

**MARKERS' AND UMPIRES' COMMENTS
INITIAL TEST OF COMPETENCE
JANUARY 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) (Part I of the Qualifying Examination), which was written in January 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 January 2020;
- Background information on the setting, marking and adjudication of SAICA examinations;
- General comments on the ITC January 2020; and
- Detailed comments on each of the four professional papers.

STATISTICS FOR ITC JANUARY 2020

	% Pass	Passed	Failed	Total
All candidates	59%	2 149	1 508	3 657

Average marks per question (all candidates)

	Question 1	Question 2	Total
Paper 1			
Total marks	53	47	100
Average marks	25,35	23,89	49,24
	Part I	Part II	Total
Paper 2			
Total marks	63	37	100
Average marks	30,87	18,03	48,90
	Part I	Part II	Total
Paper 3			
Total marks	41	59	100
Average marks	20,31	31,31	51,62
	Part I	Part II	Total
Paper 4			
Total marks	40	60	100
Average marks	21,29	31,84	53,13

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 and improvement of 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 ITC 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:

Abdul Antulay	Greg Beech	Marielienne Janeke
Ahmed Haji	Helouise Burger	Piet Nel
Andrew van der Burgh	Ben Marx	Reghardt Dippenaar
Carmen Westermeyer	Jack Jonck	Rikus de Villiers
Denise Mare	Jackie Viljoen	Ross Peasey
Depika Singh	Jacobus Rossouw	Karabo Kegana
Eihorere Wesigye	Janine Claassens	Vanessa van Dyk
Ferdinand Mokete	Johann Steyn	Shelly Nelson
Francois van den Berg	Lanelle Wilmot	Stéfani Coetzee
Frans Prinsloo	Linda van Heerden	Thembi Kganane
Dannielle Cerbone	Lisa Vidulich	Veryl Mulder
Jacqueline Arendse	Lungani Gcwensa	Zwelodumo Mabhoza
Giel Pieterse	Makhosazane Luthuli	Zuleka Jasper
Goolam Modack	Mandi Olivier	

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. The only persons who know the contents of a particular paper are the persons mentioned above. They are all selected with great care regarding their integrity and professional standing and sign declarations of confidentiality.

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. 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. The role of the umpires is to oversee the marking process, in liaison with ITC Examco and take the lead in final decisions if necessary. These teams 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.

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 January 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 ten scripts (although it can be more, depending on the difficulty of the question and achieving consistency) are selected on a random basis by SAICA's Examinations Unit. The exam numbers are removed and these scripts are numbered from 1 – 10 and photocopied. Every person on each of the mark team has to mark the relevant sections/part of the scripts individually. 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. 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 might have occurred during the marking process.

It is important to note that no person from the academia 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) 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 third review by an experienced senior marker.

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

GENERAL COMMENTS ON THE ITC JANUARY 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 & External Reporting	Strategy, Risk Management & Governance	Audit & Assurance	Tax	Management Accounting and Finance (MAF)	Ethics	Comm
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 & External Reporting	Strategy, Risk Management & Governance	Audit & Assurance	Tax	Management Accounting and Finance (MAF)	Ethics	Comm	Total
P1 Q1	35		15				3	53
P1 Q2				45			2	47
P2 Q1 part I		10			50		3	63
P2 Q1 part II			22			13	2	37
P3 Q1 part I			20			19	2	41
P3 Q1 part II	8	23		15	10		3	59
P4 Q1 part I	38						2	40
P4 Q2 part II		9	32			16	3	60
TOTAL	81	42	89	60	60	48	20	400
% of TOTAL	20,3%	10,5	22,2%	15,0%	15,0%	12,0%	5,0%	100%

3. Overall comments on the papers

The January 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.

From result statistics it was evident that candidates found the accounting and external reporting of question 1 of paper 1, and the management accounting and finance of part I of paper 2 the more challenging questions. On the whole they performed better in the strategy, risk management and governance of paper 3 part II as well in the audit and assurance in part II of paper 4.

Paper 1 consisted of two separate questions, the first dealing with accounting and external reporting and audit and assurance and the second with taxation.

Most universities considered question 1, which dealt with the integration of two prior period errors into an associate and the year-end financial reporting process with consolidation entries and an associate, to be easy to moderate. Some felt that part (c) on auditing, dealing with the discussion of control deficiencies for a year-end reporting process, was fairly difficult. Their opinion was that candidates should score well in part (a), dealing with the correction of an error, while certain of the pro-forma journal entries in part (b) were a little more challenging but there are sufficient easier calculation marks to enable candidates to pass the section. The intercompany sale of inventory from the parent to the associate added an element of complexity to the question for part (b), as the sale occurred in the prior year and was partially realised in the current year.

The question integrated groups, controls and an element of computation. The scenario was well structured and the information flowed logically.

Various principles of IAS 16, IAS 12, IAS 8 and IAS 28, with a particular focus on calculating the excess and an intragroup transaction, were assessed. The incorrect treatment of the installation cost (and tax) by the associate assessed candidates' problem-solving skills and logical thinking abilities. Although students often find prior period errors challenging, the note in the separate financial statements of the associate is easier than in the group financial statements. The error itself was not difficult to identify, but candidates had to realise that there is an existing deferred tax that should be reversed.

Part (c) was very practical in terms of auditing within a group setting and required candidates to identify a number of controls that were not present. Relevant industry issues were highlighted, and the approach was ideal to a scenario that would be encountered in real life. The auditing aspects were very practical, relying on best practices rather than deficiencies in the system and required the candidates to assume that some controls were in place. This made it a non-standard question.

Question 2 of paper 1 required a discussion of deductibility of a payment in terms of section 11(a) (made by the company for medical expenses claimed by an employee who suffered injuries due to an accident at work); the calculation of normal tax payable by a company (starting with the profits from both the South African branch and a Moroccan branch); the explanation of the donation tax implications of a scheme to avoid section 7C in the provision of an interest-free loan to a company; an explanation of the VAT implications of a change in use in the letting of residential flats; and lastly, the pre-payment of insurance and the application of section 23H. It was pitched at the right level, the scenario was straightforward and contained a good integration of normal tax, donations tax and VAT topics. There was a good balance of moderate and difficult required sections, such as the section 6quat rebate and a section 7C explanation. It covered a good spread of the tax syllabus and tested a number of competencies and evaluated various outcomes.

The transactions presented in the scenario were not particularly complex and it dealt with industries with which candidates would have been familiar. This meant that the question tested their understanding of the legislation and case law principles, based on some thought-provoking issues. It tested the principles relating to a change in use of property in a meaningful manner. Knowledge was tested by means of both discussions and explanations and calculations.

Paper 2 consisted of a 100-mark question integrating the financial management, management decision making and control, auditing, and strategy, risk management and governance competency areas.

The paper demanded a healthy mix of technical knowledge, assumption-driven unstructured problem-solving skills and commercial awareness and created a platform for scenario comprehension and basic open-ended insight. The paper covered a broad range of topics. It was a robust case study set as an audit firm scenario focussing on a firm with two divisions, taxation and audit, with various complexities in their budget, and required a profitability analysis. The analysis did not provide prior-year comparative information or industry/competitor benchmarks, which meant candidates had to rather interrogate the information using relationships with non-financial information to find structural, utilisation, and operational issues within the entity. The type of company was an interesting twist from the normal scenarios typically used in the ITC. Most universities commented that the scenario was easy to read, accessible to candidates and well written.

