

MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
NOVEMBER 2020

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 November 2020. 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 chosen, 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 November 2020;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC November 2020; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC NOVEMBER 2020

	% Pass	Passed	Failed	Total
All candidates	22%	441	1 583	2 024

Average marks per question (all candidates)

	Part I	Part II	Total
Paper 1			
Total marks	38	62	100
Average marks	17,23	34,88	52,11
	Part I	Part II	Total
Paper 2			
Total marks	63	37	100
Average marks	25,74	13,70	39,45
	Question 1	Question 2	Total
Paper 3			
Total marks	55	45	100
Average marks	27,45	20,83	48,28
	Part I	Part II	Total
Paper 4			
Total marks	57	43	100
Average marks	22,30	17,95	40,25

More detailed statistics can be found on the SAICA website at www.saica.co.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 Initial Professional Development Committee (IPD 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 or public practice or from academics.

Academics or former academics are also involved in reviewing exam questions in each of the core subject areas. 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, two 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. An alphabetical list of all the people involved in various roles, including members of the ITC Examco, question composers, subject specific reviewers and external examination sitters, is as follows:

Alutha Nightingale	Frans Prinsloo	Mandi Olivier
Andrew van der Burgh	Gary Swartz	Marielienne Janeke
Brendan Smith	Giel Pieterse	Neo Thoothe
Brett McIntyre	Goolam Modack	Piet Nel
Carli Jonker	Greg Beech	Reghardt Dippenaar
Carmen Westermeyer	Helouise Burger	Rikus de Villiers
Carmen Wright	Herman van Dyk	Ropiwa Sithubi
Dale McGregor	Jack Jonck	Ross Peasey
Dana Nathan	Jackie Viljoen	Shelly Nelson
Dannielle Cerbone	Jacobus Rossouw	Stéfani Coetzee
Denise Mare	Janine Claassens	Thembi Kganane
Depika Singh	Johann Steyn	Veryl Mulder
Desiree Coopsamy	Leon Coopsamy	Zani Labuschagne

Eihorere Wesigye
Ferdinand Mokete
Francois van den Berg

Linda van Heerden
Lisa Vidulich
Makhosazane Luthuli

Zwelodumo Mabhoza
Zuleka Jasper

2 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.

3 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, who are on the whole equally capable of marking both English and Afrikaans scripts. 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 solutions and mark plans.

Marking of the ITC November 2020 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 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.

4 Adjudication

Adjudication is a process during which the IPD 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 or translation; and
- Any other problems that may have been encountered relating to the examination.

The members of the IPD 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 IPD 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.

It is important to note that no person from the academe who is a member of SAICA's IPD 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.

5 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 IPD 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 mark 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 IPD 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 NOVEMBER 2020

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	Tax	Management decision making and control	Ethics	Communication
Required ranges in terms of the SAICA guidelines (2013 onwards)	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	Tax	Management accounting and finance	Ethics (incl CoPC)	Communication	Total
P1 Part I				37			1	38
P1 Part II	30				28		4	62
P2 Part I		24			36		3	63
P2 part II			35				2	37
P3 Q1	30			15		8	2	55
P3 Q2		15	12			15	3	45
P4 Part I	40			15			2	57
P4 Part II			40			16	3	43
TOTAL	100	39	84	67	64	26	20	400
% of TOTAL	25%	10%	21%	17%	16%	7%	5%	100%

3 Overall comments on the papers

The November 2020 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 two parts, the first dealing with **taxation** and the second with **accounting and external reporting** and **management accounting and finance**. Both parts had sections on ethics.

Part I dealt with the tax consequences for the purchase of shares in another company, the calculation of taxable income and a discussion on whether an amount spent to rebuild a wall that was unstable due to damage caused by the tractor hitting it would be deductible by the company.

Most universities considered part I of the paper to be fair, and of a moderate and medium level of difficulty. However, the difficulty level was increased by the significant integration with financial accounting and management accounting and finance. A further factor contributing to the difficulty level was that candidates had to appropriately identify the various transactions, and in some cases link the transactions in terms of roll-over relief and then to address the tax consequences fully.

It was considered to be a well-constructed paper that set out the information in a logical manner, with an appropriate balance between discursive and calculation types of questions. This combination and the case study approach ensured that various competencies were tested in a number of disciplines. Candidates had to combine theoretical knowledge with practical training and apply it to a real-life scenario, like those that they would face in practice. The question tested a wide variety of provisions, including important and frequently used sections of the Income Tax Act and VAT, with a good integration between the two.

Part II of paper 1 tested fundamental principles in asset standards with which candidates should have been very familiar. However, the information was not presented in the standard format, which might have resulted in candidates struggling to identify the principles that were being tested. This part covered accounting for the construction of property, plant and equipment (PPE), impairment and de-recognition of PPE in terms of IAS 36 and IAS 16, recognition of an internally generated intangible asset in terms of IAS 38 and capital budgeting decision making.

Most universities considered part II to have a medium level of difficulty, but the extent of integration of taxation, accounting and financial management, and particularly of costing into capital budgeting with a net present value calculation, raised the difficulty level. There was a good integration of value-added tax and management accounting and finance into the net present value aspects.

Candidates are usually comfortable with property, plant and equipment and this question was therefore considered to be a good way to start the ITC. However, candidates may have missed that there is an investment property and the capitalisation of depreciation of the investment property to a factory building which was not yet completed, increased the level of complexity. The section on impairment was considered to be fair, although it did require in-depth thought for some sections. The financial accounting sections (parts (d) to (f)) were well balanced between requirements for journal entries and critical assessment of pertinent accounting issues. The latter required candidates to communicate their thought process because marks were awarded for the provision of reasons, which introduced a discursive aspect to a quantitative analysis. Most universities commended the integration of long-term and short-term decision-making principles.

Paper 2 consisted of two parts, the first dealing with **risk management and governance** and **management accounting and finance** and the second with **audit and assurance**. The scenario was based on a mining company, an industry which is generally excluded from SAICA's framework, and which was unexpected. There was a good mix of calculations and discussion set in a relevant current economic environment, relating to the difficulties and challenges

caused by the Covid-19 pandemic. It was a question that dealt with relevant real-world issues and the challenges that commercial businesses face. The paper was well structured, easy to read and the issues were clearly identifiable. There was a good integration between auditing and assurance, financial management and management decision making and control. The universities considered this to be a good question, with robust solutions.

Part I of paper 2 required a critical evaluation of cash flow forecasts, free cash flow to operations, a description of actions required to address high gearing levels, and a provision of business risks and mitigating strategies. It required a conceptual understanding of and critical thinking regarding budgeting and forecasts. The calculations were on the whole considered to be fair, while most universities considered this part in general to be of medium difficulty, with some of the required sections considered to be difficult and challenging.

Part (a) tested a wide range of competencies in financial management as well as management decision making and control and critical thinking skills, such as questioning forecasts in an uncertain environment. The free cash flow valuation (part (b) was considered to be relatively straightforward, although the difficulty level was increased by the use of a cash flow statement for the provision of the information. It assessed basic valuation principles but also required a higher-level understanding of valuations. Part (c) was considered to be moderately difficult, and required a fair knowledge of strategy, risk management and valuations. The working capital requirement tested whether candidates understood the operational issues that are conveyed by typical liquidity ratios. Part (d) tested a range of business risks that required relevant and practical responses.

Part II of paper 2 contained a good integration between the impact of going concern issues on audit planning and audit procedures for estimates. Various areas within assurance were assessed, including obtaining audit evidence on the appropriateness of using the going concern basis of accounting for the preparation of annual financial statements, test of controls on a salaries and wages cycle, and the provision of substantive audit procedures regarding an occupational health obligation. The going concern issues were considered to be particularly relevant to the present, topical South African aspects.

