



**UMPIRES' AND MARKERS' COMMENTS
INITIAL ASSESSMENT OF COMPETENCE
JUNE 2026**

Copyright, proprietary rights and permitted use

© The South African Institute of Chartered Accountants (SAICA). All rights reserved.

The SAICA Initial Assessment of Competence (IAC) umpires and markers comments ('this document') constitutes proprietary intellectual property and professional know-how of SAICA. It has been developed and is maintained as part of SAICA's mandate to uphold the quality, integrity, and high professional standards of the Chartered Accountant profession, which underpin public confidence and the value and attractiveness of SAICA membership and designation.

Access to, or use of, this document does not confer any right, licence, or interest in the intellectual property contained herein. Except where expressly permitted by SAICA in writing, no part of this document may be copied, reproduced, adapted, published, distributed, or used for commercial, quasi-commercial, or third-party standard-setting purposes.

This document may be used solely for legitimate educational, regulatory, or professional purposes, in a manner that preserves its integrity, acknowledges SAICA as the owner and source, and does not undermine SAICA's role as custodian of professional standards or dilute the value associated with SAICA's membership and designation.

Any authorised access to or use of this document is subject to, and must be exercised in accordance with, SAICA's Intellectual Property Management Policy, as amended from time to time.

Disclaimer clause: All names of persons, places and business entities mentioned in this document are fictitious and any resemblance to real persons, living or dead, places and business entities are purely coincidental.

TABLE OF CONTENTS

Objectives of this report	4
Statistics for IAC June 2026	5
Background information on the setting, marking and adjudication of SAICA examinations.....	6
General comments on the IAC June 2026.....	9
Detailed comments on each of the three professional papers	14
Professional paper 1	14
Paper 1 part I	15
Paper 1 part II	17
Professional paper 2	19
Paper 2 part I	20
Paper 2 part II	21
Professional paper 3	28
Paper 3 part I	29
Paper 3 part II	30

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Assessment of Competence (IAC), which was written in June 2026. Its objectives are to –

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

To accomplish these objectives, the report provides background information on how the examination questions are set, marked and adjudicated; comments on general shortcomings in answers; and specific comments on each question of the three examination papers.

The purpose of the IAC is to test the integrated application of technical competence, preferably as soon as possible after the prescribed academic requirements have been met.

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

- Statistics for the IAC June 2026;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the IAC June 2026;
- Assessment of enabling competencies in the IAC June 2026; and
- Detailed comments on each of the three professional papers.

STATISTICS FOR IAC JUNE 2026

	Pass %	Passed	Failed	Total
All candidates	37%	491	845	1 336

Average marks per question (all candidates)

Paper 1	Part I	Part II	Total
Total marks	66	54	120
Average marks	33,47	31,54	65,01
Paper 2	Part I	Part II	Total
Total marks	70	50	120
Average marks	31,97	22,52	54,49
Paper 3	Part I	Part II	Total
Total marks	76	44	120
Average marks	29,48	21,52	51

More detailed statistics can be found on the SAICA website at www.saica.org.za

BACKGROUND INFORMATION ON THE SETTING, MARKING AND ADJUDICATION OF SAICA EXAMINATIONS

The IAC Examinations Committee (IAC Examco) constantly strives to improve its ability to determine whether candidates demonstrate a readiness to continue with their accounting education and training. This is done by means of an ongoing process of evaluation of and improvement in the way in which it selects questions for inclusion in the examination and decides on the final mark plans.

1 Source of the questions

The IAC Examco is a sub-committee of the SAICA Chartered Accountant Professional Development Committee (CAPD Committee) and takes overall responsibility for the setting of the examination papers.

The IAC Examco prepares question briefs and then select academics from endorsed professional providers to set questions based on the briefs. Because the questions cover a variety of disciplines, a team of setters from various providers work together on each of the questions.

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. However, academics who have any involvement whatsoever in the presentation or otherwise of Board courses may NOT act as reviewers. These academics or former academics are appointed by core subject area and their role is to –

- review questions for conceptual problems and consistency in the use of terminology;
- give an indication as to whether the relevant examination questions are set at an appropriate level;
- provide comments on whether the number of marks and time limit are appropriate; and
- provide comments on the validity and reliability of the assessment.

In addition, the examination questions are also reviewed by a third expert for cultural and language bias.

Four external examination sitters, who are independent of the exam setting process, are also appointed to review the questions selected for both the January and June IAC. These sitters are chosen from the persons who passed the IAC the previous year. The examination sitters provide independent comments on the examination papers and suggested solutions, and report on these to the IAC Examco.

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

Security and confidentiality of examination papers: The examination papers for each year are compiled, printed and sent to each examination centre under very stringent conditions of security.

2 The marking process

The IAC Examco devotes a great deal of time to the review and refinement of mark plans to ensure that the plans are consistent with its expectations for each question.

Before marking of the scripts commences, copies of the examination papers and suggested solutions are forwarded to all endorsed academic programme providers for comment. The markers and umpires prepare suggested solutions and mark plans once all these comments have been considered and a test batch of scripts has been marked. The suggested solutions, mark plans and test batch results are then reviewed by the IAC Examco, which approves the final solutions and the mark plans that will be used in the marking process.

Marking is undertaken by teams, with each team consisting of a number of markers (comprising academics, practitioners and representatives from commerce and industry) and an umpire. Markers and umpires are assigned to specific questions based on their fields of expertise.

All markers and umpires sign a declaration of confidentiality regarding the handling of scripts, questions, solutions and mark plans. SAICA holds the copyright of the questions and mark plans.

Consistency marking was introduced in 2012, which entails that a pack of scripts are selected on a random basis by SAICA's Examinations Unit, and the exam numbers removed. These scripts are then re-numbered and photocopied. Every person on the mark team has to mark the question to which they have been assigned in the batch of scripts. This takes place on the first day of the main marking process and the umpire, together with his/her mark team members, then discuss point by point how the individual markers awarded the marks for each question. The aim of this process is to identify any concerns, differences and discrepancies in interpretation that the marker(s) may have in awarding of marks as per the final mark plan before actual marking commences. The main objective is to achieve consistency in the way the different markers within a mark team award marks.

Marking of the IAC June 2026 took place at a central mark centre. An administration hub was set up, from which administrative personnel controlled which scripts were signed out, to whom, and when the marked scripts were returned. Each script was marked independently by two persons, using an electronic marking tool. The tool records marks per subsection, section and question automatically. Only once the double-blind marking of each batch of scripts had been completed did the markers confer and jointly decide on the final raw mark (what is referred to as 'marking reconciliation') to be awarded for a particular answer. This was also recorded on the marking tool. If the markers were unable to agree upon the number of marks to be awarded for a particular answer, the script was referred to the umpire, who then reviewed the paper and awarded the final mark. After the reconciliation process, the electronic tool captured the final marks of all candidates and prepared a report for the IAC Examco.

3 Adjudication

Adjudication is a process during which the CAPD Committee considers all relevant evidence, including the following, to determine whether the marks to be awarded for each question should be adjusted:

- Whether candidates encountered any time constraints;
- Whether the level of difficulty of each question was appropriate for the IAC;
- Possible ambiguity in the wording; and
- Any other problems that may have been encountered relating to the examination.

The members of the CAPD Committee do not know the candidate details (including the raw pass mark) at the time the adjudication process takes place.

Adjudication is done by the full CAPD Committee as soon as possible after the marking process has been finalised and checked by the SAICA secretariat. During the adjudication three secretaries' marks (one per paper) are added to each candidate's score. The objective of these secretaries' marks is to compensate for any errors that may have occurred during the marking process.