The paper integrated topics well and allowed for an in-depth testing of primarily management accounting and finance and governance concerns as well as integrating auditing. The real-world scenario brought the issues to the fore and was well explained. The auditing questions covered a variety of topics, with some focus on ethical considerations and professional behaviour that assessed relevant theory and skills.

The emphasis in part I was on discussion and testing of insight, which led to universities assessing this part as moderate to difficult. The focus on an auditor's practice was an interesting perspective, with good intra- and inter-disciplinary integration of management accounting and finance with strategy, risk management and governance disciplines. The real-world scenario brought the issues to the fore and was well explained, but was likely to be new to candidates, as they would not have been exposed to audit firm operations yet.

The first required section dealt with budgeting within the audit firm, and the analysis of a budget required the use of principles, which was positive. The difficulty level was increased because it was an open-ended analysis.

The proposals to restore profitability were more difficult to deal with than appeared at first sight. The section on business risks provided some easier marks. Universities agreed that candidates should have managed the ethical dilemma well. Most of the information for the critique was available in the scenario. On the whole the paper was considered to be fair and to provide candidates with a good opportunity to display their technical ability and other skills.

Part II dealt with the SAICA Code of Professional Conduct, substantive audit procedures on payroll expenses and ethics relating to the consequences of undertaking insufficient audit work. Most universities considered part II to be easy to moderate, although the difficulty of required (f) was increased because general substantive procedures were taken out of the equation.

Universities considered this part of the paper to be well-balanced, as it brought together very different aspects than those one would commonly find alongside each other in an auditing paper. This required candidates to switch between these aspects in answering the questions. The paper was well structured in flow and brought together various elements of auditing. Candidates should have been able to determine what information was relevant from the scenario in with relative ease.

All three required sections were considered to be clear and unambiguous and because each dealt with fairly specific areas, related to a specific section of the scenario, candidates did not need to sift through pages of information and link everything together in their answers. This should have reduced the difficulty of the question overall.

Paper 3 was an integrated 100-mark question dealing with all six discipline areas, namely accounting and external reporting, strategy, risk management and governance, audit and assurance, taxation, management accounting and finance, and ethics.

The paper was well structured and each element of the required was clear and unambiguous, with sufficient time being allowed for appropriate answers. There was a good integration between financial management, accounting and auditing.

Part I dealt with auditing and assurance, in which candidates had to describe the risks of material misstatement at an overall financial statement level to be considered during audit planning, as well as to provide an audit response to address the risk related to its inventory account balance. The last two parts, on ethics, dealt with threats and mitigating actions to ensure compliance with the SAICA Code of Professional Conduct, and a discussion on professional conduct of a former audit clerk. Most universities felt this part of this question was at a moderate level of difficulty, with the difficulty level being increased in the section on ethics and the level of integration stemming from the scenario.

The candidates had to apply their knowledge to differing and unique aspects of the scenario, with quite a lot of detail, which meant it tested whether they were able to identify information relevant to a particular required section. It was a good question that combined good coverage of auditing risks, responses and substantive procedures with a focus on ethical considerations and professional behaviour based on the SAICA Code of Professional Conduct.

Part II of paper 3 dealt with earnings before interest, tax, depreciation and amortisation, issues to be considered by management with regard to the company's proposed structures, recognition and measurement issues related to leases, and the taxable income of an individual. The universities on the whole considered part II of paper 3 to be fair and of moderate difficulty. There was an integration of the financial management, accounting and auditing disciplines, which increased the level of difficulty. The taxation session was a stand-alone section. Because candidates tend to struggle with discussion and with integration, this paper could have posed a challenge in that sense. The scenario was interesting and thought provoking. Although it was quite long, the split of information into annexures helped to make the information easier to digest and address. The required sections also directed the candidates to the relevant attachment.

The subject matter of leases is very topical and the scenario covered a range of recognition and measurement issues related to leases. The initial and subsequent recognition was relatively straightforward. The question required inputs into the calculation of the lease liability, which was an elegant way of mitigating consequential errors.

The required section that dealt with a business restructuring proposal was considered to be moderate. The income tax required section was straightforward, but integrated well into auditing and also covered a few of the main aspects relating to individual taxation, namely fringe benefits and a section 11F deduction.

Paper 4 was an integrated question, dealing with accounting and external reporting, strategy, risk management and governance, audit and assurance and ethics.

Part 1 of paper 4 dealt with revenue recognition in the form of theory on a principal versus an agent, the revenue recognition of commission and a loyalty programme and provisions of IAS 37. The overall level of part I of paper 4 was considered to be fair, with a good balance between easy sections and some that were moderate to advanced.

It was a well thought out scenario that covered several concepts within IFRS 15 and touched on those that are not tested often. Candidates who managed to identify the principal and agent concept and realised that the company was

acting as an agent for the service providers would have fared well. There was sufficient information in the scenario to make this clear. There is a good integration between financial reporting and auditing. There was a good balance overall, especially as relevant up-to-date issues regarding computers, modern mobile applications, the fourth industrial revolution and smart devices formed the core of the information.

Candidates should have been able to navigate through the scenario, based on an Uber-type structure and a customer loyalty programme that encompassed aspects to which candidates would have been able to relate. It was not very lengthy, and did not contain much complexity or intricate detail that needed to be interpreted and absorbed.

There were a few advanced areas, such as the measurement of revenue involving a combination of loyalty points and commission-based revenue; the calculation of commission (in which candidates needed to consider both the commission receivable from the contract providers, the value of the loyalty programme and the allocation of the transaction price between commission earned and the liability for loyalty points); the identification of the transaction price and how to allocate it to the liability for loyalty points; and addressing the change from the prior year to the current year in terms of the revenue. The question required judgement to be made in respect of whether there is a present obligation or not.

Universities felt this was a good practical question that tested not only the principles in IAS 37, but also candidates' ability to systematically work through the information and form an opinion.

Part II of paper 4 dealt with auditing and assurance in the form of computer controls for risk management and performing audit procedures on IFRS 15, corporate governance and ethics regarding the ethical behaviour and corporate governance practices of directors, and strategy with a fourth industrial revolution focus. The ethics was well structured and integrated, with an appropriate balance between ethical considerations and professional behaviour.

It was considered to be pitched at the right level, and there was a good balance of easy and more difficult marks.

The question was very practical, and clearly explained how the system worked. Candidates should have been able to understand the scenario and navigate through it fairly effortlessly. It did not contain much complexity or intricate detail that needed to be interpreted and absorbed. It was a very topical scenario linking with the app industry and fourth industrial revolution.

There was a good integration between auditing, accounting and strategy, in the form of integration between IFRS 15 and auditing and financial accounting knowledge related to the loyalty programmes. The management accounting and finance content was predominantly tested in a discussion format, with which candidates generally struggle.

The auditing required sections were clear and unambiguous and candidates should have encountered little difficulty with interpreting exactly what was required from them. Most dealt with fairly specific aspects (i.e. based on one working paper or memorandum), which meant that candidates did not need to sift through pages of information to link everything together for their answers. This should have reduced the difficulty of the question overall.

Although the auditing was fairly easy, candidates needed an understanding of the scope of the required and to analyse the scenario to determine possible controls. The difficulty level was increased because the focus was only on 'input controls' that were scenario specific.

4. General comments

From a review of candidates' answers to the eight required sections for the ITC January 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 did 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 this ITC examination, 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 plan the layout and presentation of their answers before committing thought to paper. Very often, candidates start writing 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 fared considerably poorer in some of the other disciplines – most notably management accounting and finance. Candidates are reminded that although the accountancy discipline is a broad one, 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 your next exam!