Some of the required sections encouraged candidates to apply thought and application, rather than merely reciting learnt 'checklists' of auditing procedures, because they were structured in a slightly different way. This challenged candidates, because it required application rather than theoretical knowledge. Particularly part (f) required critical application, and was an assessment of candidates' ability to review the workpapers, as opposed to only providing audit procedures.

There was an appropriate balance between test of controls and substantive procedures and a good coverage of topics, and the information was clearly presented in separate working papers. The universities commented that candidates generally struggle with controls and substantive questions, especially when they need to criticise it. The level of difficulty was elevated by the fact that many of the sections required discussion, which takes more time to answer. However, there were a large number of available marks, which would have compensated for this.

Paper 3 consisted of two questions. The first dealt with **accounting and external reporting, taxation** and a section on **ethics**. The second question dealt with **audit and assurance, strategy, risk management and governance, audit and assurance** and a large section devoted to **ethics**.

Question 1 of paper 3 contained a natural integration between tax and financial accounting as well as with auditing. It dealt with current income tax and deferred tax, corporate taxation, correcting journal entries relating to tax, a tax rate reconciliation (rand method), IAS 12, as well as ethical issues stemming from tax saving ideas. The universities considered the question to be difficult, due to the fact that candidates had to consider tax and financial accounting separately before they could turn to applications. Overall it was considered to be a good paper that integrated income tax principles, consolidations principles (with an associate) and various IFRS standards.

The question assessed candidates' understanding and insight and their ability to apply their knowledge of both basic principles and technical aspects with regard to accounting and taxation. The question required the integration of IAS 12 as a pervasive topic together with some of the latest amendments to the Income Tax Act. It included appropriate coverage of exemption provisions, specific deductions, capital allowances and capital gains tax and tested important sections of the tax syllabus. Candidates were required to demonstrate their competence in financial reporting by displaying an understanding of taxation legislation.

Although VAT could be ignored, which lowered the level of difficulty of the tax component of the question, the universities were of the opinion that candidates were likely to struggle with tax rate reconciliations and deferred tax. The tax rate reconciliation, in which candidates had to consider the share of profit of an associate, increased the level of difficulty. The more complicated parts of the question included accounting for the investment in a foreign associate and treatment of related tax adjustments. Most universities were of the opinion that this paper required a fairly high level of technical proficiency from the candidates, as well as critical thinking and/or problem-solving skills.

The ethics section was considered to be relatively easy, with the relevant sections of the SAICA Code of Professional Conduct being easy to identify. It tested the responsibilities of a junior audit trainee with regard to topical content such as tax havens and aggressive tax avoidance schemes.

Question 2 of paper 3 dealt with test of controls to evaluate operating effectiveness of controls over the system for revenue, aspects of a proposed merger: whether it was a beneficial strategy, the calculation of the impact on the expected profitability and the expansion of the firm's audit client base, as well as ethical concerns. Most universities agreed that this was a very fair question and not particularly challenging. However, the open-endedness of some of the required sections, particularly ethics, posed more of a challenge. The questions succeeded in integrating strategy, mergers and ethics in an interesting manner, by setting the scenario in an audit firm. The inclusion of mergers and acquisitions was applauded, particularly with regard to the requirement on a discussion of the strategic implications of mergers.

Most universities felt the use of an auditing firm in the case study, rather than the usual public or private company, was well thought through and considered it to be practical and relevant. A challenging aspect was that candidates needed to realise that it related to costing and had to be answered on an incremental basis. The universities on the whole agreed that if candidates applied basic principles, they should fare well in both the technical and conceptual required sections.

Paper 4 was an integrated question, consisting of two parts. The first concerned **accounting and external reporting** and **taxation**, while the second dealt with **audit and assurance**, with a large section devoted to **ethics**.

There was a high level of integration, which elevated the difficulty level of the question. Although most of the information was presented in separate sections, candidates would nevertheless have had to analyse the entire scenario to identify all the information needed for the different required sections.

Part I of paper 4 dealt with financial reporting disclosures (a discussion of the accuracy and completeness of a note on interest in an associate in accordance with IFRSs); measurement and recognition (how a company should recognise and measure shares issued in partial settlement of the acquisition of a 35% interest in another company); and consolidations (pro forma journal entries to account for an investment in consolidated financial statements). There was also a taxation component relating to estate duty payable.

The Accounting and External Reporting section of this part was considered to be of a moderate level of difficulty and a fair assessment of candidates' knowledge of equity and consolidations. The information was presented by means of intercompany transactions, such as a note on related parties, and candidates had to evaluate the investment in an associate to be able to answer the required on a consolidating journal entry.

The testing of the reconciliation per IFRS 12.B14(b) was very specific and elevated the level of difficulty of the disclosure portion of the financial reporting aspects. The level of difficulty was also increased by the discussion of the disclosure requirements, having to correct an incorrect note and having to provide the accounting treatment of the contingent consideration. The latter required candidates to understand the economic implications of the share transfer and contingent consideration and link this to IAS 32. There was a good mix between calculations, journal entries and theory.

The tax requirement was limited in scope and considered by most universities to be at a fair to easy level. The section dealt with estate duty and did test the more intricate aspects of the definition of property and exclusions, relating to the bare dominium in a farm in the Free State and an outstanding bond on a flat in Australia. Almost all information that was needed to answer this aspect was outlined clearly on one page of the scenario, which contributed to the assessment of it being fairly easy. It tested the interaction between section 9HA and section 25, and required a clear understanding and differentiation between a deceased estate as a person and the income tax calculation on the date of the death of the individual.

Part II of paper 4 dealt with auditing and assurance and was considered to be moderate to difficult by most universities. The areas covered included the risk of material misstatement in a consolidation process (a description of the fraud and/or errors that could occur) and in related party transactions and balances (a description of presentation and disclosure in the holding company's separate financial statements) and substantive procedures on a management fee earned from a subsidiary company. It also dealt with concerns that arose from an email sent to a component auditor by the group auditor and the impact that the control deficiencies reported by the former would have on the nature of the further audit procedures that the group auditor should undertake on consolidated annual financial statements.

The scenario contained a good integration between accounting and auditing topics, and was based on a group of companies with subsidiaries in various industries. It focused on relevant topics relating to aspects occurring in industry in the present day. However, it contained intricate details that needed to be interpreted and absorbed, and the difficulty level was increased because candidates would not have been able to relate easily to the industry. Nevertheless, there was a number of general answer points, which would have reduced the level of difficulty. This question tested risk assessment relating to the consolidation process and specifically an acquisition. The group scenario tested candidates' understanding of ISA600. Many universities were of the opinion that good exam technique would be essential to separate the elements and address them correctly, and it tested candidates' ability to work through and analyse the scenario.

4 General comments

From a review of candidates' answers to the eight required sections for the ITC November 2020 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 did 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 Accounts 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.

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 did ensure that candidates who wrote answers in the incorrect book were 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 did not address what was required by the questions and, for example, provided a discussion where calculations were 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 was that candidates did 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 an integrated question with two required sections that dealt with the following aspects:

Part I

- (a) A discussion of the tax consequences of a purchase of shares in a company situated next to a new factory for a year of assessment.
- (b) A calculation of the taxable income of the company for the year of assessment, based on all the available information provided in certain sections of the scenario.
- (c) A discussion on whether the amount spent to rebuild a section of a wall damaged in a fire would be deductible for normal tax purposes in respect of the company's year of assessment.