It is important to note that no person from academia is allowed to serve on the IAC Examco, and that candidates' anonymity is preserved until the final adjudication has been completed.

In order to ensure that the whole marking and adjudication process remain anonymous, the instructions to candidates clearly state that their names should not appear anywhere on their scripts.

4 Borderline review

In 2013 SAICA introduced a further process to ensure that individual candidates who just fail the exam are not prejudiced in any way. Once the adjudication has been complete, the scripts of candidates who just failed (based on a range determined by the CAPD Committee) are extracted and a third and final review is undertaken of such candidates' scripts. This review is undertaken by the umpire and assistant umpires, being the most senior and experienced members of a mark team. The marks during this process may either go up or down and each script is again assessed on a paper by paper basis to ensure that the final result is not contrived. A sub-committee of the CAPD Committee then meets to discuss the outcome of the borderline review and thereafter the pass percentages and other detailed statistics for the examination are prepared.

Candidates whose scripts are selected for the borderline review are not awarded the secretaries' mark because they have had the benefit of a further and more detailed review of their papers.

In view of the above stringent marking process no request for re-marks will be entertained (also refer to the Examination Regulations for the IAC in this regard).

GENERAL COMMENTS ON THE IAC JUNE 2026

1 Objective

In view of the primary objective of the IAC, namely to test the integrated application of technical competence, candidates are tested on their ability to –

- apply the knowledge specified in the subject areas set out in the prescribed syllabus;
- identify, define and rank problems and issues;
- analyse information;
- address problems in an integrative manner;
- exercise professional judgement;
- evaluate alternatives and propose practical solutions that respond to the users' needs; and
- communicate clearly and effectively.

2 Analysis of topics

	Reportin g on value creation	Strategy and govern- ance to create sustain- able value	Steward- ships of capitals: Business processes and risk manage- ment	Assurance and related services	Tax govern- ance and com- pliance	Decision- making to increase, decrease or transform capitals	Ethics (including CoPC)	PVAAs (excl. ethics)	TOTAL
Paper 1 Part I		26				37		3	66
Paper 1 Part II				38			13	3	54
Paper 2 Part I	67							3	70
Paper 2 Part II					47			3	50
Paper 3 Part I			31			41		4	76
Paper 3 Part II				32			10	2	44
Total	67	26	31	70	47	78	23	18	360
%	19%	7%	9%	19%	13%	22%	6%	5%	100%

3 Overall comments on the papers

The June 2026 IAC examination was considered to provide a fair assessment of technical competence overall, with a mix of easier and more challenging areas. There was a good balance between easy, moderate and difficult sections within each paper and the themes and scenarios were topical and relevant.

Paper 1 consisted of a single scenario, with the required sections divided into two parts. The first part dealt with **strategy and governance to create sustainable value**, and **decision-making to increase, decrease or transform capitals** and the second part with **assurance and related services and ethics**.

Paper 2 consisted of a single scenario, with the required sections divided into two parts. In part I **reporting on value creation** and in part II **tax governance and compliance** were examined.

Paper 3 consisted of a single scenario with two parts. Part I examined **stewardships of capitals: business processes and risk management, and decision-making to increase, decrease or transform capitals**. . Part II covered **assurance and related services and ethics**.

4 General comments

From a review of candidates' answers to the IAC June 2026 examination, the general deficiencies set out below were identified. These problems affected the overall performance of candidates, and it is a matter of concern that candidates make the same mistakes year after year. Although these aspects seem like common sense, candidates who pay attention to them are likely to obtain better marks, and it may even turn a low mark into a pass.

4.1 Application of knowledge

A serious problem experienced throughout the examination was that candidates were unable to **apply** their knowledge to the scenarios described in the questions, in particular **foundational core knowledge**. Many responses by candidates were a 'shopping list' of items in the form of a pure regurgitation of what candidates may have learnt about the theory at university, but with no real relevance to the question in hand. Candidates also do not appear to be able to identify the correct issues stated in the scenarios. This is a major concern, because by the time candidates qualify for entry to these examinations, one would expect them to have assimilated the knowledge, at least to the extent of being able to apply it to simplified facts as set out in an examination question. Obviously, candidates who are unable to identify the correct issues do not do well in the examination.

4.2 Workings

It is essential that candidates show their workings and supply detailed computations to support the figures in their answers. Marks are reserved for methodology but can only be awarded for what is shown. **Workings should, like the rest of the paper, be done in blue or black ink to ensure legibility.** In many instances workings were performed by candidates but not cross-referenced to the final solution. Markers cannot award marks if they are unable to follow which working relate to which part of the final solution. Candidates must ensure they show their workings and that these are properly and clearly cross-referenced to the final solution.

4.3 Communication

Candidates fared better in questions requiring calculations than in discursive questions. This is a disturbing trend as the IAC is a stepping stone in the qualification process where the final Assessment of Professional Competence requires that significantly more focus and attention be given to these important skills. It is important that candidates bear in mind that written answers are a large component of the qualifying examinations, because written communication is a key competency required in the workplace. Candidates should learn to answer discursive questions properly. This can be done by practicing exam-type answers under exam conditions in preparation for the examination.

In addition, markers found that candidates used their own abbreviations (text messaging style) in their answers. Marks cannot be awarded in such cases as it is not up to the markers to interpret abbreviations that are not commonly used. **Candidates should pay specific attention to the way in which they write their answers, and bear in mind that this is a professional examination in which marks are awarded for communication skills and presentation.**

4.4 Journal entries

A fundamental part of accounting and external reporting is an understanding of debits and credits. A means of assessing whether a candidate understands these fundamental principles is to require the candidate to prepare the relevant journal entries. Candidates often do not understand what journal entries they need to process. In many instances basic journal entries are processed incorrectly. In addition, account descriptions are poor and abbreviations are used.

This is inexcusable and candidates must ensure that they understand what impact transactions would have on specific account balances, by showing that they know which account (and which financial statement) has to be debited or credited. It is not sufficient for a candidate with Accounting at the PGDA level to be a technocrat – understanding of the fundamental principles of accounting is critical to the success of a candidate at the IAC level.

4.5 Time management

Candidates are advised to use their time wisely and budget time for each question. The marks allocated to each question are an indication of the relative importance the examiners attach to that question and thus the time that should be spent on it. Candidates should beware of the tendency to spend too much time on the first part of the paper attempted and too little time on the last. They should never overrun on time on any required but rather return to it after attempting all other parts.

Candidates should address the time management issue by starting with the questions they feel more comfortable with or can consider to be 'easier' while still feeling fresh in the exam. This ensures two things: confidence is gained by the candidate and good marks are earned easily, such that some time is saved – which can then be used as a 'buffer' to add to the time allocated for the more challenging questions. This gives the candidate a fair opportunity to do well. This is considered an 'exam success strategy'.

4.6 Layout and presentation

Candidates should allocate time to planning the layout and presentation of their answers before committing thought to paper. Very often, candidates start to write without having read the question properly, which invariably leads to, for example, parts of the same question being answered in several places or restatement of facts in different parts. Marks are awarded for appropriate presentation and candidates should answer questions in the required format, that is, in the form of a letter, memorandum or a report, if this is what is required.

The quality of handwriting is also an ongoing problem and was of particular concern in this year's examination. **The onus is on the candidate to produce legible answers.**

Separate books are used to answer each question of the IAC. Each book is clearly marked and colour coded. Candidates are given explicit instructions to write the correct answer in the correct book. Despite this some candidates did not write the correct answer in the correct book (the secretariat does ensure that candidates who write answers in the incorrect book are marked by the correct mark team, but this adds to the marking time).