Best of luck!!

DETAILED COMMENTS ON EACH OF THE FOUR PROFESSIONAL PAPERS

PROFESSIONAL PAPER 1

Paper 1 consisted of two separate questions with required sections that dealt with the following aspects:

Question 1

- (a) A preparation of the prior year error note in the individual financial statements of a company for FY2019. Candidates had to assume all amounts were material.
- (b)(i) A preparation of the pro forma equity accounting journal entries to account for a company in the group financial statements of the group for FY2019.
- (b)(ii) A presentation of the balance of the investment in the associate in the statement of financial position of the group for FY2019. Comparatives could be ignored.
- (c) A discussion of the control deficiencies in the year-end financial reporting process described in the scenario.

Question 2

- (a) A discussion, with reference to the principles of relevant case law and the *Income Tax Act, 1962* (Act 58 of 1962), as amended, on whether the payment of irrecoverable medical expenses claimed from a company could be claimed as a deduction by the company in the 2019 year of assessment.
- (b) A calculation of the normal tax payable by the company for the 2019 year of assessment based on the information provided in the scenario. The calculation had to start with the branch profits disclosed in the income statement.
- (c) An explanation, with supporting calculations, of the donations tax implications arising from the loan for a company, a management investment company and/or an individual. Candidates were to assume that the official rate of interest for the period was 7,75%.
- (d) An explanation, with supporting calculations, with regard to the letting of the flats by a company, of –
 - (i) all the VAT implications for a company; and
 - (ii) the year(s) of assessment in which an insurance payment made on 1 August 2019 may be claimed as a deduction by the company for normal tax purposes.

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

PAPER 1 QUESTION I

Maximum mark	Average mark	Marks ≥ 50% (pass)	Marks < 50% (fail)
53	25,35	1 603 (44%)	2 054 (56%)

1 What general areas the question covered

Part (a)

Candidates were required to prepare a 'prior period error' note in the individual financial statements of an associate. The errors included the incorrect treatment of installation costs (which were incorrectly expensed), as well as a tax deduction that was claimed incorrectly.

Part (b)

Candidates were required to prepare equity accounting journal entries to account for an investment in an associate, including a downstream transaction where the investor sold inventories to the associate, which were used as property, plant and equipment by the associate. Candidates were also required to present the investment in the associate in the group financial statements.

Part (c)

Candidates were provided with a detailed description of a financial year-end reporting process, and were required to discuss any control deficiencies within that process.

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

Part (a)

- Some candidates did not identify both errors, namely the incorrect expensing of installation costs and the incorrect tax deduction claimed.
- In the presentation of the prior period error note, many candidates included the effect of the errors for the current financial year as well (i.e. FY2019), which was incorrect.
- Candidates' answers in general did not comply with the requirements of IAS8.49, for example –
 - the nature of the prior period error was not provided; and/or
 - the amount of the correction was shown for general ledger accounts (e.g. 'installation expense' or 'current tax expense') and not for financial statement line items affected (e.g. 'other expenses' or 'income tax expense').
- Some candidates did not disclose the effect of the errors on both the statement of profit or loss and the statement of financial position.
- Candidates struggled to correctly distinguish between the effect on current tax and deferred tax.

Part (b)

- Candidates in general showed a lack of understanding regarding equity accounting for an investment in an associate and the treatment of a downstream transaction between the investor and the associate.
- Candidates did not include journal narrations and/or proper cross-reference their calculations.
- Many candidates did not identify that the error in part (a) had implications for the profits of the associate (since acquisition and current year) that needed to be equity accounted. As such, the impact of part (a) was often not incorporated into the calculations for part (b)(i).

- Candidates often provided more than one set of journal entries to account for the intragroup transaction or accounted for the intragroup transaction more than once (e.g. adjusting the analysis of equity for the unrealised profit and then providing separate journal entries to account for the intragroup transaction).
- Candidates often provided consolidation journal entries or a combination of equity accounting journal entries and consolidation journal entries to account for the investment in the associate and the intragroup transaction.
- The deferred tax implications of the intragroup transaction were accounted for inconsistently by many candidates, as in some of their journal entries the 'investment in associate' was used to account for the deferred tax implications, while 'deferred tax' was used in other journal entries.
- Candidates often accounted for the unrealised profit in opening balances, but omitted to take into account any unrealised profit that had already been realised up to the beginning of the current year.
- Many candidates did not present the investment in the associate in the statement of financial position as was required, but only showed a calculation.

Part (c)

- Even though the question required candidates to 'discuss' the control deficiencies in the year-end financial reporting process, many candidates only identified or listed control deficiencies without providing any further discussion or explanations.
- Some candidates struggled to identify a sufficient number of valid control deficiencies.
- Some candidates went into detail about general controls over information technology, although the question specifically stated that ABM and AfsPack have strong general controls over information technology.

3 Areas that the candidates handled well

- Identifying the incorrect expensing of the installation cost as a prior period error.
- Calculating and processing the share of the opening retained earnings and the share of profit for the year of the associate (excluding the effect of the intragroup transaction).

PAPER 1 QUESTION 2

Maximum mark	Average mark	Marks ≥ 50% (pass)	Marks < 50% (fail)
47	23,89	1 841 (50%)	1816 (50%)

1 What general areas the question covered

In the first part of this question candidates had to discuss the deductibility of compensation paid to an employee who was injured at work. Candidates needed to identify that the crux of the issue was that the expense was 'in the production of income' and 'negligence', using the applicable court case principles entailed in PE Tramway and Joffe & Co.

For part (b) on normal tax payable, candidates should have started their calculation of this question with the branch profits as provided in the question, namely that of Constak and Constak's Moroccan branch. Foreign profits needed to be translated at the average exchange rate in terms of section 25D of the Income Tax Act. An accounting provision for warranties needed to be reversed and the actual cost incurred needed to be deducted. Stock donated needed to be recouped at market value in terms of section 22(8) of the Income Tax Act but was not deductible in terms of section 18A the Income Tax Act and candidates needed to clearly indicate that. Constak had an assessed loss (section 20) that candidates had to take into account before the section 18A deduction. The s 6quat foreign tax relief should have been calculated and limited to the foreign tax paid. It was important that candidates could apply the order of deductions in the tax framework in this part of the question.

In part (c) candidates were required to address the donations tax implications of all three parties in the question. Critical thinking was required to first identify the connected parties in the scenario, apply the rules in terms of section 1 'connected persons' definition and use the information provided in the scenario, to identify Sandile as the donor. Candidates needed to identify that Sandile was liable in terms of section 7C to pay donation tax on an interest-free loan made to his company, Sogren (of which he was the sole owner), using the XoliXaba Trust, of which he was one of the beneficiaries. Candidates needed to discuss the donation tax implications and to calculate the donation tax due, indicating the date of the due payment of donations tax. It was important that candidates recognised that the year end of the trust was the date the donation was deemed to have been made. Candidates also needed to recognise that the section 7C donation was a continuous donation (in this case for the period of the loan of two years).

In part (d)(i) candidates needed to recognise that the scenario had three parts:

- 1 Input tax that could be claimed on the construction of the flats;
- 2 A change of use in terms of section 18(1) of the VAT Act (candidates should not have used old legislation and thus applied section 18B of the VAT Act); and
- 3 The consequent VAT effect of the letting of the flats and the insurance premiums paid.