Part II

- (d) The provision of the journal entries to account for the construction of a new factory in the financial statements of the company for a financial year. No journal entries for current or deferred tax or closing entries needed to be provided and journal dates and narrations were not required.
- (e) A critical discussion, with reference to International Financial Reporting Standards, of the statement made by management to the effect that no impairment was required on a factory destroyed by a fire, as the insurance sufficiently covered the loss. The discussion had to be supported with calculations, where relevant.
- (f) Candidates had to determine, with reference to IAS 38 *Intangible Assets*, whether and from which date any expenditure on a new product would qualify for capitalisation as an intangible asset in the company's financial statements. Candidates did not have to discuss the definition of an intangible asset.
- (g) A calculation, for a trial production period only, of whether the company should produce a new product in-house or outsource it. A reason had to be provided for any cash flows that candidates deemed to be irrelevant. Candidates had to assume that any cash flows resulting from income tax would arise in the same period as the underlying taxable income or tax-deductible expense.

Five presentation 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	Marks > 50% (pass)	Marks < 50% (fail)
38	17,23	847 (41,85%)	1 177 (58,15%)

1 What general areas the question covered

Part (a)

This part dealt with a discussion of the tax consequences of obtaining a loan to finance the acquisition of a controlling interest in an operating company and entering into a lease agreement to lease a storage facility. Candidates had to discuss the normal tax, value-added tax and securities transfer tax implications. The question covered the following legislative aspects:

- Income Tax Act: s 11(a); s 23(f); s 24J(2); s 24O; par 20 of the Eighth Schedule.
- Tax Administration Act: s 102.

- Value-Added Tax Act: s 2 and s 12.
- Securities Transfer Tax Act: s 6(2).

Part (b)

This section covered the calculation of the taxable income of a company. Candidates were given a figure for taxable income that had to be their starting point, and they then had to adjust it for the normal tax implications of various transactions that had not yet been taken into account. These adjustments mainly related to the following aspects:

- Capital allowances on manufacturing buildings (s 13(1));
- Indemnity payment received and the replacement of one factory building with another (s 8(8) of the VAT Act and s8(4)(a) and a s13(3) recoupment with its relating capital gains tax (CGT) consequences in the Income Tax Act);
- The capital allowance on manufacturing machinery (s12C);
- FA scrapping allowance and CGT;
- Consequences on manufacturing machinery (s11(o) with its relating CGT consequences);
- Capital allowance on residential units (s13sex);
- Deductibility of fines (s23(o));
- Rental income received (s1, gross income);
- Rental paid (s11(a) and VAT consequences of an 'instalment credit agreement'); and
- Interest paid to finance the acquisition of equity shares (s24O and s24J(2)).

Part (c)

In the third required section candidates had to discuss the tax deductibility of an expenditure incurred to rebuild a damaged wall of a factory building. They had to distinguish between a repair cost and an improvement and had to identify and discuss the normal tax treatment of a repair expense to be specifically deducted in terms of section 11(d) of the Income Tax Act.

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

Part (a)

Candidates did not indicate that the general deduction formula (s11(a) read with s23(g)) would have to be considered for the deductibility of any expense that does not fall into the provisions of a specific deduction provision. The taxpayer's onus to prove amounts are deductible (s102 of the Tax Administration Act) was seldom considered

Candidates struggled to correctly identify s24O. Those who did identify it, struggled to clearly apply the information provided in the question to prove whether s24O was applicable or not. Many candidates made technically incorrect statements, such as stating that interest was deductible in terms of s24O, while s24J(2) allows the deduction of interest when s24O is fulfilled. S24O deems the interest expense to be incurred in the production of income and for the purposes of trade. There was in general a lack of integration and understanding of s24O and s24J.

Some candidates discussed S45, or s42 and s24BA in detail, demonstrating a lack of understanding of the scenario.

As the solution allowed the VAT effect to be taken into account, candidates should have discussed it in their answers. Candidates overall performed poorly in discussing the correct VAT implications of the various transactions. They had to indicate the VAT effect for a specific taxpayer supported with a reason/motivation for such VAT effect to earn a mark. Candidates sometimes only provided the VAT effect without a reason; provided the reason without indicating the actual VAT effect; or provided an incorrect VAT effect.

Some candidates either discussed the income tax implications or the VAT implications. Not a single candidate addressed the Securities Transfer Tax Act correctly.

Part (b)

It is worrisome that the majority of candidates were unable to correctly calculate a recoupment, a scrapping allowance and its related CGT consequences, which are considered to be basic tax principles. Candidates showed a lack of technical application of these allowances. Candidates are urged to use a more structured approach in their answers.

There was a lack of consideration of VAT on the Income Tax calculation (s 23C of the Income Tax Act). Candidates should always consider the VAT implications even if the information did not state it clearly, and apply it consequently.

Candidates made the following technical errors in their calculations:

- They did not identify the correct VAT rates based on the date of the transaction.
- Candidates should be able to provide the correct reason why the deduction of fines is not allowed as a deduction – thus it is not because it is not in the production of income but because s23(o) specifically prohibits the deduction.
- They showed a lack of technical knowledge, as all building allowances are not apportioned over time, and the s13 allowance is 5% not 2%. In addition, candidates referred to s13quin and only a few could apply s13(3) correctly.
- Candidates included insurance payments relating to capital assets in gross income, seemingly misunderstanding that these amounts are of a capital nature. S8(8) of the VAT Act was in general not applied.
- Candidates struggled with the fact that a recoupment calculated in terms of s8(4)(a) needs to reduce the 'proceeds' amount in the CGT calculation and that a s11(o) scrapping allowance will reduce the 'base cost' in the CGT calculation.
- Candidates should note that supply of residential accommodation is an exempt supply in terms of s12 of the VAT Act and that it will result in the full cost being used for a capital allowance in terms of s13sex of the Income Tax Act.
- Some candidates did not know that a s11(e) wear and tear allowance cannot be claimed on a capital asset that qualifies for a s12C allowance.
- Candidates should have known that a taxpayer must be an owner of an asset to be able claim a capital allowance on an asset. The leasing of an asset in terms of an ICA does not result in ownership, thus no capital allowance can be claimed but only a deduction of lease payments. The VAT on an ICA is calculated on the cost at the start of the lease agreement so the VAT that will be excluded from each lease payment is a fixed amount.

Part (c)

Although it counted only four marks, some candidates did not attempt part (c) of the required sections. This could be indicative of a serious time issue in planning their answers.

Candidates discussed s11(a) instead of identifying s11(d) as a special deduction that could be used.

Candidates failed to address the application of case law principals relating to the cost of the repair, where the taxpayer chose the higher repair cost.

3 Common mistakes made by candidates

Part (a)

Candidates' answers often lacked application (where a candidate applied the requirements of a particular provision to the detail provided in the scenario) or explanation/reason of why an amount is deductible or capital.

A number of candidates wrote information straight from the question without discussing the tax implication of the issues identified.

In a discussion question the requirements of a specific provision first need to be met by way of an application to the detail of the scenario before a conclusion can be reached. No marks can be awarded for rewriting the requirements of a provision without a practical application to the scenario.

On the interest deduction, which made up the main part of the discussion question, candidates did not discuss the deduction in the order that they should have – first s11(a), with the finding that the interest was not in the production of income and a discussion of interest deductibility in terms of s24J, then proceeding to the specific section which in certain circumstances deems interest to be in the production of income and thus justifying why the interest would be deductible. Many candidates concluded that interest was deductible in terms of s24O, despite the fact that this section only deems the interest to be in the production of income.

Candidates cannot simply indicate that a supply has no VAT implications – a reason or explanation needs to be provided: For example, they should have indicated that VAT on 'financial services' are exempt and therefore no input or output VAT will be levied.

Part (b)

Some candidates did not clearly show all calculations and struggled to indicate calculations and workings in a complete and logical manner. For example, some candidates would not indicate if an amount should be deducted or included. Other candidates would show a correct calculation but then use the wrong amount in the calculation.

Common mistakes included using the incorrect VAT rate, not including or deducting the calculated amount in the taxable income column and treating the scrapping allowance as a 'negative recoupment'.