4.7 Irrelevancy

Marks are awarded for quality, not quantity. Verbosity is no substitute for clear, concise, logical thinking and good presentation. Candidates should bear in mind that a display of irrelevant knowledge, however sound, will gain no marks.

4.8 Drilling down

Responses, particularly in the strategy and governance, business processes and risk management and decision making to increase, decrease or transform capitals areas are often provided by simply repeating the information given in the

question. Candidates are unable to drill down to assess what the underlying problem areas are and do not put any effort into going beyond what is stated in the question. Candidates need to draw on their entire knowledge base in order to provide in-depth and meaningful insight, particularly in analysis-type questions.

4.9 Recommendations / interpretations

Responses to these requirements are generally poor, either because candidates are unable to explain principles that they can apply numerically or because they are reluctant to commit themselves to one course of action. It is essential to make a recommendation when a question calls for it, and to support it with reasons. Not only the direction of the recommendation (i.e. to do or not to do something) is important, but particularly the quality of the arguments – in other words, whether they are relevant to the actual case and whether the final recommendation is consistent with those arguments. Unnecessary time is wasted by stating all the alternatives.

Candidates should communicate reasons for calculations, if required. A discussion of a case study should always have a conclusion. Or if it requires that a decision be made, a conclusion alone is not sufficient; it requires that the conclusion be discussed and motivated.

4.10 Examination technique

Examination technique remains the key distinguishing feature between candidates who pass and those that fail. Many candidates do not address what was required by the questions and, for example, provide a discussion where calculations are required or presented financial statements where a discussion of the appropriate disclosure was required.

4.11 Open-book examination

Candidates are reminded that they **MUST** familiarise themselves with SAICA's open book policy and be aware that this may differ from that of their endorsed academic provider institution. Candidates are also reminded that only SAICA has the authority to interpret its own open-book policy and **any contravention of IAC regulations will be considered to be misconduct**. Candidates are advised to familiarise themselves with SAICA's Examination Regulations prior to writing the examination.

Another problem relating to the open-book examination is that candidates do not state the relevant theory and/or definitions in their answers. One cannot build a logical argument without using the theory as a base and starting point. Reference to theory and definitions is essential to create the context from which the question is answered and is required to enable markers to follow the argument. However, since candidates have this information at hand, marks are not awarded for stating detailed definitions only. This type of examination does affect the answer that is expected and *application* and demonstration of insight into the use of the definition have gained in importance.

Candidates should also remember that one has to be very well prepared for an open-book examination. There is not enough time in the examination to look up *all* information from the texts. With regard to certain aspects one would be expected to offer an immediate response based on embedded knowledge. Complex information needs to be fully understood before the examination. Candidates who enter the examination hoping to look up data that they have not processed in advance will be at a disadvantage as they are unlikely to finish the papers.

4.12 Paying equal attention to all the competency areas

It is disappointing to note that candidates still appear to be most prepared to respond to **reporting on value creation** questions and fare considerably poorer in some of the other disciplines – most notably **decision-making to increase, decrease or transform capitals**. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important.

5 Assessment of enabling competencies in the IAC June 2026

The assessment of enabling competencies, in line with the Competency Framework of SAICA, included judgement and decision-making (Y4), communication (X1), business environment (Z1 and Z2), critical thinking (Y1), problem solving (Y3), integrative thinking (Y2), and business ethics – ethical reasoning skills (I2).

Overall performance was variable, with candidates generally performing better where competencies were assessed in structured or familiar contexts. Communication (X1) and business environment (Z1 and Z2) were particular strengths. Candidates generally communicated information clearly and logically and were able to identify and distinguish relevant internal and external factors affecting the entity.

Performance in judgement and decision-making (Y4) was less consistent. Candidates often identified advantages and disadvantages of the financing proposals but did not sufficiently evaluate these in the context of the scenario or use them to support a clear conclusion. Candidates should focus on evaluating the relative significance of relevant factors when making decisions.

Business ethics – ethical reasoning skills (I2) was another area requiring development. Although ethical considerations were identified, candidates did not consistently consider the different perspectives of relevant stakeholders, including the business, auditors, shareholders, government and credit agencies.

Critical thinking (Y1) was inconsistent. Candidates performed well where the analysis was relatively structured but struggled in the breakeven requirement, where they first needed to identify the underlying problem, relevant constraints and appropriate analytical approach. Similarly, problem solving (Y3) was stronger in structured requirements but less consistent when more complex constraints and cost classifications had to be considered.

Integrative thinking (Y2) also varied according to the nature of the integration required. Candidates performed strongly when integrating related technical requirements, such as accounting and tax considerations, but performance was weaker where professional, legislative, ethical and contextual considerations had to be integrated.

Overall, candidates demonstrated a sound foundation in the enabling competencies. However, a recurring weakness was the ability to move beyond identifying and applying relevant information towards deeper evaluation, integration and professional judgement. Candidates should be encouraged to consider the underlying issue, evaluate all relevant facts and perspectives, integrate applicable requirements and use these considerations to support clear, well-reasoned conclusions.

In conclusion, a message to those who were unfortunately not successful in the examination:

Please start preparing for the next examination in good time. Don't give up – sufficient preparation and a review of the basics will stand you in good stead for your next exam!

Best of luck!!

DETAILED COMMENTS ON EACH OF THE THREE PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

Paper 1 consisted of a 120-mark question, with the required divided into two parts that dealt with the following aspects:

Part I

- (a) Candidates had to prepare a SWOT analysis in view of the going concern challenges experienced by Inpahla (a wholly state-owned entity operating in the freight and logistics industry).
 - Candidates were instructed not to discuss the turnaround strategies in section 3.
 - *Z1: Business internal environment*
 - *Z2: Business external environment*
- (b) An evaluation of the two turnaround strategy financing proposals, based on the current situation of Inpahla.
 - *Y4: Judgement and decision making*
- (c) Candidates had to prepare a capital budget, based on a single locomotive, to assess the viability of the proposal by a German supplier for the damaged locomotives and conclude whether Inpahla should go ahead with the proposal.
 - Candidates had to include nil effects, where relevant.
- (d) Candidates had to discuss how Inpahla's green initiatives align with the United Nations Sustainable Development Goals 6 and 7.

Part II

- (e) A discussion of the business ethics and professional ethical considerations that NKT (a medium-sized audit firm) would need to consider about the alleged impact of defaults on loan covenants of Inpahla.
 - Candidates had to include relevant safeguards.
 - Candidates had to assume that NKT also performed the interim review for the year.
 - *I2: Business ethics – ethical reasoning skills*
- (f) Candidates had to discuss the factors that NKT should have considered before the firm accepted the audit of Inpahla for FY2026.
 - Candidates were instructed to exclude the factors considered in part (e) from their answers.
 - *X1: Communication skill – logical argument*
- (g)(i) An assessment of the risk of material misstatement at the financial statement level of Inpahla for the FY2026 audit; and
- (g)(ii) A description of a suitable overall audit response for the FY2026 audit based on the candidate's risk assessment.
 - Candidates did not have to address the risks identified in part (g)(i) individually but provide a description of the overall audit responses in general for all risks.
 - *X1: Communication skill – clarity of expression*
- (h) Candidates had to formulate the audit procedures to perform at the FY2026 year end to audit the going concern of Inpahla.

Six communication skills and professional values, attitudes and acumens were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 1 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
66	33,47	774 (58%)	1 336

1 General comments on complexity

The question was rated to be at a moderate level of difficulty. Although candidates may initially have been surprised by the context of the state-owned enterprise, the underlying principles remained unchanged and the requireds assessed familiar competencies. Candidates should have been able to approach the paper in the same manner as any other IAC scenario.

The paper required sound technical knowledge together with application, judgement and critical evaluation in an integrated business context.

