



**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JANUARY 2024**

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Initial Test of Competence (ITC), which was written in January 2024. 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 four examination papers.

The purpose of the ITC 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 ITC January 2024;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC January 2024; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC JANUARY 2024

	Pass %	Passed	Failed	Total
All candidates	67%	1 726	845	2 571

Average marks per question (all candidates)

Paper 1	Part I	Part II	Total
Total marks	54	46	100
Average marks	27	26	53
Paper 2	Question 1	Question 2	Total
Total marks	50	50	100
Average marks	28	24	52
Paper 3	Part I	Part II	Total
Total marks	50	50	100
Average marks	26	26	52
Paper 4	Question 1	Question 2	Total
Total marks	50	50	100
Average marks	22	28	50

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 ITC Examinations Committee (ITC 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 ITC 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. Examination questions are drawn from different sources:

- Questions may be submitted by practitioners, accountants in commerce and industry, as well as academics. These questions are added to a question pool that has been built up over the years and from which questions may be selected; or
- Questions on a particular subject may be commissioned from persons in commerce and industry, public practice or from academics.

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, four external examination sitters, who are independent of the exam setting process, are appointed to review the entire set of questions. These sitters are chosen from the persons who passed the ITC exam the previous year. The examination sitters provide independent comments on the examination paper, suggested solutions or mark plans, and report on these to the ITC 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 ITC 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 accredited universities for comment. The markers and umpires decide on a suggested solution and mark plan 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 ITC Examco, which authorises the final suggested 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.

Marking of the ITC January 2024 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 awarded the final mark. The electronic tool automatically captures the final marks of all candidates and prepares a report for the ITC Examco.

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, 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.

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 ITC;
- 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 four 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. In a typical 400 total exam mark, the secretaries' marks translate to 1%.

It is important to note that no person from academia who is a member of SAICA's CAPD Committee is allowed to serve on the ITC 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); who achieved less than 25% for the exam as a whole; or who did not

achieve the requirement of a 40% minimum per paper (see par. 4.12 of the section on the general comments below) 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 marking team. The marks during this process may either go up or down and each script is again assessed on a question by question 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 ITC in this regard).

GENERAL COMMENTS ON THE ITC JANUARY 2024

1 Objective

In view of the primary objective of the ITC, 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

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Taxation	Management decision making and control	Ethics	Communication
Required ranges in terms of the SAICA guidelines (since 2013)	60 – 100 marks	40 – 60 marks	60 – 100 marks	60 – 100 Marks	60 – 100 Marks	20 – 60 marks	20 – 30 Marks
	15 – 25%	10 – 15%	15 – 25%	15 – 25%	15 – 25%	5 – 15%	5 – 7,5%

	Accounting and external reporting	Strategy, risk management and governance	Audit and assurance	Taxation	Management Accounting and Finance (MAF)	Ethics (including CPC)	Effective and efficient comm	TOTAL
Paper 1 Part I	18	9			25		2	54
Paper1 Part II			31			12	3	46
Paper 2 Question 1					38	10	2	50
Paper 2 Question 2				36		11	3	50
Paper 3 Part I	48						2	50
Paper 3 Part II			29	18			3	50
Paper 4 Question 1		34			14		2	50
Paper 4 Question 2	28			19			3	50
	94	43	60	73	77	33	20	400
	24%	11%	15%	18%	19%	8%	5%	

3 Overall comments on the papers

The January 2024 ITC 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, risk management and governance** and **management accounting and finance** and the second with **accounting and external reporting**.

Paper 2 consisted of a single scenario, with the required sections divided into two parts. The first part examined **accounting and external reporting** and the second part dealt with **strategy, risk management and governance, audit and assurance, and ethics**.

Paper 3 consisted of a single scenario with two parts. Part I examined **audit and assurance** and **ethics**. Part II covered **strategy, risk management and governance** and **management accounting and finance**.

Paper 4 consisted of a two separate questions. Question 1 examined **taxation**, while the second dealt with **audit and assurance, taxation and ethics**.

4 General comments

From a review of candidates' answers to the eight required sections for the ITC January 2024 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. 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 could not award marks as they were unable to follow which working related 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 ITC 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 (sms messaging style) in their answers. Marks could not be awarded here 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 for which communication and presentation marks are awarded.**

4.4 Journal entries

A fundamental part of financial accounting 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 the wrong way around. 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 in the income statement or balance sheet has to be debited or credited. It is not sufficient for a candidate with Accounting IV to be a technocrat – understanding of the fundamental principles of accounting is critical to the success of a candidate at the ITC 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 question attempted and too little time on the last. They should never overrun on time on any question, but rather return to it after attempting all other questions. It was evident that candidates had not managed time appropriately, for they left out many sections, often relating to easier marks, while the difficult sections that were attempted had clearly taken more time to address, but resulted in few or no marks.

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 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 ITC. 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 financial management, management decision making and control and the strategy, risk management and governance 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 accredited university. Candidates are also reminded that only SAICA has the authority to interpret its own open-book policy. To this end, candidates are advised of the following:

- **No loose pages** (of any kind) may be brought into the exam.; and
- Writing on flags – as per section 4.4 of the SAICA examination regulations:

Candidates are only allowed to highlight, underline, sideline and flag in the permitted texts. Writing on flags is permitted for reference and cross-referencing purposes only, that is, writing may only refer to the name or number of the relevant discipline, standard, statement or section in the legislation.

Any contravention of regulation 4 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 perspective 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 accounting and external report questions and fare considerably poorer in some of the other disciplines – most notably management accounting and finance. Candidates are reminded that the accountancy discipline is a broad one and the other disciplines are equally important.

We draw your attention to the following ITC Examination Regulations:

4.2 A minimum of 200 marks (thus 50%) are required to pass the ITC.

4.3 Candidates need to demonstrate an appropriate level of competence in ALL areas and disciplines, and therefore the overall pass mark of 50% shall be subject to the candidate achieving a sub-minimum of 40% in at least three of the four professional papers.

We have been in the position, in the past, where we unfortunately had to fail a candidate because that candidate did not achieve the 40% subminimum in two of the four papers. This is really unfortunate, and candidates are advised to pay equal attention to all the competency areas in order to obtain an overall pass in the ITC.

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 you next exam!

Best of luck!!

DETAILED COMMENTS ON EACH OF THE FOUR PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

Paper 1 consisted of a 100-mark question, consisting of two parts that dealt with the following aspects:

Part I

- (a) Candidates had to discuss the key matters that two siblings, who own a panel-beating company (DentOut), should consider prior to accepting the buy-out offer from another company (RVR), with regard to –
- (i) the impact for a company on its operations and growth; and
 - (ii) considerations for the siblings as the existing shareholders.

Candidates were instructed to –

- ignore taxation,
 - not to discuss any ethical matters, or
 - provide calculations.
- (b) Candidates had to determine, with reference to the percentage margin of safety, whether the company should accept a vehicle refurbishment project from RVR.
- Candidates were instructed to ignore taxation.
- (c) A discussion of the appropriate accounting treatment arising from faulty reconditioned spares as part of 'additional material findings' in a due diligence report in the –
- separate financial statements of DentOut for FY2023; and
 - at acquisition consolidated financial statements of RVR, on the assumption that RVR acquired a controlling interest in DentOut on 1 October 2023.
- Candidates did not have to discuss –
- presentation and disclosure,
 - any implications of IAS 2 *Inventories* or
 - discuss any implications of IAS 7 *Statement of Cash Flows*.
- (d) A preparation of a prior-period error note in the separate financial statements of DentOut for FY2023 relating to software described in the due diligence report.
- Candidates had to assume that –
- the tax was correctly treated in the income tax return; and
 - all amounts were material.