In part (d)(ii) candidates had to identify that the amount was deductible in terms of section 11(a) of the Income Tax Act but because the amount was paid in advance, candidates needed to apply the tax principles covered in section 23H of the Income Tax Act in the scenario. The application of the section needed to be clearly stated and supported with calculations.

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

Part (a)

- Candidates failed to identify the crux of the issue (what part of section 11(a) of the Income Tax Act was not met or certain) and therefore discussed every single requirements of the general deduction formula, rather than just 'in the production of income'. This led to poor time management and could have resulted in a candidate not completing the question in the allocated time.
- Candidates did not apply the correct principles of the court cases to the scenario.
- Many candidates did not consider the role that negligence would have played in the deductibility of the amount.
- Few candidates considered whether the amount was deductible given that the branch was in Morocco.
- Candidates either did not reach to a conclusion, or a conclusion that is not in line with their arguments and failed to receive a conclusion mark.
- Several candidates merely stated that the taxpayer has the 'onus of proof' in terms of section 102 of the Tax Administration Act without elaborating on what the onus entails, in this instance, whether the expenditure was deductible in terms of section 11(a) read together with section 23(g).

Part (b)

- Candidates did not commence with profit before tax as was required and did the full calculation again, which would have wasted precious time and affected their ability to complete the question.
- Candidates did not apply the correct order of a tax calculation with regard to the deduction of allowable donations (s 18A), an assessed loss (s 20) and the section 6quat rebate for foreign tax paid.
- Very few candidates realised and stated that one donation was to a public benefit organisation (PBO) but that the stock was donated to a non-PBO and that section 18A of the Income Tax Act only allow a deduction of donations if an exemption certificate of the registered PBO could be presented.

Part (c)

- A number of candidates did not identify that section 7C of the Income Tax Act was applicable.
- Candidates failed to use the 'connected person' definition in section 1 of the Income Tax Act to establish who were connected persons in the scenario or failed to apply the theory to the scenario.
- A number of candidates identified Forev as the donor in terms of section 7C.

Part (d)(i)

- Candidates did not consider the mark allocation and only addressed the rental of the flats. They did not address the construction, the change of use or the insurance premiums.
- Candidates used outdated legislation and applied section 18B of the VAT Act, seemingly not realising that it was no longer applicable.
- Candidates displayed a poor understanding of basic VAT principles. Candidates also mixed up the VAT implications of taxable and exempt supplies.

Part (d)(ii)

- A few candidates did not address and apply the requirements of section 23H of the Income Tax Act, but most of the candidates mentioned that it is a prepayment.
- The calculation of the pre-payment was done incorrectly as candidates forgot to multiply the amount paid per flat by the number of flats or calculated the wrong number of months of pre-payment.

General

- In general candidates sometimes stated the correct theory in discussion questions, but they did not apply the information in the question to the theory and hence lost marks.
- Some candidates struggled to formulate a well-structured answer in the discussion sections. In these sections candidates were expected to formulate arguments based on the set of facts that were provided in the scenario. Many candidates did not form well-argued responses or come to a reasonable conclusion.
- In the calculation sections, some candidates did not clearly show their calculations. Some candidates also did not use the correct format.

3 Common mistakes made by candidates

In part (a) candidates discussed every single requirement of the general deduction formula, rather than just those relating to 'the production of income'.

In part (b) candidates failed to follow instructions, for example by not beginning with profit before tax, but recalculating the profit, despite clear instructions that were provided in the required.

In part (d)(i) candidates failed to identify all the transactions (construction, change in use, letting of the property) and hence failed to deal with the tax implications of all transactions separately.

- Candidates did not structure their answers; i.e. they did not always deal with each aspect of the transaction separately or identify the correct provisions to apply.
- Simple straight-forward marks were lost because candidates did not state the basic rules before considering more complex applications of the Act.
- Answers showed a lack of time management or poor time management as most candidates did not finish part (d) of the question.
- Most candidates' layout and presentation were not organised and clear, which indicated that candidates did not plan their answers before starting with the solution.

- Candidates need to improve their application skills within their answers, specifically in the discussion type questions. Candidates should not provide two answers for the same item, often contradicting themselves.

4 Areas that the candidates handled well

In part (a) most candidates identified that the provisions of section 11(a) of the Income Tax Act needed to be considered and that 'in the production of income' required further discussion. Most candidates could discuss the scenario, using the correct court case principles.

Most candidates identified that 'in the production of income' needed to be discussed in part (a) and in part (d)(ii) most candidates identified the prepayment of the expense.

Candidates generally did well in the calculations in part (b) and despite the problems identified above, the candidates were fairly successful in identifying the easy aspects relating to the calculation.

Candidates were able to determine that the interest-free element of the loan resulted in a donation and that donations are taxed at 20% in part (c). Most candidates could identify the connected persons but failed to link it to the real donor, Sandile.

In part (d)(ii) most candidates identified that the insurance paid was an advance or prepayment of the expense.

5 Specific comments on sections of the question

Part (a)

- Candidates missed some easy marks, for example onus of proof in terms of the Tax Administration Act and the fact that a resident will be taxed on world-wide income.
- Candidates forgot to apply the relevant 'trade' requirement as a discussion point for trade had to be linked to the South African company's branch in Morocco (thus outside South Africa).
- Candidates were still 'dumping theory' without making it applicable to the context of the scenario.
- Contradictions in case law arguments and conclusion resulted in a loss of the presentation mark.
- Failure to identify the key issue and relevant case law/principles resulted in a loss of marks and in irrelevant information that wasted valuable time.
- Despite the fact that the examinable pronouncements clearly state that marks would only be awarded for the court case principles, candidates still provided case names without principles in the hope of getting marks.
- Presentation of the argument should identify the issue, state applicable case law principles to be applied and provide a conclusion in line with the argument.

Part (b)

- The communication skills mark was forfeited in many cases because section 18A of the Income Tax Act was not applied as the last deduction before the tax liability was calculated.
- Candidates applied a limit of 5% or even 7,5% as the allowable limit of section 18A instead of the legislated 10%.
- Section 6quat calculations were not always correct as candidates did not use the correct formula in their calculations and omitted the requirements of the section 18A pro rata allocation.
- Candidates struggled to correctly answer the provision for warranties: They often tried to claim it as an 'allowance' despite the legislation only allowing the deductions of warranties actually incurred and not those provided for.
- Candidates either forgot to account for the assessed loss carried forward or treated the loss as a reduction of the tax liability instead of a reduction of taxable income.
- Some candidates struggled to correctly apply the conversion rules of foreign exchange amounts to South African rand (elections between spot and average rate) per section 25D of the Income Tax Act.

- Candidates failed to incorporate the Moroccan branch profits into the South African profits, which resulted in two separate calculations and tax rates of 25% for the foreign taxable income instead of the correct rate of 28%.
- Some candidates calculated the tax payable by the company using the individual tax tables.