2 Feedback on the candidate responses: General matters

Exam technique

- Most candidates demonstrated very good exam technique as they were able to write out the structure of the SWOT analysis as well as the capital budget and then add points or numbers to the initial structure document.
- Some candidates did however not answer the SWOT analysis under the appropriate headings.
- Some candidates failed to complete the NPV calculation and thereby lost the processing mark and the marks for calculating the NPV and providing a conclusion.

Time management

- Most candidates used their time well, and there were no significant instances where candidates did not attempt all required sections.

Communication

- Although the majority of candidates did approach the discussion questions appropriately, there were candidates who listed information in bullet format.

Layout, structure and presentation

- Some candidates did not know the structure of a capital budget.
- The vast majority of candidates were not able to identify the exchange loss on the transaction.
- A number of candidates made incorrect assumptions relating to technical areas such as working capital. For example, some accounted for the full value of the working capital each year instead of just the movement in working capital.

Relevance

- Many candidates were unable to provide sufficient information for answering the requireds of parts (a) and (b), as they would often not provide the impact on the company. They simply restated the information from the scenario.
- Some candidates did not do well because they did not provide the necessary sufficient detail to the answers needed for obtaining the allocated marks.

Workings (and references to workings)

- Although most candidates did well to label their workings for part (c), some candidates did not show workings or reference them properly.

3	Feedback per each required section of the part
3.1	Areas that candidates handled well
Part (a) • Candidates provided a wide variety of possible answers to the question. • Candidates performed best in identifying the threats to the company. Part (b) • Candidates did well in identifying the fact that the control would be diluted if proposal 2 was to be accepted. • Most candidates recognised that more debt would worsen the financial position of the entity. Part (c) • Most candidates understood how to structure a capital budget as well as how to apply some fundamental principles for capital budgeting. • Overall candidates managed to recognise the relevant costs for the analysis. Part (d) • Candidates did very well in addressing the required and identifying key points from the scenario.	
3.2	In what respect candidates' answers are considered to fall short of requirements
Part (a) • Many candidates identified relevant points from the scenario but often copied information directly from the scenario instead of evaluating its significance. • Candidates also struggled to distinguish between strengths, weaknesses, opportunities and threats, with some points being placed under the incorrect category or combining multiple categories into one point. • Generic responses with little application were common, and many candidates failed to explain the implication of the identified issue (in other words, the 'so what'). • Some candidates did not read the scenario with insight and as a result were unable to properly address the required. Part (b) • While a small number of candidates moved beyond generic debt versus equity discussions and attempted to evaluate the financing proposals within the context of the scenario, most candidates struggled with application. A number of candidates simply provided points without any insight or impact on the entity. • Many candidates relied on generic financing principles instead of evaluating the specific proposals using the facts provided in the scenario. For example, numerous candidates incorrectly discussed the dilution of shareholding in relation to the government's equity investment. • Some candidates did not split their analysis into the two different strategic options but instead listed all points under a single heading. • A number of candidates did not understand what a government guarantee was and how this could be used to be of benefit to the business. Part (c) • There were a few instances where candidates did not know the structure of a capital budget and how to prepare one. • Some candidates prepared the analysis for only one year. • Candidates were in many instances unaware of how to incorporate the tax into the capital budget. • Quite a number of candidates were unable to identify the exchange loss on the transaction for tax purposes.	

- Other common mistakes included using incorrect time periods (five instead of six years), allocating amounts to the wrong years, failing to adjust cash flows for inflation and not identifying all relevant tax adjustments, particularly the foreign exchange loss.
- Some candidates did not clearly show excluded items.

Part (d)

- Candidates did not do very well when it came to understanding the sustainability goals.
- Some candidates discussed the benefits to the company, such as reduced costs, instead of explaining how the proposed actions aligned with the relevant sustainable development goals.

PAPER 1 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
54	31,54	1 092 (82%)	1 336

1 General comments on complexity

The overall sentiment was that the paper was fair and relevant, with a realistic state-owned entity scenario that encouraged integrated application of auditing concepts. Some open-ended questions increased the level of difficulty, as the candidates had to exercise significant professional judgement and interpret the information.

2 Feedback on the candidate responses: General matters

Exam technique

- Candidates who applied their knowledge and understanding of content to the scenario outperformed those who did not.

Time management

- Candidates who did not pay attention to the maximum marks available tended to provide too many discussion points. This wasted some time that could have been used to comfortably complete the other questions.

Layout, structure and presentation

- Candidates generally structured their responses appropriately.

Relevance

- Candidates' answers often lacked application, especially in the pre-engagement considerations question where candidates merely provided theoretical considerations without applying these to triggers from the scenario.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (e)

- Candidates demonstrated that they knew what business ethics and professional ethics entail (that the SAICA/IRBA Codes of Professional Conduct were applicable), as evidenced by their responses. However, they did not know in which context they had to package it.
- Candidates understood that they needed to provide safeguards, although they struggled to identify the issue for which they needed to recommend safeguards.

Part (f)

- Candidates generally demonstrated average performance in this required.
- Their responses were well structured and balanced management integrity considerations and auditor considerations.

Part (g)(i)

- Candidates were able to identify relevant risk factors from the scenario.
- Candidates on the whole understood the required and provided the necessary conclusion on their assessment of risk of material misstatement.

Part (g)(ii)

- Candidates were able to provide general audit responses in line with the required.

Part (h)

- Candidates were able to provide valid procedures pertaining to the audit of cash flow forecasts and the management representation letter.

3.2 In what respect candidates' answers are considered to fall short of requirements

Part (e)

- It was evident in the candidates' responses that they were uncertain what the required probe was. Candidates could not pinpoint the issue that they were supposed to address. This was borne out by the fact that many candidates opted not to start with this required, while some did not attempt it at all.
- Candidates discussed going concern as an ethical consideration, provided audit risk and responses to the risks, some discussed pre-engagement considerations, and others discussed business risks.
- Candidates discussed safeguards that management of the entity should implement.
- The terminology used suggested that candidates incorrectly applied concepts from the Code of Professional Conduct to the entity's management. This appeared to stem from uncertainty about the context or perspective from which the business ethics issues were required to be discussed, rather than a lack of understanding of the underlying ethical principles. This reflected a misunderstanding of the required.

Part (f)

- Many responses were generic and were not applied to the scenario.
- Some candidates did not pick up on the obvious management integrity issues triggered in the scenario.

Part (g)(i)

- Candidates were able to identify the risk factors from the scenario but were unable to assess and explain how these factors contribute to the risk of material misstatement at the overall financial statement level (either through fraud or error).
- Many candidates opted to discuss the risk of material misstatement at the assertion level (in particular for property, plant and equipment).
- In some instances, candidates assessed detection risk rather than inherent or control risk at the overall financial statement level.

Part (g)(ii)

- Candidates generally did not address focus areas or the direction of the audit in their responses, which is the area where the most application to the scenario was required.

Part (h)

- Very few candidates provided procedures to audit the two turnaround strategies provided in the scenario.

- It was also noted that some candidates audited a breach of loan covenants, although no such breach was triggered in the scenario.
- Many responses were generic.

PROFESSIONAL PAPER 2

Paper 2 consisted of a 120-mark question, with the required divided into two parts that dealt with the following aspects:

Part I

- (a) Candidates had to prepare, using the direct method, the operating and investing activities sections of the consolidated statement of cash flows of the Med4Me Group (a group of medical companies listed on the Johannesburg Stock Exchange) in accordance with IFRS® Accounting Standards for FY2025.

