metagog.
- Discuss the fees payable to the external auditors in respect of the upcoming 2017 audit.

Fraud, bribery and corruption

- Discuss the possible renegotiation of the loan terms in respect of the convertible loan from Ron Langley and whether this does not infringe on Ron's independence in respect of Metagog.
- Ron Langley may not be present for this discussion.

Committee matters

- King IV requires that the audit committee is comprised of 3 independent non-executive directors with sufficient skills to fulfill their duties.
- Ron Langley cannot be considered independent due to his loan to Metagog.
- He is also a retired golfer and may therefore not have the skills to fulfill the duties of an audit committee member.
- The composition of the audit committee in terms of independence and skills should be discussed.

- Discussion of the new risk committee to be established
  - Responsibilities of the committee
  - Committee Members

Meeting Scheduled: March 2018

External audit-related responsibilites

- Finalise the audit committee report to be included in the financial statements
  - Include commentary on whether the auditors acted independently
- Finalise the fees payable to the external auditors in respect of the 2017 audit.

Examiner Comments: The candidate identified many of the points relating to external audit-related responsibilities, fraud, bribery and corruption and committee matters and made an excellent attempt to schedule the tasks. The integration of the facts and circumstances from the case (eg. Internal controls over revenue, audit committee members independence and skills, new accounting standards implementation, ISAE3402 report) is notable. The layout and format of the work plan was also considered appropriate. This was a very good response in a difficult task.

Competent

From: Junior Consultant
Date: Today
Subject: Work Plan for Audit Committee FY 2018
Attachment: Work Plan for Audit Committee FY 2018

Good day Ingrid

Please find attached the draft Audit Committee Workplan as requested. (see excel spreadsheet). This workplan has been compiled taking into account the Companies Act requirements regarding the responsibilities of the audit committee and King IV principles and recommendations.

Trust that my suggestions in the workplan will assist the committee to become fully functional and effective.

Regards

Workplan FY2018			
Tasks/ Matters	**How to be allocated**	**Dates (Audit Meetings)**	**Reasons for proposed Timing**
External audit related responsibilities			
In terms of the Companies Act the audit committee has statutory responsibility that deal with the external auditors' appointment, fees and independence	This to be discussed that this meeting as the auditors should be appointed yearly.	Dec-17	To consider the need to appoint new auditors for the 2018 financial year
Determine the fees paid to the	Auditors to provide	Jun-18	Before the commencement of

auditor and the terms of engagement	scope for the 2018 year in order to discuss the fees		the 2018 audit.
Ensure that the appointment of the auditor complies with all relevant legislation	Compay secretary assist with this	Dec-17	Before we appoint new auditors or even if existing auditors comply for the financial year 2018
Determine the nature and extent of non-audit services that the auditor can provide	When a non audit service is required	Dec 2017, March 2018, June 2018 and October 2018	When a non audit service is required
Pre-approve an agreement with the auditor for non audit services	When a non audit service is required	Dec 2017, March 2018, June 2018 and October 2018	When a non audit service is required
Report in the annual financial statements on how the audit committee carried out its functions and whether they believe the auditor acted independently.	At year end when the annual financial statements have been prepared and authorised	In December 2018	This will be for the year end 31 December 2018 and thus will be for that period and when financials are ready for auditing
Meeting Annually with internal and external audit functions without management beign present, so all sides can voice their concerns.	Company Secretary to schedule meeting with them	Jun-18	In the middle of year to prepare for year end
Fraud, bribery and Corruption			
Receive and deal with complaints relating to accounting practices and internal audit, auditing of the financial statements, internal financial controls and related matter	Important so to be dealt with at all meetings	Dec 2017, March 2018, June 2018 and October 2018	This should be discussed throughout the year as it is important matters
Safeguarding of Metagogs assets through oversight of the control and risk management practices of the company.	Review COSO framework and risk register implemented by audit committee	Dec 2017, March 2018, June 2018 and October 2018	This should be discussed throughout the year as it is important matters
Committee Matter (to ensure effective functioning of the audit committee			
Consider the independence of each member on the audit committee as King IV and Companies Act requires that all members on the audit committee be independent non-executive directors.	Audit Committee to consider this	December 2017 and March 2018	Deal with it early in the year so that all non compliance issues are dealth with before year end of 2018
Whether Ron is considered independent due to his loan with Metagog and thus fit to be on the audit committee.	Audit Committee to consider this	December 2017 and March 2018	Deal with it early in the year so that all non compliance issues are dealth with before year end of 2018
Establish if all members on the audit committee has the necessary financial literacy, skills and experience to execute their duties effectively.	Audit Committee to consider this	March and June 2018	Deal with it early in the year so that all non compliance issues are dealth with before year end of 2018

Examiner Comments: The candidate identified the key points relating to external audit-related responsibilities, fraud, bribery and corruption and committee matters and made a reasonable attempt to schedule the tasks. The layout and format of the work plan was also considered appropriate. The explanations provided for the timings and allocations were also useful. This response was enough to demonstrate competence in a difficult task.

Limited competent

Task E

From: Junior Consultant
Sent: Wednesday 22 November 2017, 09:00 AM
To: Ingrid Jansen
Subject: Re: Work plan for Audit Committee
Attachment: Workplan

Dear Ingrid

I have come up with the work plan for the Audit Committee as per your request.
Please find the document attached.