Part II

- (e) Candidates had to discuss, with reference to the information provided in the background information and transaction with RVR, any ethical threats and concerns the candidate may have regarding the behaviour and actions one of the siblings (a CA(SA)).

- Candidates did not have to discuss the significance of any threat.
- Candidates were instructed to not provide any safeguards.

- (f) A discussion, with reference to the information provided in the background information and transaction with RVR, factors that the audit firm needs to consider in deciding whether to accept the audit engagement of DentOut.

Candidate instructions:

- Exclude any discussion related to the ethical conduct of Marcello and Michaela.
 - Do not discuss the significance of threats.
 - Do not provide any safeguards.
- (g) A discussion, with reference to the extract of the trial balance, substantive procedures on the opening balances that can be performed to confirm the existence of DentOut's assets as at 1 October 2022.

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each question.

PAPER 1 PART I

Maximum mark	Average mark	Percentage passes	Percentage fails
54	27	56%	44%

1 General comments on the degree of difficulty of the question

The question was rated as moderate. The level of difficulty was increased by requiring the candidates to discuss the key matters which required candidates to apply themselves.

Parts (b), (c) and (d) were moderate to easy and overall candidates performed fairly well on those parts.

2 Feedback on the candidate responses

- Candidates provided generic responses that were not relevant to the scenario.
- Candidates did not write sufficient points to pass part (a).
- Some candidates rushed the last parts of the question and as a result struggled to earn the required marks.
- The layout for parts (b) and (d) was good, with most candidates presenting the information in the applicable format.
- The calculations for the break even (part (b)) and depreciation and amortisation and carrying amounts were done with minimal errors.
- Candidates were not able to link the impact of the buyout and lost marks in part (a) as they could identify factors, but were unable to continue to the application steps and links to the impact.
- Candidates wasted time in outlining points that were not valid or irrelevant to the impact.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (a)(i) and (a)(ii)

- Candidates could identify the factors based on the information given.
- The application and the link to the impact were missing.

Part (b)

- Candidates could differentiate between variable and fixed costs.
- The calculation of break-even was handled well.

Part (c)

- Candidates identified that the issue of the reconditioned spares was linked to a provision and applied the applicable paragraphs in IAS 37.
- Candidates addressed both the separate and group financial statements.

Part (d)

- Candidates knew how to present the IAS 8 error note and identified the need to restate the 2022 figures.
- The calculation of depreciation and intangible was straight forward and candidates handled these aspects well.

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

Part (a)(i) and (a) (ii)

- Generic points were raised that were not applied to the scenario.
- Facts and points from the scenario were provided by the candidates without mentioning the impact it would have on the operations and growth.
- Insufficient points were presented by the candidates to pass the section (only 3 to 4 points were raised).

Part (b)

- The financial impact using relevant costing principles was calculated by some candidates despite the question requesting a break-even calculation.
- Candidates did not seem to understand that labour cost was to be for 12 days in total (i.e., for the entire project).

Part (c)

- Candidates did not fully discuss how the use of the air-conditioned spares, the reviews and TV coverage on the matter results in an obligating event which cannot be recognised.
- Most candidates discussed the possible obligation based on the court case without considering whether a present obligation exists.

Part (d)

- Candidates failed to show both the profit and loss and the statement of financial position effect and some only showed one part of the note.
- Candidates swapped the PPE impact and the intangibles effect when presenting the note.

PAPER 1 PART II

Maximum mark	Average mark	Percentage passes	Percentage fails
46	26	75%	25%

1 General comments on the degree of difficulty of the question

This paper was assessed as moderate to difficult:

- The scenario focused significantly on due diligence and various accounting errors which may have led candidates to focus on the accounting aspect thereof during the reading time. They may therefore have struggled to shift to the auditing part, resulting in them having to go back and re-read from a different perspective after receiving the required.
- Only having two directors in the company may make it difficult for candidates to separate company actions from those of Michaela and Marcello. This was further complicated by Michaela working for both Dent-out and the CAI.
- The scenario had many ethical issues imbedded in it, which may have made it difficult for candidates to differentiate between them and to separate the issues.

2 Feedback on the candidate responses

Exam technique

- Candidates answered all three parts of the question, but planning of answers and good exam technique were not too often apparent.
- Candidates as a result defaulted to a lack of application on various aspects especially the ethical concerns relating to the Code of Professional Conduct.

Layout, structure and presentation

- Candidates included aspects of discussions for non-assurance services relating to part (f) under part (e).
- However the team has cross-marked these parts so that candidates did receive the benefit under part (f).

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

The majority of the candidates were able to pick up ethical concerns regarding –

- Michaela recommending that RVR should appoint CAI as the external auditors; and
- Michaela aggressively completing income tax returns.

Part (f)

Candidates were able to identify the various aspects that could affect the acceptance of a client, such as considerations relating to financial responsibility, auditor resources and agreeing to the terms of the engagement.

Part (g)

Candidates generally managed to obtain the generic marks for aspects such as –

- the management representation letter,
- opening balances analytics, and
- agreeing to financial statements.

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

- Only a few ethical issues were addressed in the responses, resulting in all other marks being lost completely.
- Aspects such as Michaela's competence being questionable due to her incorrectly applying IFRS was not commonly addressed by most candidates.
- Some candidates provided very generic responses and would just note the issue or theory dump the fundamental principles and threats.

Part (f)

- The different aspects of non-assurance services were not discussed separately but rather lumped as one. This caused them to lose marks as they were expected to discuss each individual non-assurance service separately.

Part (g)

- Candidates specifically struggled with auditing inventory as they were unsure of how to go about auditing it, especially with regard to the impact of stock counts by independent reviewers.
- This was further complicated by the scenario that stated that inventory movements were not adequately monitored.
- Most of the candidates struggled with identifying roll-back procedures.

PROFESSIONAL PAPER 2

Paper 2 This paper consisted of two separate questions that dealt with the following aspects:

Question 1

- (a) Candidates had to criticise the free cash flow valuation of a company to be acquired for the proposed 80% share purchase.

- The valuation did not have to be reperformed.
 - Candidates had to assume that all amounts are correctly calculated.
- (b) Candidates has to calculate and advise the management of the company on how the acquisition should be financed, considering the related funding needs of the company.
- Candidates had to include an analysis of the characteristics of each financing option and conclude with a recommendation.
 - Candidates did not have to offset any amounts of the cash balance for purposes of the calculation.
- (c) A discussion of any concerns the candidate may have with respect to the conversation that a marketing staff member overheard about a new game launch.
- Candidates had to ignore the SAICA Code of Professional Conduct in their discussion.