Candidates were given the following instructions:

- Comparative amounts are not required.
- Notes are not required.
- The financing activities section and the reconciliation of the cash and cash equivalent balances are not required.
- Round all amounts to the nearest rand.
 - *X1: Communication skill – presentation*
 - *Y2: Integrative thinking*
 - *Y3: Problem solving*

Part II

- (b) With reference to a note on a patient loyalty programme, candidates had to discuss the VAT consequences and the effect on taxable income of the patient loyalty programme of BHealth (a new company formed to partner with independent doctors in smaller towns) for its 2025 year of assessment and all relevant VAT periods falling within that year.

- Candidates had to provide supporting calculations.
 - *Y2: Integrative thinking*

- (c) A discussion of the normal tax implications of the expense relating to share appreciation rights for BHealth and its employees in respect of their 2025 and 2026 years of assessment.

- Candidates did not have to perform calculations.
 - *X1: Communication skill – logical argument*

- (d) Candidates had to advise, with reasons, the management of BHealth whether it would be able to register the new clinics in Newcastle and QwaQwa as separate vendors for VAT purposes.

- (e) Candidates had to discuss the VAT consequences (with supporting calculations) for all relevant VAT periods falling within the 2025 year of assessment, as well as the normal tax consequences for BHealth for the following transactions in respect of its 2025 year of assessment:

- Acquisition of the old buildings in Newcastle and QwaQwa and the renovation costs incurred in respect of the old buildings.
- Initiation fees charged by RMD bank.
- Interest expense incurred on the loans obtained from Med4Me and RMD Bank.
- Candidates did not have to calculate the amount of the interest.
 - *Y1: Critical thinking.*

- (f) Candidates were required to discuss the income tax implications of the management fees levied by the holding company of the Med4Me Group on the clinics.

- Candidates did not have to address ethical frameworks.

Six communication skills and professional values, attitudes and acumens were available for this paper. These marks were clearly and separately stated in the ‘required’ sections of each part.

PAPER 2 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
70	31,97	478 (36%)	1 336

1	General comments on complexity
	Overall this part of paper 2 was considered to be of a moderate level of complexity. There was a good spread of easier to more difficult marks.
2	Feedback on the candidate responses: General matters
	- Overall candidate performance revealed widespread technical inconsistencies. - Candidates were generally proficient with isolated calculations that had been provided, but struggled to apply integrated IFRS standards, compute borrowing costs correctly, or prepare reasonably accurate cash flow statements. - Basic provided figures were handled well, but incorrect sign allocations, misclassification of activities, poor tax and borrowing cost treatment, and a lack of clear referencing in workings led to significant losses of marks. - Non-cash adjustments (depreciation, finance costs, disposals of property, plant and equipment) were generally well understood, but candidates frequently failed to derive the actual cash effects and balancing figures from working capital movements.
3	Feedback per each required section of the part
3.1	Areas that candidates handled well
	- Candidates were generally proficient with isolated provided amounts. - Basic given figures were handled well. - Candidates accurately identified and adjusted non-cash items, including depreciation, finance costs and profit on disposal of property, plant and equipment. - Candidates were proficient in presenting the consolidated cash flow statement according to the direct method.
3.2	In what respect candidates' answers are considered to fall short of requirements
	- Lease reassessment: The lease reassessment requirements were generally not applied correctly. A common error was to increase lease payments using CPI and recalculate the liability using NPV, rather than following the required reassessment process. - Loyalty points/contract liability (IFRS 15): This area was generally poorly executed and was often not appropriately integrated with other current liabilities, resulting in incorrect overall balances. - Statement of cash flows: Supporting workings were frequently not clearly traceable to, or transferred onto, the statement of cash flows (SCF). - In some instances, calculations were completed separately without being incorporated into the final statement. - Borrowing costs (IAS 23): There was notable confusion regarding the application of borrowing costs. Common errors included applying simple interest instead of the compound effective interest method and capitalising a full year's interest rather than only the qualifying portion. - PPE acquisitions: The distinction between PPE acquisitions and maintenance expenditure was not consistently applied correctly. - Sign conventions: Incorrect sign directions and reversals were a recurring source of lost marks, particularly on the face of the SCF.

- Tax calculations: Common errors included the treatment of closing income tax balances and incorrect sign reversals.
- Borrowing costs presentation: Borrowing costs were frequently misclassified or omitted from the appropriate operating or investing activities.
- Activity misclassification: Financing activities, such as lease liability payments and proceeds from loans, were at times incorrectly classified as investing activities.
- Operating cash flow adjustments: Incorrect starting points and adjustment directions were evident in a number of responses. The contract liability component relating to cash receipts from customers was also frequently omitted.
- Non-cash items: Some responses incorrectly presented items such as inventory and trade payables as non-cash items on the face of the SCF.
- IFRS 2/IFRS 9: Errors included the use of an incorrect fair value for share-based payments and the inappropriate presentation of IFRS 9 transaction costs on the face of the SCF.
- Adjustment omissions: Interest income adjustments were frequently mishandled, while supporting or 'hanging' calculations were sometimes not transferred to the final SCF.
- Presentation and documentation: Supporting workings were not always adequately referenced, making amounts difficult to trace and limiting the ability to award part marks where appropriate.

PAPER 2 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
50	22,52	444 (33%)	1 336

1 General comments on complexity

Part II was assessed as moderately to highly complex. The main source of difficulty was the integration of financial accounting and technical taxation concepts. Candidates had to interpret information presented in an accounting context and translate it into the relevant income tax and VAT consequences. This created confusion for some candidates, particularly where accounting terminology differed from tax terminology.

The question required candidates to identify the relevant triggering criteria, select the applicable legislative provisions, and apply these provisions to the facts of the scenario. It was entirely discussion-based and therefore required interpretation, analysis and professional judgement rather than straightforward calculations. This increased the level of difficulty, especially where candidates were expected to integrate more than one tax discipline with regard to legislation.

Overall, candidates attempted the question, and timing was not a significant issue for most. Performance was satisfactory on the more straightforward application areas. However, candidates struggled where the question required them to distinguish between accounting treatment and tax consequences, apply less frequently examined provisions such as section 8C and section 80A, or reach conclusions where the facts were not presented in the format of a typical tax paper.

2 Feedback on the candidate responses: General matters

Exam technique

- Most candidates attempted the questions, which reflected a positive examination approach. However, exam technique was often weakened by imprecise wording and incorrect tax terminology. For example, some candidates referred to 'claiming an output' or 'including a deduction', instead of using the correct terminology in terms of either VAT terminology or income tax.
- Candidates tended to restate or rephrase the scenario rather than applying the facts to the relevant tax principles.

- Candidates did not always use the mark allocation to plan their answers. In part (e), for instance, the four transactions could have been grouped together where the same tax principles applied. This would have reduced repetition and saved time.
- Stronger candidates planned their answers before writing and broke the information into clear sections, such as acquisition of buildings, interest, and initiation fees in part (e). Weaker candidates wasted time by dealing separately with the VAT and income tax consequences.
- Weaker candidates often omitted one tax discipline entirely or focused only on calculations without explaining the applicable principles. For example in part (c) candidates only addressed the employer and not employees.

Time management

- There was no significant overall time management issues observed. In general, candidates managed their time reasonably well. However, some candidates spent too much time on lower mark sections and did not adequately address higher mark requirements that called for a discussion of multiple tax consequences. For example, part (d) was worth only six marks, yet some candidates wrote almost two pages on it.

Common issues in answers

- Some candidates included workings for the interest component in part (e), even though the required specifically stated that no interest calculation was needed.
- There was no single requirement that was consistently poorly attempted.
- However, candidates often omitted one or more requirements, mixed concepts, or moved on before completing an answer. This could be due to either a lack of knowledge or the technical level of the paper.
- These issues resulted in candidates losing potential PVAA marks.