Part (c)

- Candidates did not always make the connection between the connected parties to the trust.
- Even if candidates managed to identify that section 7C applied, they failed to identify that Sandile made the donation to the trust.
- Candidates also forgot that if they incorrectly state that Forev is making the donation, the company could not apply the annual exemption of R100 000 available for natural persons or the casual gift exemption for a company.
- Most candidates knew that the 'right answer' was that section 7C of the Income Tax Act was not applicable, but struggled to establish the connections for the application.
- This question required the application of the definition of connected persons as well as the criteria in section 7C and candidates showed poor exam technique in addressing this question by either re-writing what was given in the scenario or re-writing what is in the legislation without applying it to the scenario.
- Candidates lost easy marks by not addressing the donations tax consequences for all parties.
- Many candidates incorrectly applied the provisions of section 57 of the Income Tax Act (donations at the instance of a person) and not section 7C. Again candidates did not apply the information in the scenario to their answers and stated the theoretical rule only. For example, the rule in respect of the date the donation is deemed to be paid and the date the donations tax needs to be paid was stated, but no actual dates were provided.
- Many candidates incorrectly tried to apply either section 31 (transfer pricing) or section 64E (dividends tax) to this part of the required.
- Very few candidates noted that the date of the donation would be the last day of the trust's year of assessment, which would be the end of February.
- Candidates failed to deal with the capital (the loan itself) and low interest tax implications separately.

Part (d)(i)

- The biggest error was the application of section 18B, which has been phased out and is no longer applicable. This clearly demonstrated that candidates were using old tax legislation.
- The required asked that ALL the VAT implications for Sogren be dealt with. However, some candidates merely focussed on the letting of the flats and lost marks by not addressing the VAT implications arising from the construction of the flats. Candidates need to make sure they read and understand the required and need to consider the mark allocation of each required.
- Most candidates did identify the change in use – which was good – but many then indicated that section 18B of the VAT Act was applicable instead of s 18(1) of the VAT Act.
- Candidates use the incorrect terminology or make incorrect statements, such as 'need to pay input tax' and 'need to claim output tax'.
- Many candidates incorrectly tried to apply the provisions of an instalment credit agreement to this part of the required.
- Candidates illustrated poor exam technique and contradicted themselves by providing two answers for the same transaction, for example by indicating that the letting of residential accommodation is both commercial and exempt.
- Candidates identified the fact that the supply of residential accommodation is an exempt supply, but still calculated output tax on the supply or claimed input tax on the insurance that was used in making exempt supplies.
- Many candidates stated that the insurance is a financial service which is an exempt supply even though the exemption only applies to long-term insurance.

Part (d)(ii)

- Most candidates identified that section 23H of the Income Tax Act was applicable in this case but some lost marks due to poor application and because they did not link the criteria in section 23H to the scenario/amounts calculated.
- Candidates began their discussion with section 23H of the Income Tax Act and missed the easy mark for section 11(a).

PROFESSIONAL PAPER 2

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

Part I

- (a) Drafting a memo to the financial manager of an audit firm in which the candidate –
- critically discusses, with supporting calculations where relevant, the draft budget and related information; and
 - includes any questions he/she may have for the financial manager.
- Calculation marks were limited to 8 marks.*
- (b) Providing comments on the method of allocating other operating costs to the audit and tax divisions of the audit firm, with recommendations of alternatives where appropriate.
- (c) A critical evaluation of the actions proposed by two directors and shareholders to restore the audit division to profitability.
- (d) A description of the business risks faced by the audit firm, based on the information in the scenario.

Part II

- (e) A discussion of any ethical concerns the candidate might have with regard to a potential new client, with reference to the SAICA Code of Professional Conduct.
- (f) A description of the substantive audit procedures to audit the audit firm's payroll expenses, on the assumption that the candidate is its external auditor.
- Candidates had to exclude all the 'general audit procedures' that were listed in the audit firm's audit manual;
 - Candidates had to exclude procedures on presentation and disclosure; and
 - Candidates had to assume they had audit software available for the execution of CAAT procedures.
- (g) A discussion, with reference to the audit of a company audited by the firm and now under liquidation, on whether the audit work performed on the fair value gains was likely to result in any adverse consequences for the audit firm and its directors.

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	30,87	1 639 (45%)	2 018 (55%)

1 What general areas the question covered

The question demanded a healthy mix of technical knowledge, assumption-driven unstructured problem-solving skills, commercial awareness and created a platform for scenario comprehension and basic open-ended insight.

Paper 2 was integrated within Financial Management, Management Decision Making and Control, Auditing, and the Strategy, Risk Management and Governance competency areas. A robust case study was set as an audit firm scenario focussing on a firm that has two divisions, namely taxation and audit, with various complexities in their budget that required a profitability analysis. The analysis did not provide prior-year comparative information, or industry/competitor benchmarks, requiring candidates to rather interrogate the information using relationships with non-financial information to find structural, utilisation and operational issues within the entity.

The scenario was likely to be unfamiliar to candidates, as they would not have been exposed to audit firm operations in the normal course of their programmes, which tend to focus on commercial entities. Candidates who are currently employed in audit firms may have been more familiar with the setting. However, the issues in the scenario could have been translated easily into many other commercial backgrounds with which candidates should have been familiar. In addition, an audit firm scenario with a different focus has been used previously in ITC questions, specifically in question 2 of paper 1 (Rexelor Partnership) of the 2015 ITC. The Rexelor question focussed more on client profitability, and therefore this paper presented a different angle looking specifically at divisional profitability, staff mix, utilisation and charge-out rates. Candidates would likely have encountered the Rexelor question either during their CTA studies or in their ITC board course preparation.

The required for paper 2 part 1 was relatively challenging, with calculations and then a critical discussion of the budget, with no specific mention of interrogating the profitability issue, although the budget shows a loss. The question was presented differently to a typical budgeting questions where the budget is either compared to the prior year, actual results or a competitor. This question provided none of that information, which meant that students were expected to determine appropriate ways of critically engaging with the budgeting by itself. Various non-financial types of information were provided. Candidates were therefore faced with a critical analysis for which there would have been no template to fall back on, which required that candidates to draw from different topics and apply these principles to the profitability consideration.

The second required was a straightforward consideration of a cost allocation, which candidates should have handled well using knowledge of activity-based costing. The third required was a critical consideration of proposed courses of action to address the profitability issues, which although challenging, had significantly more marks available than the maximum. The scenario provided six courses of action to discuss, each with a variety of issues to consider, for ten marks, which made this required easier. It again required application of unstructured thought and demonstration of critical thinking skills. Finally, the candidates were asked to perform a risk analysis of the audit firm, which candidates should have been comfortable with, and where they could have scored well.

What was pleasing was that any rote dump, even a tailored one, could not be used here. Candidates had to think and apply knowledge during the exam.

The scenario was structured with fairly complex information and intricate detail that students were required to navigate through to interpret and absorb. The scenario was however not long (five pages), and the audit section of the paper was considered to be core and relatively straightforward. The ethical dilemma was manageable and not expected to influence this section of the paper. Generally, candidates should have been able to navigate through the scenario fairly effortlessly

The calculation part of the question was considered to be moderate in difficulty with the challenge not lying in the actual calculation, but rather in deciding what to calculate, and what relationship to investigate. The level of the discussions ranged from medium to relatively difficult. Candidates did not score well on either the calculations or the discussion if they did not have the skills to cope with an unstructured thought required or were not able to think critically and apply their skills within the context provided. There was no suggestion from the universities or the mark team that time was an issue in the paper, and no evidence of this was found in the test batch.

This question did stretch candidates and forced them to follow a structured thinking approach. The analysis of the budget in particular was not something they would have been familiar with, as it required the application of principles (which was positive). The proposals to restore profitability were also more difficult to deal with than one would initially think. This paper was a good differentiator for identifying top candidates.

Specifically related to the marking process, the open nature of the question resulted in many numbers which could have been calculated and used, together with a free thinking and open-ended required. The solution was structured to reward students for finding calculations and relationships that addressed principles rather than specific numbers.