Do not hesitate to contact me should you have any queries.

Regards

Junior Consultant

Work plan

In designing this work plan, I have applies the principles recommended by King 4 (applicable to Metagog as it has been effective from 01 April 2017) and the requirements per the Companies Act. The Company is obliged to comply with the Companies Act however it is not required to follow King 4 principles as it is not a public or listed company. However it is necessary that Metagog considers the recommended principles as the company wants to further strengthen corporate governance.

Companies Act

Per section 94 of the Companies Act, the responsibilities of the audit committee members are stated. The audit committee should ensure that it covers the following responsibilities relating to the external audit:
- Nominate an auditor who is independent *(Should Metagog was to change their current auditor the committee should nominate the prospective auditors at the meeting)*
- Determine the fees to be paid to the auditor *(As the audit is approaching, the audit committee should agree on a fee that Metagog is willing to pay and discuss such fee with the auditors)*
- Ensure appointment of auditors complies with the Companies Act *(The Companies Act requires that auditors must be registered auditors and should not have performed any executive duties for Mategog. As Metagog was audited for the first time for the prior year the mandatory rotation of auditors after 5 years per the Companies Act is not applicable, however should consider this in future meetings)*
- Determine the nature and extent of non-audit services the auditor may provide (*Decide on whether*

the auditors should be formally appointed for non-audit services in order to assess the company's internal controls per ISAE 3402 and/or the revenue presentation implications as Azania wanted to consult with Frank. The committee should also consider the effect on independence should these services be obtained)
- Pre-approve proposed arrangements with the auditor for non-audit services
- Prepare a report for the financial statements stating how the audit committee carried out it's functions; whether satisfied with the independence of auditor; and commenting on the financial statements, the accounting practice and internal finance control of the company.
- Receive and deal with concerns or complaints regarding accounting policies, audit and internal financial controls
- Make submissions to the board relating to such matters
- Other matters that the Board may delegate

Therefore from the above, it is evident that the audit committee will be responsible for financial statements and audit oversight.

The Companies Act does not require the Audit committee to be responsible for matters relating to Fraud, bribery and corruption however the Board may allocate this to the Committee.

King 4

The duties of the audit committee per King 4 comprises of providing oversight of:
- the effectiveness of the organisation's assurance functions and services, including external assurance providers, internal audit and the finance function
- the integrity of the annual financial statements

The board could delegate other responsibilities to the committee, such as risk governance, however it should ensure that it delegates sufficient time to its responsibilities.

Whether or not the governance of risk is delegated to the audit committee, the audit committee should oversee the management of financial and other risks that affect the integrity of external reports issued by the company.

Therefore base on the above, it is evident that risk management relating to the integrity of external reports is recommended to be overseen by the audit committee specifically. Other risks may be overseen by a different committee.

The only the committee that could deal with the risk governance of Metagog will be the risk committee, however it won't be practical to have such a committee as it requires both executive and non-executive directors, majority being non-executive. Based on the board structure, all the non-executive directors are part of the audit committee. Therefore instead of forming a different committee, risk governance should be allocated to the audit committee.

Should risk governance also be allocated to the audit committee, overseeing the management plan for fraud, bribery and corruption will be handled by the committee as well.

The specific matters to be dealt with at the upcoming meeting should relate to:

External audit
- Negotiate the acceptable audit fee at the next scheduled meeting
- Draft the audit committee report for the financial statements stating how the audit committee

carried out it's functions; whether satisfied with the independence of auditor; and commenting on the financial statements, the accounting practice and internal finance control of the company, this should be discussed after the audit of the current year is completed (meeting thereafter)
- Deal with concerns or complaints regarding accounting policies, audit and internal financial controls, such as the internal controls for revenue at the next meeting

Fraud, bribery and corruption
- Develop a policy on how to deal with fraud, bribery and corruption at the next meeting

At the moment there is no need to appoint an auditor for an audit or non-audit services. Should there be a need, then these issues should be discussed at the meeting.

Other matter that should be discussed at the meeting that would ensure effective functioning of the committee is the establishment of an internal audit function.

Examiner Comments: This candidate's work plan was far too theoretical, with a list of content from Section 94 of the Companies Act and King 4.

The application was generally poor – for example, the candidate did not discuss the independence of the audit committee members. The candidate also did not make a reasonable attempt at scheduling of the tasks. Many of the points stated were either meaningless or irrelevant. The layout of the plan is also poor, specifically not properly dealing with external audit-related responsibilities, fraud, bribery and corruption and committee matters.

In practice, the candidate would have been asked to redo the task. Hence, this has been assessed as an LC.

TASK (f)

Respond to Ingrid Jansen's email regarding the proposed Metagog employee incentive scheme (document 6).