Communication

- Overall, most candidates communicated their answers clearly.
- Many responses lacked sufficient explanation and stated conclusions without supporting reasons or legislative references.
- Some candidates used abbreviations that are not commonly understood or accepted.
- In some cases, the conclusion did not align with the argument presented.

Layout, structure and presentation

- Well-structured responses were generally easier to follow and tended to score better.
- Candidates who organised their answers according to the required transactions and addressed VAT and income tax separately were able to demonstrate that all aspects of the requirements had been considered.
- Some candidates presented fragmented answers, making it difficult to determine whether all requirements had been addressed.
- In several instances, poor handwriting made responses difficult to read.

Relevance

- Use of terminology: Candidates often mixed financial accounting and tax terminology, which affected the precision and clarity of their answers.
- Coverage of requirements: Some candidates did not address all aspects of the requirements or where both VAT and income tax implications were required, candidates frequently omitted one of the two tax areas.
- Application of tax principles: Because the paper integrated financial reporting and tax, some candidates applied accounting principles, particularly in part (b), instead of applying the relevant tax principles.
- In parts (c) and (d), answers often lacked sufficient application of the relevant legislative provisions to the specific facts provided in the scenario.

Recommendations

- This was a particularly challenging question for the entry-level candidates.

- Candidates should carefully analyse the requirements before starting their answers to ensure that each requested tax discipline (VAT or income tax) is addressed.
- Greater emphasis should be placed on applying legislative provisions to the facts of the scenario, rather than merely stating general tax principles.

Workings (and references to workings)

- Candidates' answers often lacked sufficient application of the relevant legislative provisions to the facts provided in the scenario.
- This was particularly evident in parts (c) and (d), where candidates were expected to apply the requirements of the specific provisions to the detailed facts, rather than merely stating the general rule.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (b): Understanding the technical treatment

- Most candidates generally attempted the question, but many did not fully understand the technical treatment of the HealthMulas. This resulted in confusion when applying the relevant VAT and income tax principles.
- Most candidates identified that the issue of HealthMulas was a taxable supply.
- Some candidates correctly identified the VAT implications of the patient loyalty programme, including the output tax consequences when HealthMulas were redeemed.
- Candidates generally identified that BHealth was a registered VAT vendor and that its supplies would be subject to VAT.
- For income tax purposes, candidates discussed the inclusion of amounts received in gross income but seldom the deduction of the issue and utilisation of HealthMulas.

Part (c)

- Most candidates did not fully understand how BHealth should account for the equity instrument. However, the employee-related tax implications were generally well attempted.
- Most candidates identified that the SARs were awarded to employees because of their employment and that normal tax consequences would arise for the employees in relation to the cash-settled SAR benefit.
- In most cases, candidates understood the nature of the transaction as a restricted equity instrument and identified the related employee tax implication and that normal tax would only be accounted for on the vesting date for employees.
- Stronger candidates correctly identified that section 8C applied to the share appreciation rights arrangement and appropriately discussed the resulting income tax implications.

Part (d)

- This part of the question was generally well answered. The question was accessible, and most candidates were able to use the relevant legislation to support their answers.
- Most candidates correctly identified that separate VAT branch registration was relevant and addresses that an independent accounting system maintained by each clinic as well the recognition that each clinic could be separately identified with reference to its location.
- Stronger candidates correctly applied section 50(1) of the VAT Act and reached a clear, non-contradictory conclusion and could attain 4 out of 6 marks easily.

Part (e)

- This was a fair and accessible question, and most candidates performed reasonably well. Candidates attempted most parts of the question, and responses were generally stronger than in other tasks because this question was closest to the calculation-style question many candidates expected.
- VAT treatment
 - Most candidates correctly identified that input VAT could be claimed on the acquisition of the buildings and renovation costs.
 - Candidates correctly identified that interest is a financial service under section 2 of the VAT Act and is therefore exempt from VAT under section 12.
 - Candidates also correctly concluded that no input tax could be claimed in respect of the exempt financial service.
- Income tax treatment
 - Candidates correctly concluded that the management fees would be included in the gross income of Med4Me and would be deductible for the clinics.
 - Most candidates identified that the buildings were not new and unused and therefore did not qualify for capital allowances on that basis.
 - Many candidates recognised that the acquisition and renovation costs were capital in nature and that any deduction would need to be considered by means of the applicable capital allowance provisions.
 - Several candidates appropriately discussed the deductibility of initiation fees and interest from an income tax perspective.
 - Most candidates identified section 24J as the relevant provision for calculating interest on the loan.

Part (f)

- This part of the question was generally poorly answered. Many candidates did not identify section 80A or recognise the potential application of the anti-avoidance provisions.
- However, most candidates discussed the inclusion and deductibility of the management fees, which enabled them to earn some marks.
- A small number of candidates correctly recognised that the management fee arrangement could constitute an impermissible tax avoidance arrangement and appropriately referred to the relevant anti-avoidance provisions.
- Key points identified by candidates
 - Candidates identified that Med4Me and the BHealth clinics were connected persons.
 - Candidates also identified that the management fee of 10% exceeded the market-related rate of 7%.

3.2 In what respect candidates' answers are considered to fall short of requirements**Part (b)**

- Most candidates struggled to identify the main transactions and to distinguish between the loyalty points and the underlying health services.
- Many responses focused only on the redemption of HealthMulas and did not address the full VAT and income tax consequences of the loyalty programme.
- VAT consequences
 - Candidates often did not recognise that no VAT consequences arise when HealthMulas are issued.
 - Several candidates failed to identify the R500 000 preventative health checks as taxable supplies.
 - Although some candidates correctly used the R300 000 redemption value, many did not explain that the redeemed HealthMulas constituted consideration not in money and that market value therefore had to be used.
 - Some candidates struggled to distinguish between output tax and input tax, and between the HealthMulas and the underlying taxable supplies.

- Income tax consequences
 - Many candidates limited their income tax discussion to gross income and did not consider the deductibility of related expenses.
 - Few candidates considered the possible application of section 24C of the Income Tax Act or the relevance of the Clicks case principle.
 - The general deduction formula in section 11(a) was seldom addressed and applied.
- Application and exam technique
 - Candidates frequently repeated the scenario instead of applying the relevant VAT and income tax principles to the facts.
 - Some responses focused on only one tax discipline, which resulted in candidates losing marks for failing to demonstrate integrated thinking.
 - Several candidates confused the accounting treatment with tax consequences, particularly when analysing the points and the underlying transactions.
 - The required was not always clearly interpreted, leading some candidates to discuss only selected aspects of the loyalty programme instead of all relevant transactions.
 - Exam technique was weakened by imprecise terminology, such as referring to 'including a deduction' or 'claiming an output'.
 - Candidates often rephrased the scenario instead of providing analysis, application, or clear conclusions.