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

The topics examined would generally have been introduced from undergraduate level and are pervasive throughout the syllabus. The attempts were poorer than expected, particularly the attempt at the calculations and discussion in part (a). The discussion requirement in part (c) examined more deeply the candidates' understanding and tended to expose weaknesses where principles have not been mastered. It seems that candidates had studied a template answer and simply provided this.

Candidates therefore performed badly due to the following aspects in their attempts:

- Dumping of generic points without relating these to the scenario, and not applying them to the specific situation.
- Not thinking broadly enough about what to explore in the budget, and what relationships should be explored in the numbers.
- Not thinking about the big picture, thus what was going wrong in the business and resulting in the loss, and then interrogating those aspects and generating supporting ratios from available information.
- Not using the non-financial information to a sufficient extent to determine relationships between the two divisions.
- The scenario was rich in perspective, but this was not utilised sufficiently to broaden the discussion.
- The activity-based costing section had several easier marks that candidates did not gain. Candidates should have been able to achieve the maximum marks here, but it would seem as if they did not attempt this required first as we would have expected, and in many cases left it to last, resulting in an inferior attempt.
- Exam technique was poor, for candidates could easily have gained ten marks with basic activity-based costing knowledge.
- Required (d) attempts were disappointing, and although better than some of the other elements of the required, should have earned maximum marks for the candidates. In the context of ITC risk questions, this was not a difficult required and had many available marks resulting in the relative level being easier. Again, perhaps lack of exam technique intervened here resulting in candidates doing this task last.
- Risks were often badly worded, and presented without identifying the impact, therefore not earning a mark due to identification, but no application.

3 Common mistakes made by candidates

Presentation and examination technique were generally good. However, there were many instances where candidates missed more straightforward points such as identifying other aspects to consider, and identifying the basic activity-based costing issues, and risks in the question.

For parts (a) and (c) candidates often thought very superficially about the required rather than applying this to the general strategic impact.

In general, candidates did not provide sufficient discussion points, therefore they did not gain sufficient marks to pass.

4 Areas that the candidates handled well

- In part (b) most candidates earned about half of the marks by demonstrating a basic understanding of the application of activity-based costing.
- In part (c) candidates performed well although mostly due to the number of marks available to be earned in the required. While this part also required critical analysis, there were many issues with a large number of available marks, so that candidates were able to perform well here.

5 Specific comments on sections of the question

Part (a)

As expected, this was a difficult section for candidates. The ratios and calculations needed to be innovative and were not the traditional ratio support one would find in a more general question. Non-financial information needed to be used effectively, and relationships in the data sought out.

Candidates generally calculated gross profits and profitability, and identified that the audit division was deteriorating, and in some cases identified that the general position was that perhaps the budget required amendment to illustrate the true position of the firm and the two divisions. However, very few engaged in the calculations using the non-financial information, which was disappointing.

Candidates battled to identify the bigger picture of where the two divisions really stood from a profitability perspective, and the bigger issues and shared resources and activities in a multi division company.

Candidates did well in identifying the issues with the different salaries, increases and motivations in the two divisions, and understood the intricacies that the tax field required specialised knowledge. Candidates often discussed the need to consider inflation and market comparatives, as well as identified the sustainability issue of a lower percentage increase on fees than on salaries.

In general, there was just not enough breadth in the answers. What was done often yielded marks, but there was too narrow a focus.

Part (b)

As could be expected, candidates performed reasonably well in this section, which traditionally is easier to answer. There were some ten straightforward marks in the question which we would have expected the average candidate to obtain. However, many candidates missed these through poor exam technique and insufficient understanding of the need for and application of activity-based costing.

Part (c)

There were six corrective actions on which candidates could comment, each with multiple aspects. This meant the number of available marks made the required significantly easier.

Candidates who did not perform well here demonstrated a very superficial understanding of the scenario, and therefore either provided generic answers, or did not think deeply enough about the scenario to generate valid points.

Part (d)

Candidates performed fairly well in the section on risk, although still below expectations for what should be a core skill of candidates. This was a task that they should have performed many times.

Many candidates identified triggers in the scenario but did not follow through by explaining the impact of the risk. They thus executed an 'identify' rather than a 'describe' task, and as a result did not answer at the correct taxonomy level.

Candidates' performance was mediocre on the question as a whole. However, the question did require deep thinking and it was therefore understandable that many candidates did struggle. This was not a flaw of the question but rather evidence that this was a good medium to difficult question.

PAPER 2 PART II

Maximum mark	Average mark	Marks ≥ 50% (Pass)	Marks < 50% (Fail)
37	18,03	1 674 (46%)	1 983 (54%)

1 What general areas the question covered

Part (e) covered the ethical concerns with regard to a potential new audit client in terms of the SAICA Code of Professional Conduct.

Part (f) dealt with the substantive audit procedures for payroll expense. Candidates had to exclude all the 'general audit procedures' that were listed in the audit firm's audit manual as well as procedures on presentation and disclosure.

Part (g) dealt with the adverse consequences for the company and its audit directors stemming from a failure to perform sufficient audit work on the valuation of sugar cane.

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

Part (e)

Candidates failed to sufficiently apply the information in the scenario in their responses, which resulted in 'generic' responses. Candidates also failed to sufficiently link the correct threat to the fundamental principle/s affected. This resulted in candidates not suggesting the appropriate safeguards to be applied and not obtaining the maximum marks for this part of the question.

Part (f)

In general, candidates' wording of substantive audit procedures was poor. Candidates also incorrectly provided tests of controls (which was out of the scope of the required).

Part (g)

Some candidates failed to identify that the audit partner in this context is also a director (and the resultant Companies Act implications). Candidates therefore did, in general, not illustrate sufficient critical thinking in their responses.

3 Common mistakes made by candidates

This was addressed in section 2 above.

4 Areas that the candidates handled well

Candidates performed relatively equal in all parts of the question, with the substantive audit procedures in part (f) being addressed the best on average.

5 Specific comments on sections of the question

This was addressed in section 2 above.

PROFESSIONAL PAPER 3

Paper 3 consisted of an integrated question with two parts that dealt with the following aspects:

Part I

- (a) Candidates had to, with reference to a workpaper on the background and understanding of the entity (excluding an attachment on a business restructuring proposal) –
- (i) describe the risks of material misstatement at an overall financial statement level that a firm providing audit, advisory and taxation services should consider during the planning of its audit for FY2019; and
 - (ii) for each risk identified, state an appropriate audit response to address the risk. Detailed audit procedures were not required.
- Answers had to be presented in a tabular format.
- (b) A discussion on the risks of material misstatement related to the inventory account balance in the 2019 financial statements of a company, with reference to a workpaper on the background and understanding of the entity (excluding an attachment on a business restructuring proposal).
- (c) A discussion on the threats, and the identification of appropriate actions a firm providing audit, advisory and taxation services should consider to mitigate the threats, to ensure its partners and staff comply with the SAICA Code of Professional Conduct, with reference to a workpaper on the background and understanding of the entity (excluding an attachment on a business restructuring proposal).
- Answers had to be presented in a tabular format.
- (d) A discussion of the professional conduct of the wife of one of the company's partners in terms of the SAICA Code of Professional Conduct with reference to a workpaper on the background and understanding of the entity (excluding an attachment on a business restructuring proposal).