Candidates struggled with the integration of calculations between capital allowances, its recoupment and/or scrapping allowance and its impact on CGT upon disposal/deemed disposal. This made it very difficult to follow the flow of logic in the marking process. Some candidates would for example calculate a scrapping allowance but then not add it in their tax calculation.

Part (c)

Many candidates treated the repair of the factory wall as a capital expense/improvement, or incorrectly claimed the expense in terms of the general deduction formula (s11(a)), rather than applying s11(d).

4 Areas that the candidates handled well

Part (a)

- Candidates all started their calculations with the correct amount.
- Indicating that the rental of the storage facility will be deductible in terms of s11(a) of the Income Tax Act.

- Most candidates who did include the VAT effect could correctly apply that financial services are an exempt supply.

Part (b)

- Calculation of capital allowances on the capital assets.
- Deduction of the interest expense of R85 000 and the rental for storage of R40 000 as discussed in part (a).

Part (c)

- That the cost is either a repair or an improvement.

5 Specific comments on sections of the question

Candidates who did well in part (a) are those who were able to plan their answers and break down the information into three transactions, dealing with VAT and then income tax consequences for each transaction. It was clear that planning and structuring their answers paid off for those candidates.

Part (b) was a fair question, with a balanced mix of easy, moderate and difficult calculations. Surprisingly, candidates struggled with capital allowances, the use of s13(3) instead of par. 65 of the Eighth Schedule as well as the VAT effect of the ICA. It was surprising that they also did not know which section prohibits the deduction of fines.

Part (c) only counted four marks, but some candidates wrote two pages of information, which was indicative of poor exam technique. A number of candidates did not attempt this section, which was indicative of either time issues due to poor planning or a lack of knowledge.

PAPER 1 PART II

Maximum mark	Average mark	Marks > 50% (pass)	Marks < 50% (fail)
62	34,88	1 542 (76,19%)	482 (23,81%)

1 What general areas the question covered

Paper 1, Part II dealt with a medium-sized meat supply company, Nama, operating in Stellenbosch. Its operations entailed the processing of beef and other meats. The question dealt specifically with the following financial reporting and management accounting issues:

Part (d) required candidates to provide journal entries to account for the construction of a factory building, and a fine that the company had incurred in an attempt to speed up the building process. Candidates were also required to provide the journal entries to account for the purchase of a block of flats to be used as accommodation for Nama's factory workers. Candidates needed to realise that the correct accounting treatment would be to recognise the block of flats as property, plant and equipment.

In part (e), candidates were required to critically discuss, with reference to IFRS, a statement made by management with regard to the impairment of a factory building and machinery that were destroyed in a fire. Management had stated that as the insurance pay-out for compensation of the loss of the factory sufficiently covered the loss of the factory, no impairment was required on the factory and machinery. Candidates needed to consider IAS 36 impairment principles as well as IAS 16 de-recognition principles.

Nama had researched and created a sustainable vegetable protein that looks, feels and tastes like real meat. In part (f) candidates had to determine, with reference to IAS 38, whether and from what date any expenditure on this product would qualify for capitalisation as an intangible asset in the company's financial statements. Candidates were required to consider the requirements of par. 57 of IAS 38 with regard to when an internally generated intangible asset arising from the development phase could be recognised.

In part (g) candidates had to calculate whether Nama should produce the vegetable protein in-house or outsource production to an entity that already had the required machinery and equipment to produce vast quantities of the product. Candidates were further required to provide reasons for any cash flows that were deemed to be irrelevant for their calculation. This NPV/ NPC assessment was only required for a three-year trial production period.

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

Financial reporting

In part (d) candidates failed to identify that the depreciation on the block of flats had to be capitalised to the cost of the factory building during a period when the flats were occupied by construction workers. Candidates fell short on applying themselves to the theory in parts (e) and (f). Many candidates failed to identify the issue and to correctly interpret what was required of them. This occurred despite numerous references to the appropriate standards, and candidates simply did not think a bit further to appropriately linking the IFRS theory to details/facts of the scenario. Some candidates displayed a level of confusion with regard to IAS 36 impairment principles and IAS 16 de-recognition principles.

Management accounting

Candidates with weaker management accounting knowledge and understanding struggled with part (g) of the question. Surprisingly, some candidates did not recognise that this was a question dealing with decision making. They did not consider and compare the two alternatives, and then come to a conclusion that would provide an answer to what was required of them. The basic principle of comparing alternatives did not come through from many candidates. In addition, some candidates failed to perform a capital budget, which would have indicated that they realised that this was a long-term project, and instead only prepared annual cash flows.

Candidates struggled to apply and express the correct principles as they pertain to whether a cash flow was relevant for their decision making; for example, simply stating a cost was 'irrelevant' rather than providing a reason, namely that there would be no difference between the alternatives, which made it irrelevant.

3 Common mistakes made by candidates

Theory dumping

Candidates tended to not apply themselves appropriately to the required, particularly in parts (e) and (f). There were unfortunately indications of poor communication for these two parts, with candidates failing to make an adequate link between their responses and the scenario. In many of their attempts candidates simply listed theory with minimal application to the scenario.

Lack of planning

Candidates did not plan their answers well before writing. This resulted in a lot of writing that earned no marks and simply wasted time. Candidates' inability to identify and address the issue also resulted in wasted time, with responses for which candidates received no marks.

Poor layout

Candidates struggled to perform well in part (g) if their layout was poor and they did not appropriately reference workings to calculations used in their final answer. In addition, candidates generally displayed an inability to work methodically.

Time management

Time management also seemed to be a problem, with multiple candidates not answering a required or having incomplete attempts.

4 Areas that the candidates handled well

Candidates handled part (d), which required basic IAS 16 accounting journal entries, relatively well. Candidates also showed and clearly referenced their supporting calculations.

For part (e), candidates were generally able to calculate the carrying amounts of the destroyed assets on the date of the fire.

Most candidates who attempted part (g) were able to perform the high-low calculation successfully for a determination of the variable and fixed portions of the electricity costs.

5 Specific comments on sections of the question

Part (d)

Candidates demonstrated a good knowledge in terms of preparing basic journal entries, but unfortunately most candidates did not capitalise the depreciation of the block of flats occupied by construction workers to the cost of the factory that was being constructed.

Some candidates accounted for VAT on the purchase of residential flats and the rental income earned from it, not seeming to realise that these are VAT exempt supplies.

Part (e)

Most candidates failed to identify the **impairment, insurance pay-out and replacement** as separate economic events that needed to be accounted for separately (IAS16.66).

Although information about the destroyed machine was explicitly given, some candidates missed the fact that the machinery was destroyed together with the factory and should also be impaired.

Several candidates referred to the insurance compensation as the fair value, and thus the recoverable amount of the destroyed assets. Candidates also fell short on the discussion relating to the insurance proceeds and when/how it should be recognised.

Part (f)

This part was poorly answered. Candidates provided a great deal of irrelevant information and mostly dumped theory from IAS 38, with no or minimal application. Many candidates did not identify the correct information in the scenario to be applied to the relevant indicators per IAS38.57.

Although the required specifically included an instruction to not discuss the definition of an intangible asset, several candidates did do this, which wasted time and for which they received no marks.

Part (g)

A significant number of candidates only calculated the NPC/NPV for the in-house production option and came to a conclusion based on that, without comparing the in-house production option to the outsourcing option.

The common mistakes made by candidates, relating specifically to this section, include tax cash flows not being accounted for, non-differential costs being identified as sunk costs, performing a net cash flow calculation for only a single period, disregarding inflationary increases to relevant cash flows and not using amounts calculated or using them incorrectly. In addition, several candidates did not correctly differentiate between cash inflows and outflows.

Given the challenging nature of part (g) and the overall level of integration in the question, candidates may have faced a time management issue particularly if they did not adequately prepare answers or were technically weak.