Question 2

- (a) A discussion of the income tax implications of the following legal costs:
- (i) Whether the legal costs paid by the company to its attorneys for the drafting of the restraint of trade agreement may be deducted by the company;
 - (ii) Whether the company may deduct the legal costs relating to the sexual harassment case; and
 - (iii) Whether the employee (subject of the sexual harassment) may deduct her legal costs relating to the sexual harassment case.
- Candidates had to assume that the current tax legislation applies for all relevant years of assessment.
- (b) A calculation of the employees' tax that the company should have withheld from the severance package paid to the employee in March 2023.
- Candidates had to provide a brief reason for your treatment of each item.
 - Where applicable, candidates had to assume the current tax legislation and tax rates apply for all relevant years of assessment.
- (c) Candidates had to discuss, with supporting calculations, the employees' tax that company should have withheld from a second CCMA arbitration award paid to the employee in February 2024.
- Where applicable, candidates had to assume the current tax legislation and tax rates apply for all relevant years of assessment.
- (d) A discussion on whether a partner of the company (a CA(SA)) has any professional obligations relating to the information that he discovered with regard to the employees' tax situation.

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 2 QUESTION 1

Maximum mark	Average mark	Percentage passes	Percentage fails
50	28	78%	22%

1 General comments on the degree of difficulty of the question

- Most providers regarded the paper as moderate to difficult overall.
- Required (a) was expected to be difficult because it required a deeper understanding of the free cash flow valuation principles and from prior experience, candidates do not perform well in discussion questions.
- Part (b) was expected to be easy because a financing decision question is usually asked in a similar manner to previous ITC papers.
- Part (c) was considered easy and candidates were expected to do well.

2 Feedback on the candidate responses

- Candidates performed well overall on this paper and this was in line with what was expected.
- This part was not difficult as rated by the marking team and the providers comments.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Candidates managed to respond in line with the required (criticising the valuation).
- Candidates provided sufficient depth in responses.

Part (b)

- Most candidates correctly identified that the calculation of the internal rate of return was required to make a comparison of the financing options.
- The share exchange option was correctly calculated by most candidates.

Part (c)

- The majority of the candidates attempted this section.
- Most candidates were able to identify the ethical issue.

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

Part (a)

- Candidates identified sufficient issues but there were many candidates that provided generic responses, for example that depreciation should not be included in the valuation because it is a non-cash item.
- The reasoning that was required for the solar was different in this cash option, because the question stated that the depreciation was expected to approximate the replacement cost; most candidates missed this.
- Candidates missed the fact that cash tax flows were not considered in the valuation.

Part (b)

- Although most candidates responded well in this section, a few candidates demonstrated lack of understanding of the time value of money principles.
- The main concern noted on this part was an understanding of S24J of the Income Tax Act. Some candidates did not understand the tax implication differences of the two loans.
- Candidates provided generic responses in the discussion of the financing options.
- Some candidates calculated the net present cost instead of the internal rate of return, which was not appropriate for this part of the question.

Part (c)

- Most candidates' responses lacked coverage and depth.
- There was a great deal of repetition of points.
- Most candidates provided theory dump of King IV principles and the Companies Act requirements.
- Most candidates failed to show that they understood which sections of the Companies Act/King IV were applicable to the scenario.

PAPER 2 QUESTION 2

Maximum mark	Average mark	Percentage passes	Percentage fails
50	24	51%	49%

1 General comments on the degree of difficulty of the question

Overall, the mark team evaluated the question as moderate, as it examined straightforward undergraduate tax principles (legal fees, s11(a) deductions and employees' tax). However, examining the principles from different viewpoints and taxpayers, combined with the ethics in part (d), may have increased the level of complexity.

Part (a) – calculation – easy to moderate

Part a(i)

- Candidates were required to discuss of the deductibility of legal cost expended for a Restraint of Trade agreement.
- The mark team found the question easy, and universities agreed.
- The mark team was surprised that some candidates did not recognise that section 11(c) could not be applicable and that the general deduction formula had to be discussed.

Part a(ii)

- Candidates needed to discuss both the deductibility of legal fees paid by Makiti with regard to a CCMA sexual harassment case as well as the damages and legal fees payable to the employee (Sarah) with regard to the same case.
- The mark team found the question to be moderate.
- Candidates overall could discuss the basics of section 11(c) but failed to recognise that it was the actual claim itself that was part of normal business operations and not the cost-cutting reason of sharing accommodation that lead to the sexual harassment case.

Part a(iii)

- Candidates needed to discuss whether the employee (Sarah) may deduct her legal costs relating to the sexual harassment case in her own hands. This part of the question was of moderate difficulty.
- It was interesting to test the same scenario in both the hands of the company and the individual.
- Most candidates failed to recognise that the legal cost was capital in nature. Candidates mostly discussed this part as a re-imbusement of cost and/or used the wrong section in their discussion.

Part (b) – Calculation with brief reasons –easy to moderate

- Candidates needed to calculate, with brief reasons, the PAYE on Sarah's severance package received in March 2023.
- This part of the question was seen to be easy by universities. However, the candidates had to differentiate between monthly and yearly amounts for them to correctly apply the Fourth Schedule.
- Most candidates thus added yearly amounts to the monthly amounts before multiplying by 12 and lost easy marks because of it.

Part (c) – discussion with supporting calculation- Easy to moderate

- The candidates had to discuss the PAYE to be withheld on the second arbitration amount awarded to Sarah (employee) in February 2024. The employees' tax calculation is straightforward. However, the team is of the view that the second employees' tax calculation may have left candidates to question if the required was not a repetition of the first part. Candidates also had to discuss this part and not simply provide a calculation.
- Most candidates did not discuss the reason why the second arbitration amount was part of gross income as well as the fact that it is NOT a severance benefit as defined. They consequently lost discussion marks as they only provided the calculation of PAYE.

Part (d) - moderate

- Part (d) required a discussion on whether a partner of the company (a CA(SA), director and chairperson of the board) had any professional obligations relating to the information that he discovered about the employees' tax situation (i.e. that employees' tax was not withheld on a CCMA award paid to an employee).
- The level of complexity of this requirement may have been elevated due to various interpretations that may have been followed, combined with the fact that the scenario was set within an auditing firm and candidates had to take cognisance of the fact that the scenario dealt with the professional accountant's relationship with the firm.
- Most candidates thus discussed this section as if Lionel had been the external auditor of the firm and used the reporting requirements from this viewpoint instead of applying the Code of Professional Conduct (CoPC) and Noclar.
- In addition, most candidates did not discuss the duties of a director in this required.

2 Feedback on the candidate responses

2.1 Exam technique

- Candidates should focus on reading the required and analysing it properly. By not reading it, the answers did not address what was required: for example, part (c) specifically stated 'Discuss with reasons'. If this is the required, a simple calculation will not lead to candidates obtaining sufficient marks to pass.
- Candidates who did well are the ones who were able to demonstrate integrated thinking and technical competence of basic tax principles and the application thereof in the context of the scenario, that is, 'normal business operation' case law principles, and the application of the definition of remuneration in terms of the Fourth Schedule. Candidates should attempt all questions in order to attain good marks.
- In general, some candidates did well in the calculation type question of the employees' tax in part (b) but in part (c), which also dealt with employees' tax, they failed to provide a discussion and to demonstrate an understanding of the distinction between what was asked in part (b) as opposed to part (c).
- In part (c) some candidates repeated part (b), which either indicates poor exam technique or a lack of understanding of the required.

2.2 Time management

- It appears that most candidates could complete all four parts of the question in the time allocated.
- A small number of students did not complete part (d).

2.3 Layout, structure, and presentation

- For parts a(i) and (ii), candidates discussed the application of section 11(a) and section 11(c) almost interchangeably.
- As all three parts under part (a) relate to legal fees, the candidates included various repetitive arguments and statements.
- Good exam technique and reading the question in an analytical and critical manner would have resolved the differences.