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

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	
Target group	Marketing and business development employees
Main KPI	Achieve budgeted number of delegates who register for short courses in any financial year
Incentive basis	A x B x C = 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	
Target group	People champions – employees who monitor and support delegates
Main KPI	Achievement of an acceptable rating from delegates who complete an online survey after completion of a short course, preferably an 80% or higher rating
Incentive basis	A x B x C = 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

Highly competent

TASK F

To: Ingrid Jansen
From: Junior Consultant
Sent: 22 November 2017
Subject: Employee Incentive Scheme

Hi Ingrid,

Thank you for forwarding on the attachment's from Azania. I have drafted some review points in the tables below for your consideration:

Key Principles review

Key Principle	Review points and considerations
1. The ultimate purpose of Metagog is to serve its customers (partners and delegates)	While Metagog's significant focus should be on customers, good corporate governance practices encourage firms to adopt a stakeholder approach and focus on the benefit of all stakeholders - owners, customers, employees and suppliers. This allows the business to be an ethical corporate citizen focused on meeting the needs of all its stakeholders, engaging them and growing both itself and the community and economy around it. Metagog's focus should include an employee focus - as a technology driven firm, employees are a key component of the ongoing growth, development and innovation of the company and should be treated as such. This principle should be enshrined across the entity but also within the employee incentive scheme otherwise it may be the wrong message to employees that they are only a secondary consideration and demotivate them.
2. Employees should act in the best interest of Metagog in the long term	It is good for Metagog to have a long-term focus to ensure employees do not sacrifice good ethics and practices for short term gains, but realistically employees will have to balance short, medium and long term goals. Not all KPI's will be focused on the long term and short term performance is likely to impact employees bonuses, remuneration and working conditions. By ignoring the short and medium term aspects of the employees work, Metagog seeks only to benefit the company and its growth and does not acknowledge the fact that employees needs and motivation may extend over a longer period of time.
3. The incentive scheme should eliminate agency costs	While this is a noble pursuit, employees will always act in their own best interests to some extent and Metagog should seek to reduce rather than eliminate agency costs. They can do this by rewarding employees for acting in the best interest of Metagog (i.e innovating and growing the company) rather than for acting in their own best interests (short term patches to reduce their workload). One consideration Metagog should make is how to align the interests of employees and Metagog - by focusing their incentive

	scheme solely on short term cash payments they are unlikely to achieve this. By giving employees a share in the business, they can align the employees interest with the business as each benefits from sustainable growth.
4. The employee incentive scheme should lock in good staff and encourage underachievers to leave	The scheme should focus on rewarding good staff for good performance - Metagog should not try to 'lock in' good staff but remunerate them adequately and provide a happy and challenging work environment which makes them want to stay instead of simply having unhappy but well-paid workers who are reluctant to leave. Furthermore, the incentive scheme should be used to identify under-performing workers, identify why they are under-performing and offer support and a chance to improve before trying to push them out. Metagog's under performing workers will still have had time, experience and money invested in them and may have fair reasons for under-performance which can be rectified. This will create employee loyalty and a positive working atmosphere instead of a resentful one.
5. Incentives should be a cash bonus - share options are meaningless for an unlisted entity	The logic of this principle is flawed - although cash is a good incentive, it tends to attract a short term focus and once it is paid out there is no way to retain good employees any longer. Although Metagog is unlisted, it is still possible to structure the shareholding so that there are shares available for employees to hold or buy in the private company. Although the employees would not be able to trade these freely, this would encourage employees to stay and grow the business until they could realise their reward on listing or the company buying them out. Practically this might be difficult to execute based on regulations, but Metagog could have bonus banks linked to enterprise value.
6. Incentives need to be linked directly to KPIs	Incentives need to be linked to both financial and non-financial performance measures. For financial performance measures, incentives should be linked to KPIs which are at least partially within the employee's control so that they have a direct impact on their bonus. Overall company performance should still be factored in. Non-financial measures can include efforts to create a good working environment, ethical and charitable work, work outside of job title and other metrics.
7. Peer reviews are critical	While peer reviews can be useful, if the work environment is competitive, peer reviews may not give an accurate reflection of employee performance. Furthermore, peers will not have oversight of the actual work produced by an employee. Peer review should be an aspect of the incentive scheme but ultimately this should lie based on the observations of line managers and seniors with input from peers.

Specific Schemes

Marketing and Business Development	
KPI: achieve budgeted number of registrants	This is a good basis as it is controllable to some extent by employees and should have tough but achievable goals. Additional KPI's could include the number of new partners, brand awareness and market share to shield from market declines.
Incentive Basis	90% of the KPI is a very high target and may be unrealistic. Peer review should play a smaller role than manager review for reasons discussed above.
People Champions	
KPI: delegate ratings	This KPI may be unacceptable to employees as they are not responsible for developing or delivering the course content, lectures or tutorials. They would be unable to control the delegate's perception of the course or enjoyment. Preferable KPI's could include: number of delegate interactions, delegate's giving their champion a separate performance rating or delegate completion rates.
Incentive basis	Whereas marketing and business development are eligible for 50% of their base pay, it may be unfair and not transparent to make this 25% for people champions. This difference may create employee dissatisfaction and unhappiness. As above, Peer review should play a smaller role than manager review for reasons discussed above.

The key principles of the employee incentive scheme also omit some important aspects, which could improve the scheme and bring the programme inline with some key governance principles of King IV: that the scheme be fair (achievable but challenging), responsible (aligned to strategic objectives and the six capitals) and transparent (clearly presented and communicated).