PROFESSIONAL PAPER 2

Paper 2 consisted of an integrated 100-mark question, that dealt with the following aspects:

Part I

- (a) Candidates had to critically evaluate the cash flow forecasts of a wholly-owned subsidiary that were prepared to assess the company's going concern ability.
- (b) Candidates had to perform a discounted cash flow valuation of the company's equity interest in the wholly-owned subsidiary at 30 June 2020. Candidates had to use the free cash flow to operations method, start their valuation with the 'net change in cash and cash equivalents' line item, and assume that the revenue, operating costs and working capital forecasts were reasonable.
- (c) A description of the actions the company could take to address its high gearing levels.
- (d)(i) A description of the business risks that the company was currently facing and that were evident from the scenario.
- (d)(ii) A provision of a mitigating strategy for each of the risks the candidate had described.

Part II

In this part the three required sections had to be addressed from the perspective of the candidate as a senior trainee on the team assigned to the audit of the 2020 annual financial statements of the company.

- (e) Candidates had to discuss the nature, timing and extent of the further audit procedures that the audit team should follow to obtain sufficient appropriate audit evidence about the appropriateness of the use of the going concern basis of accounting for the preparation of the company's 2020 annual financial statements.
- (f) Based on a review of two workpapers, the first a system description of a payroll system for weekly wages and the second an audit of the operating effectiveness of weekly wage controls, candidates had to criticise the appropriateness and completeness of the proposed audit procedures listed in the second workpaper.
- (g) Candidates had to provide the additional substantive audit procedures that should be performed to obtain sufficient and appropriate evidence regarding the occupational health obligation for the 2020 consolidated annual financial statements of the company, with reference to a workpaper on the audit of the obligation. Candidates had to exclude group audit procedures in terms of ISA 600.

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

PAPER 2 PART I

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
63	25,75	323 (15,96%)	1 701 (84,04%)

1 What general areas the question covered

The question was based on a company (Simunye), which was a global precious metals mining group listed on the Johannesburg Stock Exchange. The group mines a mix of metals that includes platinum group metals (PGMs) and gold, as well as related products. The group was facing liquidity issues as well as high debt levels as a result of drops in commodity prices and the adverse impact of Covid-19.

The question required candidates to critically evaluate the cash flow forecasts of a subsidiary that was prepared in order to assess the company's going concern ability; perform a discounted cash flow valuation of Simunye's equity interest in the subsidiary; describe the actions Simunye could take to address its high gearing levels; describe the business risks that Simunye was facing evident from the scenario; and provide a mitigating strategy for each of the risks that were identified.

The question tested a wide range of competencies in financial management and elements of management decision making and control as well as critical thinking skills. This was a question with a good integration of the difficulties and challenges caused by COVID-19 and therefore also relevant.

Overall, the question, including the sub-sections of the question, was well integrated, also from the perspective of integration of the different disciplines. In addition, there was a good balance between application and high-level critical thinking.

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

Candidates battled in general to answer the question but did relatively well in some of the discussion aspects.

Candidates performed poorly in particularly parts (a) and (c), because they did not provide sufficient points relevant to critically evaluate the cash flow forecasts of the subsidiary in order to assess the company's going concern ability and the actions Simunye could take to address its high gearing levels. The main issue for most candidates was their inability to apply decision making relevant to the scenario, resulting in their considering issues that were generic and not very relevant.

In parts (d)(i) and (ii) candidates identified a wealth of business risks, but unfortunately most of them were not applicable to the scenario. In addition, the candidates struggled to identify relevant mitigating factors. Although candidates on the whole achieved below average marks on this section, this was in fact the section in which they performed relatively better.

Candidates found the format of the valuation part (b), i.e. using the cash flow statement, a challenge. They found it difficult to identify which adjustments to make, starting from a prescribed starting point.

3 Common mistakes made by candidates

Communication was in many instances rather poor, with explanations not coming together into clear and well thought out answers.

The provision of generic points without applying it to the scenario was also an issue, resulting in candidates not being awarded these marks. Candidates should realise that the points they raise needed to be applied to the scenario to earn any marks.

4 Areas that the candidates handled well

Candidates appeared to manage their time well, and correctly allocated their time on the basis of the mark allocations of each section.

Marks were low across all the sections, but candidates did perform relatively better in the calculation section of part (b) and the discussion section on business risk identification in part (d(i)).

5 Specific comments on sections of the question

Candidates in general battled to answer the question but did slightly better in some of the discussion aspects of the question.

Candidates performed poorly overall in parts (a) and (c) as they struggled to address the relevant issues relating to cash-flow forecasts to assess the company's going concern ability. In part (c) candidates were not able to identify the actions that needed to be taken to address the high gearing levels. In addition, some of the candidates provided generic issues and did not adequately apply themselves to the question.

In part (b) candidates performed relatively better despite struggling to identify the correct adjustments to be made. Overall most candidates demonstrated a lack of the technical understanding of the issue at hand.

In parts (d)(i) and (ii) the candidates did not provide sufficient or applicable business risks to earn the available marks and struggled to link the relevant business risks to the appropriate mitigating strategy. The main issue for most candidates was their inability to apply decision making relevant to the scenario, with the result that they wasted time on a discussion of irrelevant issues.

PAPER 2 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
37	13,70	191 (9,44%)	1 833 (90,56%)

1 What general areas the question covered

Part II of Paper 2 covered the following topics:

Task (e): Auditing and assurance (planning – going concern): Candidates had to discuss the nature, timing and extent of further audit procedures that the audit team should follow to obtain sufficient appropriate audit evidence about the appropriateness of the use of the going concern basis of accounting for the preparation of a company's 2020 annual financial statements.

Task (f): Auditing and assurance (test of controls – salaries and wages cycle): Candidates had to review two workpapers and based on that, criticise the appropriateness and completeness of the proposed audit procedures listed in the second workpaper.

Task (g): Auditing and assurance (audit procedures – provision): Candidates had to provide the additional substantive audit procedures that should be performed to obtain sufficient and appropriate evidence regarding an occupational

health obligation for the 2020 consolidated annual financial statements of the company, with reference to a workpaper provided in the scenario.

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

Overall, candidates fell short in the following areas:

Task (e)

- Candidates were unable to effectively demonstrate their understanding of audit approaches and in which circumstances one approach is more appropriate than the other.
- A failure to demonstrate an understanding of the impact that the risk of material misstatement has on the audit approach and extent of further audit procedures that would as a result be required.
- Candidates did not know what timing of further audit procedures entail.
- There was a minimal application to the information provided in the scenario.
- Candidates often provided irrelevant information, such as the following:
 - Overall responses to address the risk of material misstatement at an overall financial statement level in the discussion of nature, timing and extent of audit procedures to obtain evidence regarding the appropriate use of the going concern assumption in the preparation of the financial statements, without applying it to the scenario.
 - Providing generic audit procedures with no application to the scenario.
 - Stating generic audit procedures, which were not relevant to the company provided in the scenario, to test the going concern assumption.

Task (f)

- Candidates failed to use all the information they were instructed to use, by either only referring to the system description or the set of test of controls to formulate their responses.
- They did not seem to know the purpose of several of the source documents used within the salaries and wages system, with candidates for example treating MAFs and the masterfile amendments logs as one and the same thing.
- Candidates criticised test of controls that were in fact appropriate and complete.
- They criticised the test of controls for not being documented per the audit assertion.
- Candidates criticised the controls (highlighting weaknesses in the controls) listed in the system description provided rather than the test of controls.
- Candidates provided recommendations to improve the internal controls, which were not required.
- They did not know the difference between test of details and test of controls.

Task (g)

- Candidates did not seem to know that there is a difference between a management expert and an auditor's expert.
- Many omitted procedures to test the initial recognition of the provision.
- There was a failure to identify that the provision had been recognised in the current financial year.
- They apparently did not know the difference between a contingent liability and a provision (IAS 37).
- Candidates failed to apply the information provided in the scenario to their responses.