2.4 Relevance

- Part (a) and part (d) often lacked application as candidates could identify the underlying theory but could not apply it to the facts in the scenario.

2.5 Recommendations

- Using comprehension techniques are recommended. Emphasis should not only be placed on the technical competencies, but techniques such as an imaginary picture and timeline of the scenario, which may enable candidates to deduce key parts of the given information and influence the answers they generate.
- As an example: Part (a)(iii): "Discuss the income tax implications of the following legal costs: Whether Sarah may deduct her legal costs relating to the sexual harassment case. Assume the current tax legislation applies for all relevant years of assessment."

Application: Sarah had to go through the legal proceedings to obtain a CCMA decision that she should be reimbursed. In the process, she incurred legal costs. One needs to analyse if the cost incurred was capital in nature or in the production of income.

Error: A sizeable number of candidates concluded that Sarah did not incur the expense because the court ruled that she would be reimbursed.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)(i)

- Candidates who recognise that section 11(c) could not be applicable and that the general deduction formula had to be discussed did well.

Part (a)(ii)

- Candidates who correctly applied the subsections of section 11(c) and applied it to the scenario did well.
- In terms of ethical business behaviour, candidates could put a well-versed argument forward that sexual harassment must not be closely related to Makiti's income-producing operations. Those arguments were followed and marked according to tax principles.

Part (a)(iii)

- Some candidates identified and applied section 23(m) and its exception with regard to section 11(c).
- Candidates who understood/remembered that the definition of trade includes employment did well in this part.

Part (b)

- Candidates on average performed well in this section, perhaps due to it being a calculation type of question.
- Most candidates correctly identified that two PAYE calculations should be performed to distinguish between the monthly and annual payments in order to calculate the PAYE to be withheld.
- Candidates who understood/applied the definition of remuneration/what constitutes remuneration did well in this part.
- Most candidates were able to calculate the balance of remuneration, apply the tax tables, and deduct the correct rebate.
- Most candidates applied the normal tax tables correctly and identified that this was not a severance benefit as defined.

Part (c)

- Most candidates performed a calculation of the employee's tax on the arbitration award.
- Candidates were able to use the correct tax tables and rebate.

Part (d)

- Most candidates stated that Lionel is a CA(SA) and required to comply with SAICA's CoPC.
- Candidates could identify some of the threats (although they did not always apply it to the scenario).
- Most candidates could identify the non-compliance with laws and regulations (noclar) with some application.

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

- A number of candidates did not grasp the difference between the differences in the requirements of the different sections. Candidates often repeated what was written in (a)(i) in (a)(ii) and a(iii).
- Overall, the taxpayer's onus to prove amounts are deductible (s102 of the Tax Administration Act) was seldom considered.

Part (a)(i)

- Although some candidates correctly indicated that section 11(a) should be considered, they then only focused on whether the restraint of trade should be capital in nature.
- Candidates did not indicate that the general deduction formula (s11(a)) should be considered for the deductibility of the expenses, as section 11(c) was not applicable, because it was not 'in respect of any claim, dispute or action at law'.
- Those candidates who did not identify that section 11(a) applies, argued the application of section 11(c). It seemed as if several candidates could not distinguish between the requirements of section 11(a) versus section 11(c).
- Some candidates contradicted themselves. Those candidates would be discussing that an amount is capital in nature and conclude that it must be included in gross income/deductible.
- Some candidates considered all the requirements of the general deduction formula instead of focusing the discussion on the issue, and therefore wasted time on elements that did not earn marks.
- The majority of candidates in general did not provide sufficient arguments in part (a)(i).

Part (a)(ii)

- Candidates did not apply the theory to the facts in the scenario and therefore lost marks available for the application.
- Some candidates who already discussed s11(c) in part (i), struggled here since it seemed as if they found it to be a repetition of what they just considered in part (i) and therefore failed to write enough.
- Candidates failed to identify that they had to include Sarah's legal fees (payable by Makiti as per the court order) in their discussion and consider whether the damages that were paid qualified for a deduction or not.

Part (a)(iii)

- Poor application of reading through the scenario and required was noted.
- Candidates did not identify that Sarah was a non-commission earning employee but rather that she does not carry on a trade. Consequently, few candidates identified the application of section 23(m).
- Candidates failed to identify that the compensation received by Sarah would not constitute income.
- Few candidates correctly applied the capital in nature element – Sarah incurred the legal costs to protect her constitutional rights, which is attached to her ability to work productively (being her income-earning structure), resulting in the expense being of a capital nature.

Part (b)

- Some candidates did not provide a brief reason for the treatment of each item of income but rather went straight to the calculation of PAYE.
- The mark team noticed incorrect referencing to legislation. For example, the restraint of trade payment was referenced as para. (cA) and not (cB) of the gross income definition.
- Although most candidates did realise that there should be two calculations (monthly amounts which should be annualised and the second one for the annual amounts), the application thereof was incorrect.
- Some of the calculation errors related to annualising leave pay and annualising the restraint of trade once-off payment.

Part (c)

- Candidates did not understand what was being assessed and often repeated their calculations from part (b) (severance package).
- Candidates did not realise that the focus of the required related to the back pay following the arbitration award.
- Some candidates incorrectly identified the arbitration award payment as a severance benefit and thus used the severance benefit tax table and not the normal tax tables.
- The required stated that candidates must '**discuss**, with supporting calculations...'. It thus meant that the focus was the discussion of the arbitration award itself and not merely a calculation without a proper discussion.

Part (d)

- A number of candidates discussed the external auditor's responsibility and therefore discussed reportable irregularities

at length.

- Candidates failed to realise that this part of the question did not relate to the auditor-client relationship but Lionel's position as a CA(SA) within the company itself.
- Most candidates clearly demonstrated a lack of understanding and application of the scenario.
- Candidates did not earn marks for vague answers like 'report to authorities', without identifying the authorities. Candidates need to be specific in every sentence of their discussion.

PROFESSIONAL PAPER 3

Paper 3 consisted of a single question that dealt with the following aspects:

Part I

- (a) Candidates had to prepare, using the indirect method, an extract from the consolidated statement of cash flows of a group of companies for FY2023 in accordance with IAS 7 *Statement of Cash Flows*, in so far as the given information allows.

Instructions:

- Do not prepare notes to the statement of cash flows.
- Round all amounts to the nearest rand.
- Do not provide comparative figures.
- Ignore the reconciliation at the bottom of the statement that shows the opening balance and the closing balance of cash and cash equivalents as well as the net increase (decrease) in cash and cash equivalents.

Part II

- (b) A discussion, with reference to the purchase price allocation of a 100% owned subsidiary (Imagination Beyond), whether the auditors has adequately performed its duties in accordance with ISA 620 *Using the Work of an Auditor's Expert* with regard to the work carried out by an auditor's expert.

- For each matter that has not been performed adequately, recommend one procedure to be performed by the auditors to obtain sufficient appropriate audit evidence with regard to the auditor's expert and the work carried out by him.

- (c) A discussion, with reference to the information on the investment in another 100% owned subsidiary, whether the response of an audit senior on the audit of the consolidation reporting pack is appropriate with respect to that subsidiary.

- Candidates did not have to provide any details that should be included in the communication with the component auditor.