1. Rewarding employees with non-cash incentives: Metagog could motivate employees with additional vacation, free or subsidised lunches or additional voluntary training. They could also allow employees time to work on their own projects which could result in innovations for the company.
2. Long-term cash incentives: the cash incentives mentioned have a short term focus and could be improved by making them long-term, such as with the creation of 'Bonus Banks' whereby an employees bonus each year is put into a pot and paid out in the short, medium and long term based on continuing performance.
3. Non-financial measures: reward employees for their contributions in the business towards more than financial goals - developing human, social and intellectual capital.

review: thoughts on key principles and individual schemes

If the key principles are updated, the individual schemes should be updated to reflect these changes.

Given the urgency from the Board and the recent bad press about working conditions at Metagog (per the press release you sent to me), it may be beneficial for them to focus on improving their scheme and discussing it with employees instead of simply handing it down.

Please let me know if you would like to discuss this further.

Kind Regards
Junior Consultant

Examiner Comments: The candidate is considered to be highly competent on this task given the following:
The candidate firstly responded to the requirements of the task – both dimensions – being providing their thoughts on the overall key principles and providing critical comments on the individual schemes.

The candidate, using a clear and well-articulated approach, provides unbiased thoughts on the key principles of the scheme. The answer displays depth through the candidate's reasoning of the key principles and issues embedded in these principles. The candidate furthermore displays breadth in their response, by achieving good coverage of the key principles identified in slide 1.
The candidate not only demonstrated competence but also demonstrated a number of higher-level thinking – agency costs can only be reduced, they cannot be eliminated; integrating the scenario into the issues addressed (bad press), amongst others.

The candidate interrogated both incentive schemes, displaying depth and making feasible suggesting as to how to improve the measurement of performance of the respective teams of staff.

The candidate identifies that staff should be stretched through the targets set.

Competent

Task F

From: JC
To: Ingrid Jansen
CC:
Subject: Re: Help

Good day Ingrid

I trust you are well.

Thank you for providing me with the platform to give my opinion with regards to the incentive scheme. I have noted the following with regards to your request below.

I have reviewed the key principles in the draft employee incentive scheme and provided commentary.

Key principle	Comment
1) Purpose to serve customers	The primary purpose of Metagog is broader than only to serve the customers. Metagog has a responsibility towards all stakeholders which include partners, customers, staff, delegates and community etc. Without the staff there is no way that Metagog will be able to supply a superior offering to delegates and partners. I would suggest the amendment of the ultimate purpose to include all stakeholders in order to avoid the perception of undermining any of the other stakeholders
2) Employees should act in the best interest of Metagog in the long term	I agree that the employees should act in the best interest of Metagog in the long term. Over and above that, the purpose of an incentive scheme is to create value in the short, medium and long term by correctly aligning the incentives of directors and employees with the objectives of the company. The objective are based on the value creation focused on the Six Capitals of the Integrated Reporting framework as recommended by King IV.
3) Eliminate agency costs	As mentioned above the interests of both employee and objective of the company should be aligned. As much as the employees need to be rewarded for their work it shouldn't be detrimental to the overall objectives of the company to create value for the shareholders.
4) Lock in good staff, reward excellent performers and encourage under performers to leave	A good incentive scheme should encourage employees to work hard and retain top talent. It is difficult to get suitable knowledge and skill in the industry in which Metagog operates in and therefore staff retention should be a priority for Metagog. I do not think an incentive scheme should encourage under performers to leave. This makes it seem as though under performers will get a "negative bonus" which will take away from their gross salary. I agree that under performers shouldn't be rewarded although Metagog should pin point the reason for under performance and try to support staff to perform optimally. This can be done by up-skilling and providing resources to aid employees to add value. It is difficult to get rid of employees with the labour laws in South Africa.
5) Cash bonus - share options are meaningless	A cash bonus promotes short term focus and doesn't add towards value creation in the long term. A remuneration policy should have a mix of incentives which could include: base salary and commission, payments on termination of employment, sign on bonus, retention and restraint payments,

	extra leave days, additional medical benefits and pension contributions etc. Cash bonus might put further strain on the cash flow of the entity in the short term. Share options can still be provided even though the entity is not listed. This will be in the form of giving the employees an equity stake in the company and will be entitled to dividends.
6) Linked to direct KPI	I agree, each division in the entity should have their own pre determined KPI's which are linked to the work they do in order to add value to the entity.
7) Peer review	I think the peer review system will not work as it may affect negatively staff moral and how staff interact with one another going forward. The peers do not necessarily review the work of their peers so it will be difficult for them to provide an objective unbiased assessment of their fellow colleagues. I think the better solution is for a 360 review - whereby the staff is reviewed by the manager and in turn the manager is reviewed by the staff. This will bring about transparency and will a fair measure throughout the entity.

Marketing and development incentive scheme

- ***Main KPI*** - The KPI should be a balanced scorecard which includes a basket of KPIs. The main KPI should be 1) achieving budgeted number of delegates 2) creating brand presence in the market.
- ***Incentive basis*** - This should be based on a number of measures including financial and non financial measures.