3 Common mistakes made by candidates

- Candidates failed to read the required properly, leading to amongst others the following errors:
 - In task (e), some candidates centred their discussion on audit procedures to obtain evidence pertaining to the occupational healthcare obligation, which was a requirement for task (g).
 - In the case of task (f), they criticised the controls listed in the system description, while criticism pertaining to the test of controls was required.
 - For task (g), many candidates provided audit procedures to test a contingent liability, instead of procedures pertaining to the provision relating to an occupational healthcare obligation.
- Candidates tended to provide a significant amount of irrelevant information in one of the tasks, which reduced the time they had left to respond to remaining tasks.
- They did not make use of headings in discussions, for example:
 - In task (e), some candidates did not distinguish between the discussion of nature, timing and extent.
 - In task (f), some candidates did not differentiate between the functions and gave one overall response, in which they did not clearly indicate to which function in the salaries and wages system they were referring.
- Some candidate did not answer some tasks at all, which was indicative of poor time management.

4 Areas that the candidates handled well

- In task (e), candidates addressed all three aspects (nature, timing and extent) in their discussions.
- In task (g), candidates identified that an expert was used by management and therefore included relevant audit procedures pertaining to the use of such an expert. However, some candidates were confused about the difference between a management expert and an auditor's expert.
- In task (g), candidates recognised that they had to provide procedures to test the data and assumptions used in the calculation of the provision.

5 Specific comments on sections of the question

As discussed above.

PROFESSIONAL PAPER 3

Paper 3 consisted of two separate questions, each with a different scenario that dealt with the following aspects:

Question 1

- (a) With reference to the transactions regarding current and deferred tax of two pieces of machinery for FY2019, candidates had to –
 - (i) calculate the current and deferred taxation implications for a company; and
 - (ii) prepare the correcting journal entries in the accounts of that company.
- (b) A preparation of the consolidated tax reconciliation to be disclosed in the consolidated financial statements of the group of companies for FY2019 as prescribed by IAS12.81(c)(i). Comparative figures were not required and candidates did not have to calculate the consolidated tax expense separately.
- (c) A discussion of the ethical issues that a junior financial manager was facing with regard to the tax savings ideas (changing services on an invoice so that it could be deducted for tax purposes and whether the group should use an overseas tax haven) from the perspective of the SAICA Code of Professional Conduct.

Question 2

- (a) A description of the tests of controls that an audit firm should perform to evaluate the operating effectiveness of

- the controls over the revenue system for FY2020 with regard to the audit of a company.
- (b) A discussion of any ethical concerns regarding aggressive tactics to expand the firm's audit client base.
 - (c) With regard to a proposed merger with an actuarial firm –
 - (i) a critical discussion of whether the proposed merger would be a beneficial strategy for the audit firm;
 - (ii) a calculation of the impact of the proposed merger on the expected profitability per existing audit partner for a financial year; and
 - (iii) a discussion any ethical concerns that may arise as a result of the proposed merger.

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

PAPER 3 QUESTION 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
55	27,45	1 011 (49,95%)	1 013 (50,05%)

1 What general areas the question covered

Corporate taxation and IAS 12, including correcting journal entries: Part (a)(i) required candidates to calculate the current and deferred tax implications for transactions noted in the scenario. The transactions included amongst others items of property, plant and equipment that had different tax treatments, trade receivables and income received in advance and an asset disposal with CGT implications. Part (a)(ii) required candidates to prepare the correcting journal entries from the current and deferred amounts calculated in part (a)(i).

Income tax reconciliation: Part (b) required candidates to prepare a consolidated tax reconciliation note using the rand method as stipulated in IAS 12 par. 81(c)(i).

Ethics: For part (c) candidates had to discuss the ethical issues that arose in the scenario from the SAICA Code of Professional Conduct.

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

Part (a)

Candidates demonstrated a clear lack of accounting and tax knowledge which was exacerbated by the fact that these two disciplines were incorporated into a deferred tax and current tax requirement. Candidates failed to demonstrate an understanding of the difference between deferred tax and current tax, as well as the difference between non-taxable/non-deductible and temporary differences, while some candidates would discuss the income tax and deferred tax consequences without providing any calculations. Candidates wasted valuable time by using both the SFP method, as prescribed by IAS 12, and the profit and loss approach to calculate deferred tax (which resulted in the same answer).

Candidates lacked the necessary deferred tax knowledge and they struggled to calculate tax bases for items such as the expected credit loss allowance and failed to identify items that were exempt from deferred tax.

Some candidates did not show the total effects of the implications, and therefore lost out on easy marks that would have been obtained from totalling amounts and multiplying by 28%.

Part (b)

Candidates showed a lack of understanding of the structure of a tax reconciliation note. Many candidates included items such as other comprehensive income (OCI) and temporary differences in the note, which was incorrect, as the note should only include non-deductible/non-taxable and non-OCI differences. Some candidates included some amounts at 28% and some at 100%, indicating a lack of awareness and understanding of a tax reconciliation note.

A worrying number of candidates ignored the impact of the foreign associate on the tax reconciliation. Some candidates performed the calculations of the associate, but they then failed to include the amount of the computed share of profit from the associate in the tax reconciliation note. Some candidates incorrectly included the intercompany dividend received from the associate and the foreign currency translation reserve as reconciling amounts in the note.

Part (c)

Some candidates did a theory dump by quoting the Code of Professional Conduct and not applying the principles to the scenario, while others candidates included references to the Companies Act which did not earn them any marks within the context of the requirement.

3 Common mistakes made by candidates

In some cases, the candidates' layout of the answers was poor. Candidates often confused the direction of adjustments, resulting in an unnecessary loss of marks.

Candidates seemed to juggle between the two methods (i.e. profit and loss method and the SFP method), which negatively impacted on their ability to complete the remaining parts of the question properly. Some candidates who used the profit and loss method struggled to correctly distinguish between the non-taxable/non-deductible and temporary differences.

Some candidates did not attempt the journal entries while some who did, failed to indicate the correct accounts being impacted. Candidates often provided more than one set of journal entries to account for the current and deferred tax, which negatively affected their time management.

A few candidates showed a lack of understanding of the structure of a tax reconciliation note and did not consider some of the reconciling items that were apparent from the scenario and would have provided easy marks, such as the local dividends received and the restraint of trade. The prior year unrecognised deferred tax asset was not considered by most candidates. The direction of the reconciling items was incorrect, i.e. exempt income items were added in the note when they should have been deducted. Some candidates ignored part (b) altogether and this negatively impacted the overall mark obtained for this question.

Many candidates appear to have attempted part (c) first and then proceeded with parts (a) and (b). Whenever candidates neglected to support their conclusions by including an application to the scenario, minimal marks were obtained for part (c). This is generally indicative of a lack of exam technique on the candidates' part.

4 Areas that the candidates handled well

In part (a), candidates generally handled the s12C allowance appropriately.

The ethics section in part (c) was generally well attempted, with candidates being able to identify the applicability of the Code of Professional Conduct and the threats, principles and safeguards that were required.

Candidates who correctly accounted for the foreign associate and computed the share of profit from the associate from the given information obtained higher marks for this part and improved their chances of passing this question.

5 Specific comments on sections of the question

Part (a)

The majority of candidates struggled with the calculation of s11(j) and did not use the 40% when calculating the current year allowance. In addition, the calculation of the tax base of the expected credit loss was handled poorly.

Candidates did not realise that the office building was exempt for deferred tax purposes and incorrectly applied the provisions of s13quin to the building.

The incorrect application of the foreign currency principles as it applied to the advance payment was prevalent, with most candidates accounting for the deposit as a monetary liability and assuming that was it already included as a revenue line in the accounting profit.