Part II

- (e) An estimate of the impact the restructuring of the business proposed in an attachment could have on the profitability of the company in FY2019.
- (f) A discussion of the issues the management of the company should consider when evaluating the proposal from a major retailer with reference to the attachment and an extract of the management accounts.
- (g) With reference to an attachment on a business restructuring proposal –
- (i) a discussion of the factors that the directors of the company would consider to determine whether or not to renew the lease at the end of the first ten years. No calculations were required;
 - (ii) a discussion of the inputs that the financial manager of the company would use to determine the required present value to account for a lease of premises in terms of IFRS 16 *Leases*; and
 - (iii) a preparation of the relevant journal entries for the company to account for the lease agreement for FY2020 on the following assumptions:
 - The agreement was implemented on the proposed terms;
 - The renewal of the lease was reasonably certain; and
 - The present value of the minimum lease payments was R83 920 955 on 1 December 2020.Tax and closing entries could be ignored.
- (h) A calculation of the taxable income of one of the partners for the year of assessment ended 28 February 2019 with reference to a workpaper. Candidates had to provide reasons for items not included in the calculation of taxable income.

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

PAPER 3 PART 1

Maximum mark	Average mark	Marks ≥ 50% (Pass)	Marks < 50% (Fail)
41	20,31	1 796 (49%)	1 861 (51%)

1 What general areas the question covered

Part (a) Auditing and assurance

- A description of the risks of material misstatement at an overall financial statement level that TCI should consider during the planning of its audit for FY2019.
- For each risk identified in (a)(i), candidates had to state an appropriate audit response to address the risk. Detailed audit procedures were not required.

Part (b) Auditing and assurance

A discussion of the risks of material misstatement related to the inventory account balance in the 2019 financial statements of Mofasa, with reference to WP 102-1 (excluding attachment 1).

Part (c) Ethics

A discussion of the threats, and identification of the appropriate actions TCI should consider to mitigate the threats, to ensure its partners and staff comply with the SAICA Code of Professional Conduct, with reference to workpaper WP 102-1 (excluding attachment 1).

Part (d) Ethics

A discussion of the professional conduct of Zenzi in terms of the SAICA Code of Professional Conduct with reference to workpaper WP 102-1 (excluding attachment 1).

2 In what respect candidates' answers were considered to fall short of the requirements and common mistakes made by candidates:

Part (a)

- Many candidates dumped theory as part of their solution(s). Generally, some answers that were given by candidates were superficial and did not demonstrate critical thinking and application.
- Some candidates did identify the risk indicator, but failed to describe/explain what the risk was. For example, a candidate would state that there was a 'franchise agreement in place' or that 'internal control deficiencies were identified'. This was information provided in the scenario and candidates did not explain the risk and how this could possibly result in material misstatements at the financial statement level (either due to fraud or error).
- Many candidates discussed Code of Professional Conduct issues/rotation of auditors at part (a). This wasted time and no marks were awarded as it did not fall within the scope of part (a). Candidates did not plan the paper and evidently did not read all the required sections before they started to write/provide the answer.
- Many candidates stated that the company was listed and yet it was not. This could be an indication of poor examination technique, poor reading or an effort to force a pre-determined answer on the solution.
- Candidates identified and discussed detection risks instead of risks of material misstatement at the financial statement level.
- Almost all candidates discussed the postponement of the King Code IV principles as a risk at financial statement level.

- While many candidates were able to provide 'general responses' (straight from the ISA) and were awarded the mark, it was evident based on their wording (and lack of detail) that -
 - they often did not clearly understand how the response would be used and how it would actually assist (for example use of an expert, increasing testing at year end, etc.);
 - they were not able to provide the more 'specific' points such as increasing testing over the franchise agreement, going concern testing, etc.;
 - many either did not understand the question OR did not have sufficient knowledge of this section as they provided detailed procedures in the responses to the risks, although the question clearly stated not to provide detailed procedures; and
 - some candidates addressed, as part of the response, how the company (client) should address or reduce the risks and did not *discuss audit responses*, etc.

Part (b)

- Very often, the answers showed poor *application* of the scenario. Candidates merely provided generic points or a list learnt by heart before the exam.
 - For example, 'inventory may be stolen...' or '...they may not have the rights to the stock'.
 - Furthermore, candidates sometimes discussed an issue that had not even been mentioned in the scenario such as 'consignment stock'.
- Generally, many candidates were not good at wording/phrasing the risks well and did not include the actual effect.
- Many candidates just dumped a list of generic inventory risks, without application of the facts in the scenario. The candidates repeated what is contained in IAS 2 in different words, without any application.
- Many candidates ended up rephrasing the assertions from ISA 315 without any triggers identified from the question, i.e. that there is a risk that inventory does not exist or there is a risk that inventory is not valued correctly and accurately.
- Business risks were described as opposed the audit risks.
- Some candidates repeated the same mistake as in part (a)(i) and identified the risk indicator but did not address what the risk was leading to/did not explain the risk.
- Candidates struggled to explain the risks related to the valuation of inventory at lower of cost or net realisable value. Candidates listed theory from the standard without applying it to the scenario. For example, they merely phrased the risk as 'there is a risk that inventory is not carried at the lower of cost or net realisable value'. Candidate's should have explained the inherent risks relating to fuel and the cars that would result in risks that inventory is not measured at lower of cost or net realisable value.

Part (c)

- Many candidates seemed to have misread / misunderstood exactly what was being asked and did not answer the specifics. Candidates did not discuss the threats and actions from the perspective of TCI, which resulted in the following:
 - Candidates included a lot of information that, although relevant to the Code of Professional Conduct, related to other parties, e.g. Lana or Zenzi. Candidates discussed the actions of Zenzi despite the fact that she was not employed by the audit firm any longer. Zenzi's actions should have been discussed in required (d). Candidates also discussed the financial manager's (Lana, who was a CA (SA)) incompetence, her familiarity threat because she was married to one of the directors, etc.
 - It therefore appeared as if candidates did not analyse the information sufficiently and subsequently the context in which part (c) (as well as part (d)) was answered, in many instances referred to wrong individuals/ wrong circumstances.
- It was evident that the candidates did not grasp and fully understood (or misread) the context of the ethical dilemmas.

- Candidates managed to identify that there was a threat (e.g. familiarity or self-review) but were not good at actually displaying their understanding of what the issue was or why it was an issue.
- Candidates confused the familiarity threat with self-interest threat, thus the father-son relationship between the tax partner (at the audit firm) and the audit partner (at the audit firm) was incorrectly identified as a familiarity threat. Candidates did not illustrate an understanding of the theoretical principles underlying the fact that the familiarity threat stems from a member of the audit firm being immediate/close family of an individual at the client (which results in a threat to independence).
- Candidates discussed Companies Act concerns/requirements when the required specifically stated that the discussion should refer to the Code of Professional Conduct.
- Candidates did not explain the category of the threat. Candidates would merely refer to 'familiarity threat' without providing a motivation.
- Candidates mixed up the individuals in the scenario and interchangeably referred to Tim rather than Jimmy or vice versa in their answers, and in many instances of linked the wrong individual to the type of service being performed.

Part (d)

- This part of the question revolved around one particular individual, namely Zenzi, but some candidates struggled to unpack all the issues.
- Although candidates were able to identify that there was an issue, they were often not able to identify that there were several separate issues that needed to be addressed.
- Even when candidates did pick up on the various aspects, discussions were too interlinked and often not separated sufficiently and thus not explained logically enough to be able marks to be awarded for it.