Financial	Non Financial
1) Growth in number of delegates	1) Effectiveness of marketing and advertising
2) Marketing sales as percentage of sales	2) Presence on social media - number of likes
3) Cost cutting measures	

The current scheme only focus on number of delegates that enrol. In South Africa, the consumer is under pressure and short courses would be considered a discretionary spend. The consumer will cut such expenditure first in this circumstance. Therefore market conditions are at play and the marketing team has no control over such. Having 90% of budget achieved is a strict one dimensional measure and might discourage staff in the long run

People Champions

- ***Main KPI*** - KPI should be a balanced scorecard which includes a basket of KPIs. The main KPI should be based on survey to delegates on the service the received from the people champions.
- ***Incentive basis -*** This should be based on a number of measures mostly non financial measures as this is a support function and doesn't generate revenue.

Non Financial
1) Number of referrals received

2) Rating on surveys

It is important for the staff to buy in to the policy which will be drafted for the company. It would be useful to get their input as well so that they feel like they are part of the process since the incentives will be a reward to them for all their hard work and efforts.

I trust the above is order.

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

Regards
JC

Examiner Comments: The candidate's response reflects a good, solid competent response to the task. The candidate is deemed to be competent on the task for the following reasons:

- The candidate addressed both dimensions of the task – provides commentary on the key principles of the incentive scheme as well as interrogated the individual schemes.
- In respect of the commentary on the key principles, the candidate provide a broad response, achieving good coverage of the principles. The candidate's ability to reason is evident in their response. The candidate's response was also objective and unbiased.
- The candidate clearly exhibits that they understand the issues and themes underlying an effective performance management system.
- The candidate interrogated both schemes, provide relevant and appropriate critique on the structuring of the individual schemes as well as providing alternative KPIs which can be used.
- Identifying that employee buy-in is an important attribute of an effective performance management system is a value-adding comment!

Limited competent

Task F
From: Junior Consultant
Sent: Wednesday, 22 November 2017 16:00
To: Ingrid Jansen
CC:
Subject: Re: Help!

Hi Ingrid
I have managed to review the slides prepared by the Human Resource Division of Metagog and I have the following views:

1 Key principles

- The primary purpose should be clear, that is, how do they define serving their customers.
  - This should be described in line with the roles of the marketing and business development and delegate monitoring.
  - Therefore each division should have a clear definition of what their role is in achieving the primary purpose of serving customers (this cannot be the same for all divisions, as their roles and responsibilities are not the same.)

- Focus should not only be on the long-term but also the short-term:
    - It will be easier to measure employees on the short-term based measures as they will be able to track progress and improve frequently or remain motivated.
    - Long-term focus should be applicable to executives.
- I don't think it is correct for the scheme to encourage under-achievers to leave, as this will demoralise employees.
    - The scheme should rather focus on improving and motivating under-achievers to work harder.
    - Metagog must ensure that under-achievers have development plans in place for all employees, to be able to improve on areas where development is required (offer on the job training, mentorship programmes, external training for staff).
- It is a good thing to have peer reviews as it gives a fair indication of the employees' performance, unlike employees being reviewed by managers only.

2 **Individual schemes**

- Marketing and business development employees
    - Should be in line with KPIs that are specific to their roles and responsibilities.
    - KPIs should be directly linked to marketing and business development.
- Employees who monitor and support delegates
    - Should be in line with KPIs that are specific to roles and responsibilities of monitoring and support.

The incentive scheme needs some improvements here and there. I hope that you find this in order.
Regards
Junior Consultant

Examiner Comments: The candidate is assessed as being limited competent on the task for the following reasons:

- Although the candidate addressed both dimensions of the task (provides commentary on the key principles and commentary on the individual schemes), the response lacks both depth and breadth.
- With regard to the key principles, the candidate lacks breadth – the candidate should have critically evaluated all the principles and provided negative and/or positive feedback on the principles. In terms of coverage of the key principles, the response is too limited.
- The candidate's response regarding the individual schemes lacks depth. The approach in responding to this part of the task is too ITC-like. The response is too superficial and does not address specific issues resulting to the KPIs used and the targets set. The candidate should have interrogated the KPIs used (are they appropriate, if not why?), provided alternative KPIs relevant to work performed by the particular employees (value-adding commentary in terms of how to improve the measures) and finally issues around targets set / % of salary serving the basis for the bonus calculation.

TASK (g)

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).

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

NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Consultants SA email disclaimer. See http://www.millennialconsultsa.co.za/disclaimer/email.htm for more details.

Highly competent

Take G
From: Junior Consultant
Sent: Wednesday 22 November 2017, 15:30pm
To: Ingrid Jansen
Subject: Vame Acquisition

Hi Ingrid

With regards to your request for the five practical things that Vame and Metagog need to do/focus on, I've listed them below:

1. Identifying and eliminating duplication: Prior to acquiring Vame, Metagog had performed some gamification on its platform and thus they need to identify the duties which are duplicated as a result of their acquisition of Vame and ensure that the tasks are adequately defined amongst the existing gaming department and Vame to reduce costs and time wasted as a result of duplicating tasks or research. Various departments can be integrated, depending on what each company has

and the tasks required. Given the recent allegation in the news around, inter alia, long working hours, the integration of departments and an increase in a number of employees might be welcome and improve the work environment.