Part (c)

- Candidates generally struggled with the tax treatment of the cash-settled share appreciation rights arrangement.
- Many did not identify section 8C as the key provision, while others incorrectly concluded that the SARs were not equity instruments for income tax purposes.
- Section 8C and employee tax consequences
 - Those who identified section 8C often struggled to apply the requirements correctly, particularly the treatment of the SARs as restricted equity instruments.
 - Several candidates were uncertain whether the SARs would result in shares being issued to employees, which affected their analysis of the normal tax implications.
 - Many candidates did not address the employees' tax implications applicable to the cash-settled SAR benefit.
- Employer obligation and deductibility
 - Many candidates did not identify that BHealth had no unconditional legal obligation to settle the SAR benefit and that the obligation rested with Med4Me.
 - As a result, candidates often wasted time discussing the deductibility of the SAR cost for BHealth, even though this was not relevant to the facts provided.
 - The fact that Med4Me, as the holding company, granted the SARs to the directors of BHealth added complexity and was not always clearly understood.
- Year of assessment
 - Candidates struggled to identify the correct year of assessment. The company and the employees had different years of assessment, and some candidates therefore considered the vesting event in the incorrect year. Candidates needed to recognise that vesting occurred in the 2025 year of assessment for the company, but in the 2026 year of assessment for the employees, as an employee's year of assessment runs from 1 March to the end of February.
- Exam technique and application
 - Technical knowledge of section 8C was a common weakness, particularly in relation to restricted equity instruments and cash-settled benefits.
 - Some candidates focused on irrelevant deductibility discussions rather than the tax consequences for the employees.
 - Candidates needed to apply the facts more carefully, especially the identity of the party settling the SARs and the timing of the vesting event.

Part (d)

- This section was generally better answered than some of the other parts, but a number of candidates did not focus on the specific requirement.
- The main weakness was that candidates discussed general VAT registration principles rather than the separate branch registration requirements applicable to BHealth's additional clinics.
- Section 50 application
 - Some candidates did not apply the requirements of section 50(1) of the VAT Act to the facts and instead reproduced the general theory.
 - Candidates sometimes considered whether the clinics constituted a fixed place of business, instead of focusing on whether the clinics could be separately registered as branches.
 - A number of candidates did not recognise that the additional clinics would form part of BHealth's existing enterprise and did not have to register separately seeing that BHealth was already a registered VAT vendor.
 - Many candidates failed to address section 50(5) of the VAT Act, which provides that where a branch does not comply with the requirements of the VAT Act, the VAT liability reverts to the original vendor, which in this case was BHealth.
- Conclusion and relevance
 - Some candidates did not provide a clear conclusion, even though this was central to the requirement.
 - Several candidates discussed compulsory or voluntary registration under section 23 of the VAT Act, which was not the issue being tested.
 - A few candidates incorrectly concluded that the clinics were outside South Africa, despite the facts indicating that the clinics were in South Africa.

Part (e)

- Although this part was comparatively straightforward, many candidates lost marks on basic VAT and income tax principles.
- Common weaknesses included poor reading of the required, incorrect use of the VAT fraction, confusion between input tax and output tax, and limited discussion of initiation fees, interest, and pre-trade expenses.
- VAT treatment
 - Several candidates incorrectly applied the notional input tax provisions because they focused only on the fact that the buildings were second-hand. They did not recognise that the properties were acquired from registered VAT vendors, to which normal input tax principles applied.
 - Many candidates used the VAT fraction even though the question stated that the amounts excluded VAT.
 - Some candidates did not state that the buildings would be used wholly for taxable supplies.
 - Candidates often failed to explain that financial services are exempt supplies, rather than simply stating that there were 'no VAT implications'.
 - The time of supply rule for fixed property was not always applied correctly. Candidates needed to consider the earlier of registration or payment and make a reasonable assumption based on the payment details provided.
- Income tax treatment
 - Some candidates incorrectly treated section 13(1) as a substitute for section 13quin without considering the specific requirements of each provision.
 - Candidates could not apply section 13 where the buildings were not used in a process of manufacture. On the facts, section 13quin was the only potentially relevant capital allowance provision.
 - The buildings were acquired second-hand, and no information was provided to show that they were new and unused. Accordingly, candidates should have recognised that no allowance was available on the original buildings.
 - The improvement costs were separate from the original building costs and had not been completed or brought into use by year end. No allowance was therefore available on the improvements in the current year of assessment.
 - Where candidates raised pre-trade expenses, they needed to consider section 11A of the Income Tax Act.

- Initiation fees, loans and interest
 - Very few candidates discussed the initiation fees in sufficient detail. Candidates needed to explain the nature of the cost and then apply both the VAT and income tax consequences.
 - Some candidates did not recognise that the loan receipt was not gross income because there was an obligation to repay it.
 - Candidates needed to establish that BHealth was the issuer of an instrument before applying section 24J. A deduction under section 24J(2) would only be available if the expenditure was incurred in the production of income and for purposes of trade.
 - Several candidates incorrectly concluded that interest was capital in nature and not deductible or incorrectly relied on section 11(a).
 - Despite the required stating that no interest calculation was needed, some candidates spent unnecessary time calculating the interest on each loan.
- Exam technique and coverage of the required
 - Some candidates addressed only VAT or only income tax, rather than considering both tax disciplines.
 - Several candidates did not address all three required items: acquisition of the buildings, interest, and initiation fees.
 - Candidates should read the required carefully and avoid calculations where the question specifically states that calculations are not required.
 - A clearer separation of the VAT and income tax implications would have improved the structure and completeness of many responses.

Part (f)

- This part was not well answered. Very few candidates identified that the management fee arrangement could fall within the general anti-avoidance rules.
- Most candidates limited their responses to gross income and deductibility, without considering the use of Med4Me's assessed loss and the above-market management fee as indicators of a possible impermissible tax avoidance arrangement.
- GAAR and section 80A
 - Most candidates did not identify that section 80A of the Income Tax Act may have been triggered.
 - Candidates should have considered whether the arrangement was an impermissible tax avoidance arrangement, having regard to the assessed loss in Med4Me and the above-market management fee charged to the clinics.
 - Many candidates failed to discuss the requirements of GAAR and did not explain the effect if section 80A applied.
- Management fee treatment
 - When discussing gross income and deductibility, candidates did not always indicate to which party the treatment related.
 - Unless a specific tax provision deems a different result, the actual management fee received or accrued must be included in Med4Me's gross income under section 1 of the Income Tax Act.
 - Similarly, the actual cost incurred or paid by the clinics may be considered for deduction under section 11(a), subject to the normal requirements for deductibility.
- Incorrect or incomplete provisions
 - Some candidates simply stated that the management fee should be market related, without identifying a tax provision that would allow SARS to adjust the tax consequences.
 - Several candidates incorrectly attempted to apply section 31 of the Income Tax Act, even though both parties were South African residents.
 - The more appropriate focus was section 80A, provided that all GAAR requirements were identified, discussed and applied to the facts.
- Expected application and consequence

- Candidates needed to recognise that Med4Me received management fees while it was in an assessed loss position, resulting in no taxable income for Med4Me.
- At the same time, the clinics benefited from an increased deduction based on a 10% management fee, instead of the market-related rate of 7%.
- If GAAR applied successfully, SARS could apply the remedies in section 80B of the Income Tax Act. A logical consequence would be to include the 10% management fee in Med4Me's gross income, while limiting the clinics' deduction to the market-related 7% fee, supported by a reasoned application of the provision.