- (d) Candidates had to compile, with reference to procedures followed for the preparation of a consolidation reporting pack, a report to the management of Imagination Beyond in which they –

- discuss the weaknesses; and
- provide recommendations

with regard to the preparation of the consolidation reporting pack and reporting process followed.

- (e) A discussion, supported by calculations, the normal tax consequences for Imagination Beyond arising from a loan received from a bank, and the interest paid to the bank for the year of assessment ended 31 December 2023.

- Candidates could ignore withholding tax.
- Candidates had to ignore the provisions of the double tax agreements between South Africa and China and South Africa and the United Kingdom.

- (f) A discussion, with reference to relevant case law, whether Imagination Beyond may deduct a management fee and local shareholder contribution fee in terms of section 11(a) of the Income Tax Act for the year of assessment ended 31 December 2023

Five communication skills 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	Percentage passes	Percentage fails
50	26	60%	40%

1 General comments on the degree of difficulty of the question

The question was assessed as moderate to difficult by the universities, due to the high level of integration of financial reporting topics and the high level of application skills required, combined with the volume of information that had to be considered. Despite the challenging nature of the question, the question was still considered to be fair and appropriate for an ITC paper.

Overall, candidates' attempts were reasonable for this question. Candidates dealt reasonably well with the different financial reporting topics being assessed by including relevant calculations for the majority of the items. However, there were some candidates who struggled to illustrate the impact of the individual items on the statement of cash flows.

2 Feedback on the candidate responses

Exam technique

- Candidates often computed amounts which were subsequently not used in answering the question.
- The majority of candidates presented a statement of cash flows, but many of the statements presented –
 - used the incorrect method, i.e. direct method,
 - incorrectly completed operating activities, and
 - poorly referenced workings.
- All the above were indicators of poor exam technique for this question.

Recommendations

- Candidates should practice good exam technique when using computations in answering the required.
- Once amounts are calculated, the amounts should be used in answering the final answer as opposed to having "hanging" calculations that are not used at all.
- Furthermore, calculations should be referenced.

Workings (and references to workings)

Many candidates did not reference their workings, which made it difficult to follow their thought process and flow of answers.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Bonds

- Candidates identified the need to compute an effective interest rate on the bonds.
- Candidate did well in identifying the interest should be for the first period of the bond.

Lease liability and right-of-use asset

- Many candidates appropriately added back the depreciation on the right-of-use asset under cash flows from operations.

- Most candidates correctly presented the cash flow of the lease under financing activities.

Distribution warehouse

- Many candidates correctly capitalised the borrowing costs to the distribution warehouse.
- Candidates correctly determined the depreciation to be added back as it relates to the distribution warehouse.
- Many candidates correctly determined the impairment loss assessment on the distribution warehouse.

Taxation paid

- The majority of candidates were able to compute the taxation paid.

Proceeds from sale of land

- While candidates attempted to calculate a form of proceeds from the sale of land, candidates often forgot to remove the land (which was reclassified to a non-current asset held for sale).

Acquisition of the subsidiary

- Candidates correctly identified the cash outflow from the acquisition of the subsidiary.
- However, candidates often omitted the cash outflow from the cash received from the issue of the bonds.

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

Bonds

- Some candidates struggled to compute the appropriate effective interest rate relating to the bonds issued because the cost to issue the bonds were often omitted.
- Candidates often could not differentiate the accounting interest expense to the cash-flow payment. As a result, candidates incorrectly used the accounting interest cost of R899 426 as the interest payment of the bond.
- Some candidates adjusted for the costs to issue the bonds under operating activities and not under financing activities.

Lease liability and right-of-use asset

- Some candidates forgot to calculate the present value using the BEGIN mode and as such the present value of the lease payments were at times incorrectly computed.
- Some candidates did not adjust the discount rate (as it relates to the dismantling provision) to a before tax discount rate.
- Candidates often forgot to unwind the interest on the dismantling provision.
- Some candidates incorrectly used the estimated useful life of the asset (ten years) to determine the depreciation expense of the right-of-use asset. The shorter of the estimated useful life (ten years) and the lease term on (three years) should have been used.
- Some candidates did not adjust for the fixed salary of the internal legal counsel in determining the initial direct costs of the lease.
- Candidates often adjusted for the cash flow related to the initial direct cost of the lease under operating activities rather than under financing or investing activities.

Distribution warehouse

- Some candidates incorrectly included the abnormal costs as part of the cost of the distribution warehouse.
- Many candidates struggled with the forex loss on the loan. Many candidates did not capitalise the forex loss incurred on the interest payable as per IAS 23.6e.
- As it relates to the impairment loss, many candidates incorrectly calculated the carrying amount of the distribution warehouse.

- Some candidates did not show their calculations for the impairment loss, which resulted in them losing out on some marks.

Dividends received

- Many candidates correctly added the dividend under cash flow from operating activities. However, candidates would forget to subtract the dividends under cash flow from operations (as an adjustment).

Interest paid

- While candidates could correctly calculate the interest paid on the foreign loan, they omitted to include this amount on the face of the statement of cash flows.

Taxation paid

- Some candidates incorrectly included the deferred taxation expense in the computation of the taxation paid.

PAPER 3 PART II

Maximum mark	Average mark	Percentage passes	Percentage fails
50	26	62%	38%

1 General comments on the degree of difficulty of the question

Overall, the paper was assessed as moderate and the mark allocation was structured in such a way that a candidate could easily pass the question. This was mainly due to many available marks. As expected, candidates did well in required (b) and (d), but fell short in requireds (c), (e) and (f).

2 Feedback on the candidate responses

Exam technique

- Candidates did not always apply the information of the scenario in the answering of the required. Some candidates provided generic theoretical responses without sufficient application to the scenario or struggled to apply the theory from the standards to the scenario, i.e. rewriting the scenario with no link to the theory.
- Some candidates “over-wrote”, giving lengthy responses and explanations and thus affecting their time management for other requireds.
- Appropriate wording of candidate responses (concerns, recommendations, procedures, etc.) remains a concern.
- Some candidates confused the terms “auditing expert” and “component auditor” and answered in terms of ISA 620R for part (b) and then ISA 600 for part (c). That is, some answered required (c) as though GM were experts in the audit of Letsopa, not the component auditors.
- Candidates who failed to structure their answer for part (f) lost out on some easy marks and could have wasted time by addressing each expense individually instead of dealing with both of them together.

Time management

- Part (b) only counted 8 marks, but some candidates wrote pages of information. The same for part (c) which only counted 6 marks.
- Many candidates also did not attempt part (e) and (f), which was mostly a clear indication that candidates overspent their time on the accounting or the auditing questions.
- A number of candidates did not complete all the required parts for this question and some of those who completed all the required questions, seemed to have rushed some parts in order to complete everything, missing valuable marks.

Communication

Most candidates were able to express themselves properly and communicate accordingly.

Layout, structure and presentation

- Although a table format was not required in part (d) in the form of weaknesses in one column and recommendations in another, it was easier to mark the papers of those candidates who used this type of layout / presentation than those who just wrote down the information in paragraphs or bullets.
- Numerous candidates struggled with the structure of their answers, e.g. writing down theory and then applying it (or the other way around).
- In some cases it was clear that candidates simply wrote down whatever came to mind, resulting in a “mess” of information.

Relevance

- Many candidates’ answers lacked application, where they failed to apply the requirements of a particular aspect to the detail provided in the scenario. This was particularly evident in parts (b), (c), (e) and (f).