Some candidates struggled to account for the CGT implications of the asset disposal.

Part (b)

Candidates who did not consider the impact of the foreign associate on the tax reconciliation note missed out on most marks from this section.

Some candidates calculated the share of profit from the associate for part (a) which was not required and failed to include the amounts in the tax reconciliation note.

Part (c)

Most candidates came to the incorrect conclusion when discussing the tax haven. It was important for candidates to realise that more information needed to be obtained to determine whether this tax haven would be a form of tax avoidance or tax evasion.

PAPER 3 QUESTION 2

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
45	20,83	796 (39,33%)	1 228 (60,67%)

1 What general areas the question covered

Part (a) dealt with test of controls to evaluate the operating effectiveness of controls over the system for revenue.

Part (b) required candidates to address ethical concerns that stemmed from the expansion of the firm's audit client base.

Part (c) dealt with aspects of a proposed merger: whether it was a beneficial strategy (part (c)(i)), a calculation of its impact of the expected profitability of the firm (part (c)(ii)) and ethical concerns stemming from the merger (part (c)(iii)).

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

Part (a)

In this part candidates had to provide test of controls to evaluate the operating effectiveness of controls over the system for revenue, offering the well prepared candidate an opportunity to perform well. Unfortunately, candidates failed to make use of this opportunity as many of the tests of controls that were provided were considered to be generic and 'pre-prepared'. This was evidenced by the fact that it was not linked to revenue or by the provision of substantive procedures as opposed to tests of control, and that it was not applied to the information in the scenario.

In general, candidates' wording of tests of control procedures were poor.

Part (c)(ii)

In this part candidates were required to calculate the impact the merger would have on the expected profitability and there were a number of candidates who did not know how to attempt this. Many candidates also mixed up the total approach and the incremental approach and because of that lost valuable marks.

In general, candidates failed to display any understanding of relevant costing principles.

Part (c)(iii)

For this part candidates were required to discuss the ethical concerns that may arise as a result of the proposed merger between an audit and actuarial firm. Most candidates discussed the same ethical concerns as in part (b), thus displaying a lack of knowledge, and failing to demonstrate even a fundamental understanding of the ethical principles involved. Neither did candidates apply the information in the scenario fully or appropriately to what was required of them – they thus did not link the ethical concerns specifically to the proposed merger.

3 Areas that the candidates handled well

Generally, candidates did well in part (b) where they had to deal with the ethical concerns regarding the expansion of audit client base. Most candidates were able to apply the Code of Professional Conduct in this instance. The better performance was boosted by the generous number of available marks (23 v a maximum of 9) for this part of the question.

PROFESSIONAL PAPER 4

This question consisted of an integrated question with two parts that dealt with the following aspects:

Part I

- (a) A discussion of the accuracy and completeness of a note on the interest in an associate for FY2020 in accordance with IFRSs. Candidates were not required to re-draft the note, except with regard to potentially omitted disclosures.
- (b) A discussion of how the company should recognise and measure 5 000 shares that it issued in partial settlement of an acquisition of a 35% interest in another company in its separate financial statements for FY2020. Tax could be ignored.
- (c) A preparation of the pro forma journal entries to account for the investment in the acquired company in the consolidated financial statements of the group for FY2020. No journal entries had to be provided for the attribution of the FY2020 profit to the non-controlling interests. No separate journal entries had to be provided for

- the elimination of profit or loss line items during FY2020 up to and until the acquisition date
- (d) A calculate the estate duty payable by a director's estate. Candidates had to provide reasons for assets or liabilities which should not be included in the estate duty calculation

Part II

- (e) A description of the fraud and/or errors that could occur during the consolidation process that would increase the risk of material misstatement in the FY2020 consolidated financial statements of the group of companies. Candidates could ignore any matters related to presentation and disclosure
- (f) A description of the risks of material misstatement regarding the presentation and disclosure of the related party transactions and balances in the separate financial statements of a company for FY2020.
- (g) A description of the substantive procedures an audit firm should perform to gather sufficient and appropriate audit evidence with regard to the management fee earned from another company.
- (h) A discussion any concerns the candidate may have regarding the summary of key audit points to which an audit had to be limited.
- (i) A discussion of the impact that control deficiencies the auditors reported in an email would have on the nature of the further audit procedures that the audit firm should undertake in relation to the 2020 consolidated annual financial statements of the holding company.

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

PAPER 4 PART 1

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
57	22,30	278 (13,74%)	1 746 (86,26%)

1 What general areas the question covered

For part (a) candidates were required to discuss the accuracy and completeness of an IFRS 12 note disclosure reflecting the interest in an associate. Candidates were also required to redraft the note with regards to any omitted disclosures.

In part (b) candidates were required to discuss the recognition and measurement of shares that would be issued in part settlement of a 35% interest in a subsidiary in the separate financial statements. The shares were considered a contingent consideration.

Part (c) required candidates to prepare pro forma journal entries to account for an investment in a subsidiary. The acquisition of the subsidiary was an interim acquisition. The attribution of profits to the non-controlling interest and the elimination of the profit or loss items up till acquisition date were not required.

For part (d) candidates were required to calculate the estate duty payable on a director's estate. Where amounts were not included, candidates were required to provide reasons for the omissions.

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

There was a general lack of understanding of consolidations/group accounting among candidates. Many candidates showed an inability to link the various IFRS standards in order to solve a problem presented in the required.

3 Common mistakes made by candidates.

Many candidates were guilty of poor referencing of calculations.
A number lost marks because they did not answer what is required by the question.

4 Areas that the candidates handled well

In part (a) many candidates identified the following:

- Comparative information that had been omitted from the disclosure; and
- The name of the associate had been accurately disclosed.

In part (b) the majority of the candidates correctly identified the recognition date and the amount at which the shares would be measured at initial recognition.

The majority of the candidates attempted the at acquisition main elimination pro forma entry in part (c).

In part (d) candidates followed a methodical approach in answering this question. This section was well answered.

5 Specific comments on sections of the question

Part (a)

- Even though the required stated clearly that the note with regard to omitted disclosures must be redrafted, very few candidates actually provided a cohesive redrafted note that included all the missing disclosures.
- Many candidates displayed poor exam technique for not applying the theory in IFRS 12 to the scenario. Candidates would for example state that 'the principal place of business *should be* disclosed'. Marks were not awarded for this due to the lack of application and a paraphrased re-write of the requirements of IFRS 12. A candidate was expected to rather state that 'the principal place of business *was not* disclosed', which would clearly demonstrate that they have identified that the disclosure was not complete.
- Many candidates referred to the nature of TWE Manufacturing's relationship while it was in fact the nature of the operations/activities of TWE that was at the crux of this omitted information.

Part (b)

- Candidates did not apply the theory to the information provided. For example, candidates did not state why the 5 000 shares constituted a contingent consideration or did not document why they thought the shares would be classified as equity. This emphasised the lack of application of the information they provided to actually answer what was required.
- The subsequent recognition and measurement of the 5 000 shares was not discussed by many candidates.
- Many candidates discussed the 5 000 shares in the context of IAS 37 or IFRS 2, no marks were awarded for the inappropriate context.
- Some candidates missed that the required specifically referred to the *separate statements* and therefore the discussion should have been limited to application in the separate statements. Thus they wasted time on a discussion from a group perspective, for which they could not be awarded any marks.

Part (c)

- Many candidates did not include a journal narration at each journal, which resulted in them losing the communication skills mark.
- Candidates did not reverse the acquisition-related costs against the investment upon consolidation.
- The transfer of the mark-to-market reserve to retained earnings as a result of the step acquisition was also omitted by many candidates.