PROFESSIONAL PAPER 3

Paper 3 consisted of a 120-mark question, with the required divided into two parts that dealt with the following aspects:

Part I

- (a) Candidates had to write a report to Dino and Sipiwe (directors of a private NPO company) in which they identified the financial and operational risks of Beita Furniture (a private company with not-for-profit status).
 - *X1: Communication skill – clarity of expression*
 - *Y1: Critical thinking skills*
- (b) Candidates had to calculate, based on the financial information in appendix 1 (financial information for a three-year period) and adjusted to reflect the market-related amounts described in the appendix, the breakeven sales in units per month for Beita Furniture, if –
 - Beita Furniture paid Fulani and Joseph (two qualified carpenters) a market-related salary, paid market-related rent and bought used pallets at market-related prices, and
 - Beita Furniture produced the product(s) that would provide the most profitable result.
 - *Y3: Problem-solving skills*
 - *Y1: Critical thinking skills*

Part II

- (c) Candidates had to discuss any ethical concerns they may have arising from the way in which Beita Furniture is managed.
- (d) A discussion of the matters Fezile, as auditor, should consider in reaction to the WhatsApp conversation between Zolani (the bookkeeper) and Abulele (a trainee carpenter), taking all other relevant information into consideration.
 - Candidates were not required to discuss any detailed steps Fezile should take in reaction to the concerns.
 - *Y2: Integrative thinking*
- (e) Candidates had to describe the substantive procedures the auditor would perform on the issue of shares and the dividend payment made by Beita Furniture during FY2025.
Candidates did not have to discuss audit procedures related to the following:
 - Management representations;
 - Analytical procedures;
 - Notices of and quorums at any meeting; and
 - Presentation and disclosure requirements.
 - *X1: Communication skill – clarity of expression*

Six communication skills and professional values, attitudes and acumens marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 3 PART I

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
76	29,48	172 (13%)	1 336

1	General comments on complexity
	- Most of the endorsed academic providers were of the opinion that part I was of moderate difficulty on the whole, but some providers rated this part of paper 3 as being at the higher end of the moderate range. - Overall, the mark team were of the opinion that the paper was pitched at the higher end of the moderate to difficulty scale. - In part (a), the number of risks having to be identified and the fact that the information for parts (a) and (b) were scattered throughout the entire scenario elevated the complexity of this part to the moderate to difficult level. - The mark team considered part (b) to be difficult. - Candidates on the whole battled to identify how to measure the production levels against the capacity available in respect of the treatment machines. - This meant that candidates needed to make an assumption as to whether or not the available treatment machine capacity would represent a constraint.
2	Feedback on the candidate responses: General matters
	- Most candidates struggled to give meaningful answers on all required parts of this question. - The general concern noted was the lack of application in both parts of the question: while candidates understood most of the concepts, they failed when it came to applying such concepts to the scenario and the requireds.
3	Feedback per each required section of the part
3.1	Areas that candidates handled well
	Part (a) - Candidates were able to identify some of the risks, but their consideration of these risks was often limited. - As a result, many risks were either only partially addressed or not addressed at all, which affected their ability to perform well in this part of the question. Part(b) - This part was poorly answered. - Candidates demonstrated a limited understanding of how to calculate and interpret the break-even point. Some candidates performed the calculation separately for all three months, while others adopted a total-period approach without adequately applying the correct principles. - Even where candidates attempted to calculate the break-even sales based on a sales mix, many struggled to apply the underlying principles correctly (for instance, using production volumes to determine said mix).
3.2	In what respect candidates' answers are considered to fall short of requirements
	Part (a) - Candidates provided a limited number of risks versus the close on 31 marks available in the mark plan. - Many responses were generic and laundry lists; in other words, they lacked engaging meaningfully with the scenario. - Candidates limited their responses to identifying risks, as per the required, but then failed to unpack the risks further.

Part (b)

- Candidate performance was generally very poor. The following interesting observations were made:
 - Candidates battled to navigate the requirement to calculate the monthly break-even sales.
 - Candidates focussed their attention on appendix 1 (containing sales and cost data for three individual months),
 - Instead of averaging the three months, many calculated a break-even point for each month; or
 - Candidates determined a total for the three-month period and determined a break-even point for the three-month period.

PAPER 3 PART II

Maximum mark	Average mark	Number of candidates who passed	Number of candidates who wrote
44	21,52	646 (48%)	1 336

1 General comments on complexity

- This part of the question was considered to be relatively easy.
- Overall, the paper had some easy to challenging requirements per subsection, but on the whole it was well balanced.
- The scenario required candidates to read carefully and correctly apply themselves to the requirements, especially for parts (c) and (d).
- The fact that part (e) was pretty straightforward brought in a balance to the level of difficulty.
- The paper mostly tested a range of general and core issues.
- Candidates' ability to perform well in this part of the paper was determined by how effectively they were able to apply those general principles within the context of an unfamiliar setting.

2 Feedback on the candidate responses: General matters**Exam technique**

- Candidates attempted required (e) first and scored some easy marks on the substantive procedures.
- However, confusion was demonstrated by some candidates in required (c) and (d), which caused instances where candidates mixed the context between the two parts.
- In required (c) many candidates answered in the context of an auditor instead of directors and required (d) in the context of directors instead of auditors.

Time management

- On the whole it seemed as if candidates managed their time well in this part.

Communication

- Most candidates were able to clearly communicate their responses.

Layout, structure and presentation

- Common mistakes made were by candidates, as they did not always follow sentence structure conventions, such as trigger and effect, and not stating the ISA500 verb, source, and purpose of their procedures.

Relevance

- Candidates' responses were generally relevant, except that some candidates discussed issues out of context, especially in requireds (c) and (d).

Recommendations

- Overall candidates need to focus on the wording conventions of the different requireds (ethical issue and explanation, procedures – what, how, why).
- Answers provided should display application of the facts in the scenario.

3 Feedback per each required section of the part**3.1 Areas that candidates handled well****Part (c)**

- The following were commonly identified and well-discussed ethical issues:
 - Payment below minimum wage,
 - Awarding contracts to related parties,
 - Use of stolen pallets,
 - Inexperienced employees, and
 - Continued receipt of donations to a private company.

Part (d)

- Most candidates discussed matters an auditor should consider as these affected 'audit processes', such as client acceptance and risk assessment.

Part (e)

- Most candidates correctly identified the compliance aspects (Companies Act) in relation to the two transactions (share issue and dividend declaration) and appropriately formulated the relevant procedures (board approval, MOI, etc.)
- Most candidates identified that both transactions involved the cash flow and correctly formulated audit procedures related to the bank statement.
- Candidates identified the tax implication on the dividend and discussed it.

3.2 In what respect candidates' answers are considered to fall short of requirements**Part (c)**

- Candidates demonstrated poor exam technique in the identification of issues (on average, only 4–5 concerns were identified).
- Many focused only on one ethical issue and expanded excessively on that one.
- Explanations often failed to show why the issue was unethical.
- There was confusion between the applicability of the SAICA Code of Professional Conduct to directors versus auditors. Some candidates discussed ethical issues under the CoPC.

Part (d)

- Some candidates missed that the required referred to matters that should be considered by Fezile as the auditor and provided considerations that would be applicable to directors of the entity ('s76 and s77').
- Some candidates incorrectly approached the issue from Beita's viewpoint rather than the auditor's.
- There was an overemphasis on 'other audit actions' (risk assessment, audit plan) while neglecting reportable irregularity (RI) and non-compliance with laws and regulations (NOCLAR).
- Very few candidates identified both RI and NOCLAR.

- Candidates that identified NOCLAR and RI were mostly conclusive and provided a high-level consideration that the auditor should take.
- Candidates did not go into detail in discussions of the application of RI or NOCLAR theory with reference to the scenario facts.

Part (e)

- Most candidates did not separate the two issues of shares transactions – and formulated one set of procedures (without specifying whether the procedures relate to the issue of share to the founding directors (on 1 January 2025) or to the employees (3 July 2025)).
- Those who specified the transaction, only discussed the share issue during the year (for the employees).
- Most candidates did not discuss procedures relating to the consideration aspect of the founding directors' share issue (book value of NPO assets).
- Most responses lacked application of the facts in the scenario. This included procedures relating to the dividend (recalculation), share issue price in the minutes (R0.01), unusual items, etc.
- Most candidates did not discuss general procedures such as those relating to IPE (casting, agree to GL/TB/AFS, unusual items, etc.).
- The number of points/procedures discussed by most candidates was not sufficient in view of the number of marks for this required (23 marks).