Recommendations

- Numerous candidates seemed not to have read and analyse their required properly as many of the questions were not answered correctly, e.g. for part (b), many missed the fact that they first had to discuss concerns and then provide procedures, and only provided procedures.
- In part (e), many missed that they had to discuss the loan and interest in terms of s24J, and discussed it in terms of the general deduction formula of s11(a).
- Candidates need to read and analyse the required properly.

Workings (and references to workings)

- For part (e), the required stated to discuss, with supporting calculations. In some cases, candidates provided pages of calculations with limited discussion, which again indicates that candidates did not read and analyse their required properly.

3 Feedback per each required section of the part

3.1 Areas that candidates handled well

Part (b)

- The candidates performed fairly well in this question.
- They were able to identify concerns / matters that have not been performed adequately together with the relevant procedure that had to be performed to obtain sufficient and appropriate audit evidence.
- Most candidates were able to identify the concerns regarding the auditing expert’s competence, capabilities and independence that was not assessed, as well as the fact that no audit procedures were performed on the work provided by the expert.
- Most candidates were also able to provide properly worded audit procedures for these above-mentioned concerns, which would provide sufficient and appropriate audit evidence.
- Although some candidates struggled to properly discuss the relevant concerns (only identified it theoretically), they were able to provide properly worded audit procedures for the concerns that would provide sufficient and appropriate audit evidence. This contributed to them being awarded marks for this required.
- Many candidates obtained the mark for the conclusion (for indicating that duties of the audit firm had not been adequately performed).

Part (c)

- Some candidates were able to identify and discuss concerns / matters based on the response that had not been appropriately performed in terms of ISA 600R.

- Most candidates obtained the mark for the fact that the group auditor had to be involved or consider the component auditor's work, as well as consider the component auditors' "ethical requirements" and "engagement resources".
- Many candidates obtained the mark for the conclusion (for indicating that the overall response to the email was inappropriate).

Part (d)

- Most candidates performed very well in this required.
- Most candidates provided sufficient weaknesses and recommendations, and the mark team is inclined to believe that many of them allocated more of their time to it than they should have.
- Many of the candidates used their knowledge of business cycles and the general control activities applicable in answering this question, which contributed to them being awarded most of the marks.
- Most of the candidates also applied good exam technique which assisted them in obtaining marks.
- Although many of them failed to describe the "why" of the weaknesses well, the recommendations were clearly articulated.

Part (e)

- The candidates did fairly well on s24I, but they seemed to struggle with the application of s24J.

Part (f)

- Those candidates who attempted this part first (without rushing) performed well. It was clear that they were aware of how to score the easy marks, e.g. s102, conclusion, identifying the issues, etc.

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

Part (b)

- A large number of candidates struggled to apply the theory from the standard to the scenario and just regurgitated theoretical considerations directly from ISA 620.
- Some candidates tried to apply by stating the theory, but not linking or applying it properly, e.g. some would just state "only a virtual call" without further explanation about what the concern was.
- Some candidates did not address the requirements of the question and only provided audit procedures, without linking it to a matching concern / matter. This is evidence that candidates did not always read or analyse the required properly.
- Some candidates' entire response only dealt with the evaluation of the expert's work, without considering an evaluation of the expert's competence, capability, independence, and confidentiality. Or, in some cases, they only dealt with the expert's objectivity or competence, but none of the other matters.
- In general, some candidates did not always demonstrate good examination technique in terms of their abilities to properly formulate audit procedures.
- It was also noted that many candidates confused capability with competence and very few addressed the aspect of "confidentiality" of the expert.
- A number of candidates did not answer in line with the requirements of (b) and that can be attributed to an inability to handle time pressure or comprehension issues or knowledge gaps. As a result, candidates wrote what they knew. For example, some candidates answered the required from the perspective of Stephen, the audit expert. They thus answered the question of whether Stephen's approach to his work was appropriate (highlighting that Stephen did not do a proper risk assessment, etc.).
- A few candidates failed to make effective use of the SAICA handbook, while some failed to respond to the required and created their own concerns.
- Some candidates did not obtain the mark for the conclusion (for indicating that duties of the audit firm had not been adequately performed), thus missing out on an easy mark.

Part (c)

- The candidates did not perform very well in this question.
- Most candidates struggled to apply the theory from the standard to the scenario and just regurgitated theoretical considerations directly from ISA 600R, without any (or limited) application to the scenario.
- Compared to part (b), where candidates had the opportunity to also provide audit procedures, which is not the case here, this contributed to them not obtaining many marks.
- A limited number of candidates addressed the group auditor's overall responsibility of the group audit, its involvement in the component auditor's work and general communication regarding the component auditor's risk assessment process and determination of component materiality.
- A number of candidates did not answer in line with the requirements for (c) and that can be attributed to an inability to handle time pressure, comprehend issues or knowledge gaps. As a result, candidates wrote down what they knew. For example, some candidates started questioning John's conduct, backing themselves up with the SAICA Code of Professional Conduct, especially the fundamental principle of professional competence and due care.
- A number of candidates who correctly identified the issues, failed to make effective use of the SAICA handbook, possible because there was no specific reference to ISA 600R in either the scenario or the required.
- The poor performance of candidates in this part of the required could also possibly be ascribed to the fact that many candidates have not had any practical experience / exposure to group audits and the auditing planning process of consolidated financial statements. Hence, these concepts might have been challenging for candidates to grasp and understand.
- Some candidates did not obtain the mark for the conclusion (for indicating that the overall response to the email was inappropriate), which was an easy mark to obtain.

Part (d)

- Although candidates were specifically requested to compile a report to management, some candidates ignored this instruction and lost an easy communication skills mark.
- Some candidates struggled with the explanation or discussion of the weaknesses or recommendations and in some cases, the answers were very generic and short / limited and could not be awarded any marks.
- A few candidates did not understand the difference between a weakness and a risk, and ended up discussing the risks.
- Very few candidates identified the weakness and provided a recommendation for the fact that formal company policies and procedures should be followed regarding the consolidation process.
- For some candidates, there was a slight confusion as to the involvement of the group financial manager and the group chief financial officer in the consolidation reporting pack as some recommendations suggested they needed to be involved as reviewers.
- Some candidates also provided irrelevant weaknesses or recommendations, which were not clear or evident from the scenario. This indicated that candidates did not think through whether something is actually a weakness or whether a certain recommendation would actually address the provided weakness.

Part (e)

- Some candidates failed to apply the criteria in s24J to the information in the scenario. Some of the candidates could not even identify that s24J was applicable.
- Some lost marks due to focussing on calculations without properly discussing why or what they were calculating. For example, they would simply use the spot or average exchange rate to convert the interest to rand without explaining why this had to be done.
- A few candidates dealt with the interest payable from FY2022 and the translation at realisation date, although most of them dealt with the loan capital adequately.

Part (f)

- Many candidates failed to attempt this question, which might be because of time constraints.
- The application of 'in the production of income' was not well done by most candidates, as they simply repeated the

principle without adequately applying it to the facts from the scenario.

- Candidates still failed to appropriately apply s102 of the Tax Administration Act and simply stated the theory.
- Some lost time by discussing other elements of the general deduction formula, which were not an issue.
- Most candidates dealt with the two expenses separately, despite the limited number of marks available, which should have been an indication that they were supposed to combine the discussion.
- Those candidates who left this part for last, rushed through it and did not appropriately apply the case law principles to the scenario.