2. Cultural integration: one reason that a merger or acquisition fails is due to cultural clashes. As Tebogo and James will be staying on as employees, it is important that they are introduced and incorporated into the culture of Metagog. Culture is a major part of any company and can alter the employees experience at work. This integration can be done through team builds, after-work drinks and other means to ensure that employees meet Tebogo and James and that they are fully integrated into the culture and organisation.

3. Giving Tebogo and James autonomy: Metagog bought Vame to improve their gamification and ultimate product offering. As such, they need to ensure that they give their new employees some autonomy to develop and gamify the platform. If they feel restricted in any way, they will not perform to the best of their ability and will be unhappy, potentially leave which will defeat the purpose of the acquisition. The have been working for themselves for a number of years and if they feel that they are being observed or micor-managed, it could create conflict and restrict the potential growth that can be achieved from this acquisition.

4. Vame's University Contracts: Discussions need to be had over how Vame should handle its contracts with the big university as Metagog does not want to have its employees and subsidiary offering services to a company that could become a direct competitor. This discussion needs to be had relatively early on to avoid any possibly conflict later. Metagog could approach the university to be their platform and thus it could provide an opportunity for increased revenue. The benefits and drawbacks of continuing, renewing or cancelling the contract must be assessed to determine the best possible outcome for the group as a whole. Regardless, open, honest and frank discussions need to be had.

5. Possible disposal of PPE: There is a possibility that there is excess machinery or equipment that is not required as a result of the acquisition. As such, any excess machinery should be disposed of the allow for a cash injection into the business. This is critical, especially given the net liability position of both Vame and Metagog. By streamlining the processes, we will not only have an injection of cash but it will allow for the companies to integrate fully, working together and building the corporate culture.

I know that mergers and aquisitions is risky business and that often the synergies are not realised but I think that if the companies implement the above that the chances of a successful acquisition are improved.

Let me know if you need anything further.
Kind Regards
Junior Consultant

Examiner Comments: This candidate included multiple factors in most of the five suggestions however, this was forgiveable. Some insightful suggestions included the retention of key Vame executives, expansion into graduate degree programmes and the expansion of Vame's service offering. It appeared that the candidate had pre-researched the gamifaction industry and this impressed the markers.

Competent

From: JC
To: Ingrid Jansen
CC:
Subject: Re: Vame acquisition

Good day Ingrid

I trust you are well.

I have noted the following with regards to your request on the key issues for Metagog unlocking value post acquisition.

1) Integrating information technology, communication and other systems - the entities will need to agree on which IT and other systems they will use in order to deliver the integration between online learning and gamification. There is a risk that there could be an unanticipated issue in this regard. Metagog and Vame will need to test their systems and ensure they are integrated else this could have negative financial implications on the entities. This may result in the entities having to spend more money on integrating the systems which will set back the entities from unlocking value immediately or at all.

2) Values, policies and culture - the combined entity will need to come up with new or adjusted values system, policies and possibly a new culture. The cultures of the two entities will need to be integrated or the new entity will need to develop a new culture. The buy in from employees on the new culture and policies is paramount to the success of the combined entity. If the cultures of the two entities is not in line, this could affect how they employees interact with one another and possibly have a negative impact on service delivery.

3) Management structure and employee integration - the combined entity will be larger than before and both the founders of Vame will be staying on as employees in the combined entity. A clear management structure will need to be outlined in terms of the roles and responsibility of each employee. If the employees are not working towards a common goal, this will affect the ability of the combined entity to deliver a work class service to it's stakeholders being the delegates and partners. An adequate employee integration strategy needs to be in place so that each employee understands what they need to do and that nobody steps on each others toes. The two development teams will need to work closely together and develop an understanding of what is expected from them and how they can achieve it.

4) Coordinating geographically separate organisations - the management team of the combined entity will need to decide where they will operate and conduct business. I would suggest that the entities move in to the same building as their functions will require constant communication and liaison amongst each other and this will be administratively easier and cost effective if the entities move in to one building. Lease expiries and negotiation with landlord may need to be considered.

5) Increase client base - the combined entity will need to increase their current client base in order to achieve the budgeted financial goals of the combined entity. The client base is currently focused on working professionals and university students and this could be increased to include high school and primary students. Gamification will be able to stimulate the younger age group a lot more. This will ensure that Vame staff is kept busy, stimulated and can add directly positively towards adding value

to the group. The current customer base of both entities will also need to be combined.

I trust the above is in order.

If you have any clarity seeking questions or need the above to be enhanced, please do not hesitate to contact me.

Regards
JC

Examiner Comments: This was a competent response leaning towards HC. Culture issues in mergers and acquisitions are critical and the candidate identified this. Also, ensuring management structures are appropriate and integration of physical operations are valid issues in the near term. The suggestion about expanding into providing services to schools was insightful.

Limited competent

(g)
From: Junior Consultant
Sent: Wednesday 22 November 2017 15:05 AM
To: Ingrid Jansen
Subject: Vame acquisition

Good day Ingrid,

I have listed the 5 key issues that will unlock value post acquisition of Vame below as requested:

1)Providing a better learning experience by agreeing on the growth strategy of Metagog
-A well designed gamification strategy will lead to to high levels of engagement an increased recall and content retention by the content parteners if it is in line with the growth stragegy of the business.
-The directors of Vame should consider renewing their contracts with the current univesity and should offer their services to other universities to increase the number of clients.
-Metagog should encourage the directors of Vame to stay after 2021 to ensure continuity of the operations of the partnership.