- Some candidates prepared journal entries in the separate financial statements. For the main elimination pro forma journal entry, many candidates incorrectly credited 'consideration/bank' instead of 'investment in subsidiary'.
- Some candidates would use amounts in the pro forma journal entries (specifically for the investment amount) which did not correlate to any supporting calculation, with the result that no marks could be awarded because the calculation could not be identified from their working. It was thus not clear what was included and what not in the consideration calculation.
- As far as the fair value adjustment of assets at acquisition was concerned, some candidates presented it net of tax adjustments. No marks were awarded for this as IFRS explicit states that taxation is accounted for separately.
- Many candidates incorrectly included the payment to the COO in computing the consideration transferred, despite this being specifically excluded by IFRS 3, and also incorrectly fairly valued the employee benefit obligation at the date of acquisition, despite this being a measurement exception in accordance with IFRS 3.

Part (d)

- Candidates did not correctly apply the tax principles in determining the bare dominium.
- A number of candidates forgot to include the domestic life policy or they would forget to deduct the premiums paid towards the policy.
- Many candidates applied the incorrect rate in determining the estate duty payable.
- A large number of candidates included the incorrect amount (e.g. R4 750 000) instead of R4 750 500 for the Australian shares, losing unnecessary marks for rewriting a given amount incorrectly.

PAPER 4 PART II

Maximum mark	Average mark	Marks > 50% (Pass)	Marks < 50% (Fail)
43	17,95	378 (18,68%)	1 646 (81,32%)

1 What general areas the question covered

All the parts dealt with auditing and assurance.

Part (e) dealt with the risk of material misstatement in a consolidation process and required a description of the fraud and/or errors that could occur in the *consolidated* financial statements of the group.

Part (f) dealt with the risk of material misstatement in related party transactions and balances in the holding company's *separate* financial statements.

Part (g) required substantive procedures on a management fee earned from a subsidiary company.

Part (h) required that candidates discuss concerns that arose from an email sent to a component auditor by the group auditor.

Part (i) required a discussion of the impact that the control deficiencies reported by the component auditor would have on the nature of the further audit procedures that the group auditor should undertake on consolidated annual financial statements.

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

- Candidates struggled to provide correct answers because they did not read the required sections properly. This resulted in answers that were not in line with the required.
- Some candidates failed to apply the theory to the scenario, which resulted in theory simply being dumped.
- Candidates also wrote cryptic style discussions (which may have been a result of poor time management and thus pressure to complete the question).
- Candidates demonstrated a lack of knowledge regarding the accounting aspects relating to part (e) and (f). This was evident from the fact that they did not provide sufficient points that were specifically linked to accounting but rather focused on 'umbrella' or general and generic discussion points.

3 Areas that the candidates handled well

It is noteworthy and commendable that majority of the candidates were able to attempt all five sections, which constitutes good exam technique.

4 Specific comments on sections of the question

Part (e)

Candidates were generally able to obtain some marks in this question as there were a number of easy marks. Many of the candidates who did well in this question did so because they first dealt with the easier sections before attempting the more difficult areas where marks were harder to obtain.

Candidates struggled with the following:

- They discussed detection risks even though the question specifically asked for risks of material misstatement.
- Very few candidates discussed IFRS 3 at acquisition principles and only focused on the year-end consolidation process, with the result that they did not adequately identify risks and thus lost marks.
- Candidates went into unnecessary detail on related parties in this part, which were valid marks for part (f) and not part (e). This led to a great deal of repetition of points between the two parts, resulting in valuable time being wasted.
- Some candidates apparently misunderstood the question and discussed and elaborated on compliance or non-compliance with the King IV code.
- Candidates could identify that there is a possible risk, but did not explain the risk well enough, leading to lost marks.
- Candidates went into unnecessary detail on related parties, while these related to part (f).

Part (f)

Candidates struggled with this question and were unable to generate relevant points. This was a result of having missed certain key elements in the required, for example that the risk needed to be discussed from the perspective of the *separate* financial statements and only related to related party transactions and balances and not related party *relationships* or persons. It seems as though candidates panicked and rushed to write down something, without a full understanding of the required or thinking about it first.

Candidates struggled with the following:

- Many candidates noted only two of the general risks and failed to discuss the risks in sufficient enough detail to score marks.
- Candidates often spent too much time on evaluating the associate disclosure note given in the scenario and discussed the fact that the nature of the related party relationships will not be disclosed.
- Candidates addressed relationship completeness issues, instead of completeness of balances and transactions.
- Candidates failed to apply theory to the scenario and often dumped theoretical responses based on statements of IAS 24.

Part (g)

Candidates did fairly well on this section as there was a generous number of easy marks relating to general substantive procedures. Some candidates apparently did not know what a management fee is and thought that it had something to do with the human resources department. They therefore wanted to verify the management fee 'salary' with the HR department.

Candidates struggled with the following:

- Candidates failed to provide general substantive procedures, which demonstrated poor exam technique.
- Candidates missed basic procedures and therefore lost out on easy marks. Aspects such as obtaining and casting schedules along with inspection of minutes, bank statements and contracts are considered to be basic and an ITC candidate ought to know that they need to write this down.
- Candidates failed to use the correct audit verbs – most candidates did not know what 'to inspect', and thus for example often 'inspected' the terms and conditions without linking it to a source document, thus not receiving the mark.
- Some candidates referred to the fee balance outstanding at year end as opposed to the management fee earned, as was required.
- Some candidates provided limited application to the scenario, and simply regurgitated procedures. The following are some examples:
 - An analytical review to prior year, when the management fee only arose in the current financial year.
 - 'Obtain schedule', instead of obtain management fee schedule.
 - 'Obtain minutes of meeting', but not stating to which meeting they were referring.
 - 'Obtain a management representation letter', but not stating for which assertions.
- Some candidates often failed to answer the WHY when phrasing their substantive procedures, e.g. 'inspect contract/invoice/minutes', without stating the purpose of the inspection.

Part (h)

This section was poorly answered. In general, it seemed as if very few candidates had the time to critically analyse the information, as evidenced by discussions that were high-level and superficial based on each email point. There was also a knowledge gap regarding group audits, audit quality and professional behaviour concepts. While most candidates knew that ISA 600 was applicable, they failed to apply it correctly. Some candidates also did not understand the role of the group auditor in relation to the component auditor and wrote that the former instructed the component auditor and 'used a superior tone'.

Candidates struggled with the following:

- Candidates struggled to fully describe the concern stemming from the group auditor's instruction to the component auditor to set materiality at whatever level they felt was suitable. Instead of discussing materiality for significant components in terms of ISA 600, candidates discussed the requirements of ISA 320, for which no marks could be awarded.

- Application of theory to the scenario was very poor and candidates failed to make the link in their discussions, for example that the 'auditors of DSS should set materiality', 'the auditor of DSS should be ethical', etc.
- Candidates would state the concern without providing a detailed discussion, for example 'it is a concern that Michele did not request work papers of the component auditor,' without providing a reason or a discussion to substantiate why this was a concern.

Part (i)

This question was poorly answered and candidates often failed to provide a proper structure. This was the last question of the last paper, and it seemed as if some candidates ran out of steam and were unable to give this question the proper attention and to apply their minds to what was required. This was also indicative of poor time management on the part of some candidates.

Candidates struggled with the following:

- Candidates did not understand what was expected of them and as a result provided substantive procedures.
- Some candidates did not take into consideration that controls had already been tested and found to have been ineffective and were therefore unable to appropriately discuss the impact of the control deficiency.
- Some of the candidates did not fully understand the difference between a combined approach and substantive approach and when each one should be used, with the result that they often contradicted themselves in their discussions. Candidates for example stated that a combined audit approach as well as a pure substantive approach needed to be followed.
- Some candidates confused component auditors with internal auditors.
- Instead of using the information in the scenario and coming to a conclusion, some candidates relied on a hypothetical style, for example writing 'If it is this, then maybe a substantive approach...' or 'if it is that, then maybe a combined approach....'