PROFESSIONAL PAPER 4

This paper consisted of two stand-alone questions, which dealt with the following aspects:

Question 1

- (a) Candidates had to evaluate, with reference to extract of the minutes of shareholders' meeting and information supplied by an independent company, the financial risk of a subsidiary by –
- (i) calculating five relevant financial risk ratios for both years
 - All final amounts had to be rounded to one decimal; and
 - (ii) analysing the capital structure based on the ratios calculated and concluding on the level of financial risk to which the subsidiary is exposed.
- (b) A critical evaluation of the acquisition and subsequent rebranding of a subsidiary.
- (c) A discussion of the merits and pitfalls of the two potential plans of action suggested for the subsidiary by the board of directors of the holding company.
- (d) Candidates had to discuss, with regard to the board's responsibility for good governance, the decision by the board of directors not to respond to a news article.

Question 2

- (a) Candidates had to briefly discuss whether the agreement between a company and a subsidiary contains a lease as defined in accordance with IFRS 16.
- (b) A preparation of the pro forma consolidation journal entry(entries) required to account for the intragroup lease transaction between the company and its subsidiary in the consolidated financial statements of the group for FY2023.
- Candidates were instructed to do the following:
- Ignore all forms of taxation, including VAT.
 - Ignore any non-controlling interest(s).
 - Not provide journal narrations.
 - Assume that the agreement between the two companies contains a lease, and that it should be classified as a finance lease, as defined in accordance with IFRS 16, in the separate financial statements of IGS.
- (c) A discussion, supported with calculations, of the normal tax consequences for the company of the letting of the industrial specialised machine to the subsidiary for the year of assessment ended 31 December 2023.
- Candidates did not have to discuss the related legal fees.
- (d) A calculation, supported with brief reasons, of the impact of solar systems service technicians learnership agreements on the taxable income of the company for the year of assessment ended 31 December 2023.

Five communication skills marks were available for this paper. These marks were clearly and separately stated in the 'required' sections of each part.

PAPER 4 QUESTION 1

Maximum mark	Average mark	Percentage passes	Percentage fails
50	22	35%	65%

1 General comments on the degree of difficulty of the question

The difficulty level of the question was raised due to the number of marks allocated to discussion (40 out of the 50 marks). Providers also recognised that candidates would likely struggle with this question due to this large number of marks that were allocated to applied discussion in parts (b) and (c). These sections required candidates to think on their feet and most providers agreed that these sections were difficult. One of the providers mentioned that candidates did not have the necessary practical experience and would answer from a theoretical mindset.

Overall this question was moderate to difficult. The overall breakdown was as follows:

Part (a) moderate

Part (b) and (c) moderate to difficult

Part (d) difficult.

Required (b) stretched candidates somewhat since they needed to understand both the South African and Nigerian markets, the business models of both entities, the product offering and respective target markets, as well as the store format and distribution channels of both entities in order to be able to attempt this question. However, the scenario was very rich and had a great deal of content to work with. Candidates needed to apply the points, and not just reiterate facts from the scenario. Capping the marks at 10 for part (b) reduced the level of difficulty of this part of the question.

The level of difficulty of this question was increased by the discussion of 18 marks for required (c) (candidates are typically stretched when a discussion creeps beyond ten marks). The required referred to the two plans, where merits and pitfalls needed to be provided. The section on plans was very brief, and candidates needed to draw from the rest of the scenario for application to the two scenarios.

The discursive parts did have many available marks, affording candidates the opportunity to accumulate sufficient marks to pass the question. However, the high mark allocation for discussion-type questions meant that candidates were not able to pass by simply regurgitating previously seen solutions to similar types of questions. This is appropriate as it requires a deeper level of understanding of the issues and considerations, which is good from a practical perspective.

2 Feedback on the candidate responses

Time management

- Numerous candidates did not attempt the last section (section (d)) of question 1.
- It seemed as if many candidates attempted question 2 of paper 4 first and wrote too much for this question 2, without leaving sufficient time for question 1.

Layout, structure and presentation

- This was particularly relevant to section (c) where candidates were required to discuss the merits and pitfalls of the two options that were presented.
- Most candidates did structure their responses in this way.

Relevance

- Candidates' answers often lacked application.
- Candidates who did well in question 1 were those who were able to apply the information that was provided in the

scenario instead of merely copying the information from the scenario to their responses. However, very few candidates succeeded in doing this.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)(i)

- Candidates did address financial risk and most candidates managed to calculate five ratios as required.
- Candidates in general did well in calculating the debt equity and debt ratios.
- Some candidates managed to calculate the interest cover ratios, and a few also gearing ratio.

Part (a)(ii)

- This question was not answered well, but most candidates did conclude on the financial risk of the company.
- Some candidates managed to relate the increase in debt to the exposure to financial risk.

Part (b)

- Candidates managed to recognise the issues in the scenario that were pertinent to the evaluation of the acquisition and subsequent rebranding.
- Candidates also did well in addressing both the acquisition and the rebranding.
- Candidates generally identified the different markets of the company and the acquiree, and that the strategy therefore did not match. They did not necessarily manage to acquire all of the marks, but did identify the issues.
- They also generally correctly identified that the loyal customers would leave, and that the cancelling of suppliers' contracts was a negative from a reputational perspective.
- Generally the attempts here were not too bad for a relatively difficult required, but the fact that it was appropriately limited to only ten marks made it a bit easier.

Part (c)

- Most candidates structured their responses well and addressed both the merits and pitfalls under both options.
- Candidates generally managed to identify the lack of alignment with the strategy of the company, and the impacts on the company (hampering growth, more time to spend on South African operations, funds to spend on other areas of growth).
- They also identified foreign exchange effects (not all, but some), and also identified points on option 2, developing the online system, where it was conceptually easier to find points.

Part (d)

- Some students managed to spot what was actually required.
- Most identified that transparency with shareholders/and or stakeholders was lacking, hence that it might have an impact on the company's reputation.
- A selected few also recognised that risk management procedures to respond to such should be in place.

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

Part (a)(i)

- The average for part (a)(i), which was the calculation of the ratios, was a disappointing 43,6%.
- Some candidates failed to calculate the five ratios that were required and struggled to identify ratios other than debt ratio, debt to equity ratio and interest cover. The rest of the ratios were very seldom calculated by candidates.
- Furthermore, irrelevant ratios were included in the calculations, such as profitability and liquidity ratios. In many cases this section was a dump of irrelevant ratio calculations. Most candidates only scored four marks on this section.
- The net effect was that average candidates in general were limited to receiving a mere four marks here, with better

candidates scoring eight or more.

- The problem was that this was supposed to be the easiest part of the question, as the calculation of ratios would normally be the easier marks. However, in this case candidates received an average of 4/10.
- The question mentioned the “financial risk” as opposed to the finance risk. This was potentially confusing to some candidates who assumed financial included profitability. This was evident from the fact that many candidates calculated profitability ratios.

Part (a)(ii)

- The average for the discussion of the ratios was 38,7%, which showed that candidates generally failed to discuss the ratios as required in part (a) (ii).
- They mentioned that ratios increased or decreased but failed to link what they saw in the ratios to financial risk. Therefore, there was no application in the discussion.
- Furthermore, candidates performed poorly where they had few ratios as a knock-on effect from (a)(i), with most only being able to comment on debt and interest cover, with some getting a conclusion.
- Few candidates achieved all four marks, as a knock-on effect from the previous section.