2)Provide and Improved learning environment by adding new graduate degree programs
-Metagog will need to add graduate level programs with new and current clients
-Gamification will offer and informal and effective learning environment helping learners to practice real life situations in a safe environment.
-This makes the leaner much more engaged and thus facilitates more information retention.

3)Identification of risks affecting Metagog and Vame
-Gamification promotes powerful behaviourial change, this is combined with scientific principles of repeated retrival and spaced repetition.
-Indentification and adressing of the risks affecting Metagog and Vame will enable better risk management and monitoring of risks.

4)Provide a competitive edge from competitors

-Boost the bottom line of Metagog and Vame by expending the adoption and usage of of progressive challenges targeted to individuals and teams.
-Provide integrated back end applications like university system integration and content management systems
-Provide additional vertical services not provided by the other online universities like integrated back-end applications.

5)Increase the Return on investment of Metagog and Vame
-The ROI can be increased by the integration of other financial systems within Metagog by developing innovative stategies and effective measures of success.
-Incresing the services offered by providing vertical servicees to other diisciplenes like behaviourial analysis communications, datasciences and Health informatics among others.

I sincerely hope this addresses your requirements sufficiently. Please let me know if I can be of any additional assistance.

Kind regards,
Junior Consultant

Examiner Comments: This candidate did not communicate well. The task required candidates to identify 5 key ssues to unlock value post acquisition of Vame. The first point referred to two separate issues – increasing the number of clients and retention of key Vame executives. Both are valid issues in our opinion. Point 2 is unclear – Vame does not provide graduate programmes, it provides services to universities. Points 3, 4 and 5 are generic and not well articulated.

On reflection, Ingrid Jansen would not be able to show this response to Metagog. Ingrid may require the Junior Consultant to redo it or ask someone else to provide assistance.

TASK (h)

Respond to Ingrid Jansen's email regarding the online press article about Metagog. (document 8).

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

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.

Highly competent

To: Ingrid Jansen
From: Junior Consultant
Date: 22 November 2017
Subject: Online Press Article

Good day Ingrid

I trust you are well.

Please see below for the work I have performed regarding your previous email.

Urgent Actions For Board Of Directors

Press release
Metagog needs to urgently issue a press release saying that the matter will be investigated and that steps will be taken to ensure this does not happen again in the future. The longer Metagog waits to comment, the more guilty / ignorant they may appear.

Launch investigation
Metagog should launch an investigation into the claims. This should include confirming the submission of the issues by Simona to the HR division and the follow up undertaken by the HR division. IT should also include discussions with the accused manager to confirm if the allegations are true.

It may be preferable to suspend the manager (with pay) until the investigation is complete due to the extreme nature of the accusations. Any action take against the manger (including the discussion, suspension, etc) should first be discussed with a labour lawyer to confirm the actions are legal.

If the manager did set up fake Twitter accounts to insult competitors, legal opinions should be obtained with regard to potential lawsuits Metagog could be involved in (the competitors may claim the manager did this with permission from Metagog). Further, if the reports are true, the manager to issue a public apology and be sent for remedial training with potential written warning as well.

Password resets
Due to the security breach regarding possible sharing of passwords, all passwords should be reset (preferably using 2 factor authentication).

Metagog employees personal information
Metagog should inform the employees that were affected by the security breach that their personal information has been compromised and that Metagog will take steps to ensure that this does not happen again in the future.

Key Issues That Need To Be Addressed In The Short To Medium Terms

Whistle blower hotline
Metagog should set up a whistle blower hotline and have a policy where employees can report issues safely and discreetly, without fear of harassment and where action actually taken regarding

issues reported.

Employee training

Employees need to be trained on social media, specifically when they are representing Metagog. Employees should be discouraged from taking action into their own hands to defend Metagog (including posting negative comments about competitors).

Password policy

Metagog needs to ensure that employees understand that access rights are there for a reason. Username's and passwords should not be shared. Passwords should also be required to be changed regularly. Further, employees that shares passwords should be disciplined in line with the policy (written warnings, etc).

Encryption

All sensitive or confidential information should be encrypted. Thus, even if an employee gains unauthorised access to the information, it will not be usable.

Social events

It is understandable that employees work hard and thus also want to relieve stress by partying hard as well. However, when it is an official Metagog function, alcohol should be limited and employees should be encouraged to act responsibly.

Working hours

Metagog should determine if employees are working longer hours than stipulated in their employment contracts and the reason for the long hours. Metagog should promote a work / life balance for its employees by discouraging frequent long work hours.

Please let me know if you need any further information.

Kind regards

Junior Consultant
Millennial Consultants

Examiner Comments: This candidate responded with immediate actions and medium term suggestions. The immediate actions were balanced and the candidate did not jump to conclusions. Obtaining legal advice on labour law and the potential litigation by competitors are insightful recommendations.

The suggestions for the medium term are all valid and relevant. Overall, the board of directors of Metagog would be well pleased with the sound and balanced advice provided by Millennial Consultants.

Competent

Task H

From: JC
To: Ingrid Jansen

CC:
Subject: Re: Metagog in the press

Good day Ingrid

I trust you are well.