Part (b)

- The average for part (b) was 53,6% (without including the communication mark).
- Candidates did manage to point out the issues, but failed to apply the information. In most cases candidates merely repeated information that was provided in the scenario.
- Candidates also provided a wide discussion instead of focussing on the pertinent issues (of which there were many).
- Many candidates commented on the overall issues within the Nigerian economy, GDP, interest rates, inflation, etc. which were not necessarily required. These candidates tended to perform poorly.
- The scope was only the acquisition and the subsequent rebranding, and the broader discussion was therefore not required or earned marks.
- Candidates should read the required carefully to ensure that they understand the scope of the required.
- The required was unusual because it asked candidates to comment on an acquisition that had happened in the past. Generally, questions ask about a prospective transaction. This may have created some consternation for candidates.

Part (c)

- The average for part (b) was 45,7% (without including the communication mark).
- As in part (b) candidates did manage to recognise the issues, but again failed to apply the information. Candidates merely repeated information that was provided in the scenario. The required referred to the two plans, where merits and pitfalls needed to be provided. The plans section was very brief, and candidates needed to draw from the rest of the scenario to apply to the two scenarios.
- The scenario was very rich and had a great deal of content to work with. However, candidates needed to apply the points, and not just quote from the scenario. Many candidates battled with application.
- Candidates generally struggled to apply the economic and country impacts on the company to the required consistently, therefore only receiving a few of the many available marks.
- Candidates battled to get enough points for the required of 18 marks. Candidate that performed ‘well’ received about 12 marks whereas average candidates received less than nine marks, even though they showed ability on the task.

Part (d)

- The corporate governance task was poorly attempted with an average mark of 30,6%.
- Candidates clearly were confused by the required, and in general failed to demonstrate any form of structure. On average, candidates received only two marks.
- The required was considered to be difficult, as it related to an area of King IV that is not normally examined, relating to reputation, transparency, and risk management.
- The mark plan did not deal with the Code of Professional Conduct or APA, or even Companies Act that candidates

could refer to.

- Candidates fell into the trap of addressing the consequences / impact of managements action as opposed to addressing the non-response to the article. ‘
- Many candidates also used King IV, without application, which did not earn them any marks.

PAPER 4 QUESTION 2

Maximum mark	Average mark	Percentage passes	Percentage fails
50	28	69%	31%

1 General comments on the degree of difficulty of the question

The scenario was only two pages long, for a 50-mark question, and candidates would have had more than enough reading time to read through the scenario. Key information was provided in a clear and concise manner with some information provided in bullet points.

The tax principles included are practical and relevant, but also basic and fundamental.

Overall, the question was considered to be moderately difficult. Although parts (b) and (c) might have been challenging, the question was well balanced with a good distribution of easy, moderate and difficult marks, allowing candidates sufficient opportunity to demonstrate their abilities in this question.

2 Feedback on the candidate responses

- Candidates who performed well in question 2 were those who were able to plan their answers, were able to apply the relevant IFRS and tax law principles to the facts from the scenario, clearly showed and cross-referenced their calculations and kept to the allocated time per required section.
- Candidates generally did well in parts (a) and (d). That being said, some candidates' answers lacked application and they failed to apply the requirements of the IFRS 16 definition of a lease to the detail provided in the scenario.
- Furthermore, in part (b) some candidates could not demonstrate their understanding of an inter-company lease transaction.
- In parts (b) and (c) many candidates failed to identify that the 2023 financial year was the second year of the lease.
- Most candidates failed to demonstrate a clear and logical understanding of the VAT and normal tax consequences for the lessor in parts (c).
- Many candidates did not show or cross-reference their workings.
- It is strongly suggested that candidates work on improving their handwriting and practice cross-referencing and to show calculations clearly so as to apply appropriate exam technique under exam conditions.

3 Feedback per each required section of the question

3.1 Areas that candidates handled well

Part (a)

- Most candidates handled this part well.
- Candidates who performed well in this part were those who were able to plan their answers, were able to identify the definition of a lease and were able to apply the components of the lease definition to the facts from the scenario.
- Candidates who scored good marks were those who applied all the components of the definition of a lease and focussed on the easy application first.

Part (b)

- In general, many candidates were able to illustrate a basic understanding of lessee accounting and were able to calculate the interest implicit in the lease, the cost of the right-of-use asset and the finance cost.
- Candidates seemed more proficient in lessee accounting than lessor accounting.
- Many candidates were able to calculate the depreciation of the related assets.

Part (c)

- Most candidates were able to identify that the rentals received would be included into gross income and that the lessor would be entitled to capital allowances.
- Candidates correctly identified that the capital allowances would be claimed on the cost exclusive of VAT.
- Furthermore, candidates were able to identify that the lessor was a small business corporation and could calculate the allowances that could be claimed either in terms of s12E or s11(e).

Part (d)

- Most candidates performed well in this part.
- Candidates generally substantiated amounts with a reason.
- Most candidates identified the s11(a) deductions on the salary and training costs as well as the s12H learnership allowances.
- Most candidates were also able to identify that increased deductions available for a disabled learner.

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

- Candidates who struggled in this part were those who merely dumped the theory and failed to apply the facts from the scenario to the appropriate theory.
- These candidates then also failed to conclude on the application of the components of the lease definition.
- Candidates should realise that rewriting the scenario without context is not application. Application requires the clear linking of the relevant information in the scenario to the relevant parts of the theory.

Part (b)

- Many candidates failed to identify that the lease was entered into at the beginning of the prior year and that pro forma journal entries had to be provided for a two-year period.
- Candidates would have benefited from drawing up a timeline to identify that they were in the second year of the lease.
- In general, many candidates struggled to illustrate a basic understanding of lessor accounting.
- Many candidates failed to eliminate the year-end balances and only eliminated the amounts recognised at inception of the lease.
- Candidates also struggled to demonstrate their understanding of the treatment of the initial direct cost incurred by the lessor and lessee.
- In many instances candidates lacked an understanding of basic consolidation knowledge in terms of what pro forma journals are. Many candidates included "Bank" in their pro forma journal entries.
- A notable number of candidates displayed poor exam technique by first preparing the journals in the separate financial statements in detail in support of their pro forma journals – this was excessive and inefficient as it was not required.
- Many candidates ignored the compounding of interest and failed to demonstrate an understanding of time value of money.

Part (c)

- Many candidates failed to address the VAT consequences for the lessor on the rental income received.
- Candidates displayed a clear lack of understanding of the VAT principles relating to the value and time of supply principles relating to an instalment credit agreement.

- In addition, often candidates merely provided calculations with limited to no discussions.
- The required in this case was clear that candidates had to discuss, and that the discussion was to be supported with calculations.
- In some cases candidates failed to identify that as the asset was leased, the s12E(1A) allowance would be claimed instead of the full cost in terms of s12E(1).

Part (d)

- While most candidates did well in this part, some candidates failed to identify that the learnership was only entered into on 1 October 2023 and therefore the s12H could only be claimed for 3/12 months in terms of s12H.
- In addition while most candidates identified that the training fees were a prepaid expense and that s23H would limit the deduction, many candidates failed to apply the provisos to s23H(1) and instead merely just stated the principles of the section.