Thank you for providing me with the opportunity to give my opinion on how the press release article should be handled. I have noted the following with regards to your request.

This is a very unfortunate situation for Metagog and has dire consequences if the allegations are found to be true. The statements in the article could affect the reputation of Metagog in the market and this could potentially result in a boycott of their services. This is a very serious and delicate situation which will need to be handled with care.

As a matter of urgency, a media press release will need to be issued by the board of directors to acknowledge that they are aware of the allegations and indicate that they will deal with the issue promptly.

In the short to medium term, I suggest that an investigation should be conducted by Metagog in order to ascertain whether the statements are true or not. This should happen in an arbitration with an independent individual to lead the inquiry into the allegations. The manager involved should be suspended with immediate effect subject to the outcome of the investigation. This is to ensure that the manger doesn't intimidate potential witnesses or destroy possible evidence which will implicate him of any wrong doing. This course of actions will be an indication to stakeholders that Metagog is against the alleged unethical behaviour and takes the allegations very seriously.

I would also suggest that Metagog develops and implements a policy which will govern how employees conduct themselves while using social media. The policy should cover how employees interact on social media platforms like Twitter. If a set policy was in place this could have deterred the manager to creating fake Twitter accounts in order to discredit competitors.

The allegation around hacking into the server to get information on personal and private information on employees is also very serious. Controls around this information need to be strengthened and IT should not have the passwords to such information. A third party like Sage HR should be outsourced to keep such information safe. The dissemination of the information is in contravention of the Protection of Personal Information Act (POPI act). This could have consequence of non compliance with laws and regulations under the NOCLAR which was issued by IRBA.

The HR division will need to write a report in which they should highlight why they didn't take the allegations seriously when they were brought to their attention. It seems as though a verbal warning is a very light punishments of these actions and maybe a written warning or even suspension subject to a hearing would be more appropriate.

A staff meeting will need to be held in order to get input from employees whether they feel over worked and how the management can support them in delivering on their deliverables. An anonymous survey directed at the staff will also be valuable to get an impression on how they find the working environment at Metagog.

Metagog should provide employees with training on ethics and how to deal with ethical dilemmas in the work place. This is a measure which will root out unethical behaviour in the entity.

I hope the above sufficiently answers your questions regarding the issues in the press article. Please let me know if you'd like more detail on the above. I would suggest the appointment of a professional public relations company to assist Metagog in dealing with the issue.

Regards
JC

Examiner Comments: This candidate started strongly and provided sound advice regarding immediate actions that Metagog board should take. The suggestions regarding investigation the allegations, introducing a social media policy and improving access controls are all valid.

The conclusion that POPI has been contravened may not be true. It may be more appropriate to suggest that Metagog considers whether POPI has been breached and improving controls regarding personnel data. The reference to NOCLAR appears to be an attempt to impress markers as opposed to a well considered action.

This candidate makes sound recommendations and then lists some which are not that convincing. Convening a staff meeting to discuss the working environment is unlikely to be a constructive interaction – employees may feel intimated and uncomfortable to air their views in public.

Overall, this candidate was assessed as competent in the task but it was not the strongest attempt.

Limited competent

(h)
From: Junior Consultant
Sent: Wednesday 22 November 2017 15:35 AM
To: Ingrid Jansen
Subject: Metagog in the press
Good day Ingrid,

I have provided my thoughts on what the Board of Director should do as well the key issues to be adressed in the sort to medium term below as requested:
1)**Board of directors**
-The board should schedule an urgent meeting to discuss the issues identified
-The IT governace committee and the Risk governance committees as well as the Legal division should be invited to the meeting to discuss the issue.
-The manager, HR and the Senior executive in quetion should be invited to the meeting where they can explain the allegations.

2)**Key issues to be addressed in the short to medium term**
-As the manager in question has openly admitted to doing this he ahs not acted in the best interest of the company.
-He has not acted with due care, skill and diligence that may reasonably be expected of a person

carring out the same functions as a manager with the same knowledge, skill and experince as him.
-If there are any financial repurcussions due to him sending out the tweet he should be held accountable for them.
-The impact of the blog and twitter messages is considered significant and the manager will have to be requested to immediately delete his posts off his account.
-We will have to assess how many people shared his tweets and the blog posts to determine the significance of the reputational damage to Metagog.
-Should obtain legal opinion on the issues identified.

I sincerely hope this addresses the key issues sufficiently. Please let me know if I can be of any additional assistance.

Kind regards,
Junior Consultant

Examiner Comments: This response was too brief and did not address the numerous issues raised in the blog. The first suggestion of convening a meeting between the board of directors and its sub-committees, and HR and the manager in question lacks clarity of thought. Having a meeting without first investigating the allegations seems premature.

The candidate failed to explain the potential implications of the blog going viral and did not provide any suggestion of limiting damage to Metagog and responding to some serious allegations. Deleting Twitter messages is not going to remove the digital footprint and solve the problem.

The candidate jumps to conclusions that the manager in question has admitted guilt - that is merely an allegation by an ex-employee and may or may not be true.

There was insufficient depth and breadth in this candidate's attempt. The board of directors of Metagog would be most disappointed with tis type of advice.