3 Areas that the candidates handled well

The areas that candidates handled reasonably well related to parts (a)(i) and (a)(ii). Candidates that did well in this question unpacked the issues and provided explanations for risks and non-compliances with the CPC.

PAPER 3 PART II

Maximum mark	Average mark	Marks ≥ 50% (Pass)	Marks < 50% (Fail)
59	31,31	2 362 (65%)	1 295 (35%)

1 What general areas the question covered

The question was based on a company (Mofasa) that operated a successful fuel service station, motor repair workshop and second-hand car dealership.

The question required candidates to –

- discuss the impact the proposed restructuring could have had on the profitability of Mofasa in FY2019;
- discuss the issues that management of Mofasa should consider when evaluating the proposal from Pride Oil; and
- discuss recognition and measurement issues related to leases; and
- calculate Mo's taxable income.

Overall, it was a good question, which was relatively easy but with some challenging sections. This balanced paper contained an appropriate spread of calculation and discussion marks. The scenario was appropriate, covering a topical

issue around recognition and measurement issues related to leases and aspects relating to employment. The layout of the scenario was well structured with the information detailed in appropriate areas.

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

Candidates battled in general to answer the discussion aspects of the question.

Candidates performed poorly in part (f), because they did not address relevant issues that management of Mofasa should consider when evaluating the proposal from Pride Oil. In addition, some of the candidates discussed generic issues which were not applicable to the proposal from Pride Oil. Although the marks were lower for this section, candidates nevertheless performed relatively better in this discussion section.

In part (g)(i) & (ii) candidates either did not provide sufficient points to earn the 6 and 5 marks that were available, or expressed themselves poorly in explaining the points identified. They also often provided generic points that were not applicable to the scenario. The main issue for most candidates was their inability to make relevant decision-making points, because they did not consider issues pertaining to the scenario. To earn the marks for these sections, candidates had to demonstrate critical thinking within the context of the specific situation.

3 Common mistakes made by candidates

The provision of generic points without applying to the scenario was also an issue, resulting in candidates not being awarded these marks. Application of the point to the scenario presented is vital. Communication was also in many instances relatively poor, with explanations not forming clear and crisp answers.

4 Areas that the candidates handled well

Candidates performed well in the calculation sections of the paper, namely parts (e), (g)(iii) and (h). These calculations were relatively straightforward, and the easier parts of the question.

5 Specific comments on sections of the question

The topics examined are those that are generally introduced from undergraduate level, and are pervasive throughout the syllabus and while candidates performed well in the straight-forward calculation sections of the paper, they in general battled to answer the discussion aspects of the question.

In part (e) candidates had to perform a calculation (EBITDA) to determine the potential impact of the proposed restructuring could have on profitability. Candidates were able to assess the impact and include relevant inputs that needed to be considered.

Candidates performed poorly in part (f) as they did not address relevant issues but provided generic answers.

In part (g)(i) & (ii) candidates either did not provide sufficient points to earn the available marks available, expressed themselves poorly or provided generic points not relevant to the scenario. The main issue was a lack of critical thinking, applied to the context.

In part (e) (iii) & (h) candidates did very well with preparation of journal entries for the lease and the calculation of taxable income of Mo. Most candidates demonstrated an understanding and had relevant technical knowledge to address the issues at hand.

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 appropriateness of the accounting treatment followed by a company to account for its percentage of the transit fares for the financial year ended 30 September 2019.
- (b) A calculation of the amounts that should be recognised as revenue for November and December 2019 in the accounting records of the company.
 - Candidates had to show revenue for each month separately.
 - All amounts had to be rounded to the nearest rand.
- (c) A discussion of the accounting recognition and measurement of a class action lawsuit in the financial statements of the company for the financial year ended 30 September 2019.
 - Candidates did not have to discuss the Conceptual Framework.
 - All amounts had to be rounded to the nearest rand.
 - Candidates could ignore the statement of cash flows and the statement of changes in equity in their discussion.

Part II

- (d) A description of the general controls that the company should have implemented to ensure the company's data stored by the third-party service provider in the cloud are secure.
- (e) A description of the application controls, with regard to workpaper on a description of a mobile app and revenue, that the company should implement to ensure the completeness and accuracy of the app users' data stored on a registered commuter database.
- (f) Drafting of the substantive audit procedures that the Registered Auditor should use when performing a 30 September 2020 audit to verify the accuracy of the loyalty programme liability.
 - Procedures had to be determined with reference to the information in a memorandum on the customer loyalty programme.
 - Candidates had to exclude analytical procedures and the general audit procedures listed in the extract from the auditor's audit manual.
- (g) A discussion of any concerns the candidates may have about the ethical behaviour and corporate governance practices of the Chief Financial Officer and the other directors, based on the information contained in a corporate governance structure section and a press article.
- (h) A discussion, with regard to a Board of Directors' planned strategic breakaway weekend of –
 - (i) the threats; and
 - (ii) the opportunitiesthey should consider to take the company into the future.

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)
40	21,29	2 190 (60%)	1 467 (40%)

1 What general areas the question covered

Paper 4, question 1, part 1 was a question involving MasterBus, a rapidly growing technology company, with a 30 September 2019 year end, which provided an app (the MasterBus app) that assisted users with finding the most efficient and cost-effective mode of public transport, similar to Uber and Bolt. MasterBus did not provide the transport itself but relied on transport providers to provide the transport services in return for a percentage of the fares (commission) based on the value of trips booked using the MasterBus app. MasterBus had also launched a customer loyalty programme that rewarded app users with loyalty points for trips booked via the app.

The question dealt specifically with the following financial accounting issues:

Part (a)

In this part candidates were required to discuss the appropriateness of the accounting treatment followed by MasterBus to account for the percentage of the transit fares (commission), for ten marks. Candidates had to assess whether MasterBus was correct to account for the full funds received from app users as revenue and then in turn account for the amounts payable to the transport providers (after deducting its commission) as cost of sales.

MasterBus only arranged/facilitated the transport service and candidates had to discuss if it was appropriate for MasterBus to record the revenue as a principal or if it would have been more appropriate to recognise the revenue as an agent, i.e. candidates had to discuss the appropriateness of recognising the revenue on the gross (revenue and cost of sales) versus the net (only commission revenue) method.

Part (b)

Candidates were required to calculate the amounts that would be recognised as revenue for November and December 2019 in the accounting records of MasterBus.

Candidates had to illustrate their understanding of when revenue should be recognised for both the commission and the customer loyalty points performance obligations, the transaction price of the transaction and how to allocate the transaction price to the separate performance obligations mentioned above.

Part (c)

Candidates were required to discuss the accounting recognition and measurement of a class action lawsuit (that had arisen as a result of MasterBus selling app users' information to a third party) in the financial statements of MasterBus for ten marks.

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

- Candidates did not analyse the scenario properly. This resulted in the question being answered incorrectly and some easy marks being lost, especially in part (a).
- A number of candidates did not identify that MasterBus was an agent.
- Some candidates incorrectly identified and wasted time discussing an IAS 10 issue in part (c).

3 Common mistakes made by candidates

Part (a)

Candidates failed to apply the relevant parts of IFRS to the given scenario, resulting in the dumping of theory without application. Candidates dumped the IFRS 15 five-step approach theory without appropriately linking the five steps to the scenario. Some candidates were not able to identify that the crux of the issue was that MasterBus was an agent and not a principal with regard to the facilitation of the transport services.

Part (b)

In part (b) some candidates allocated the transaction price to the commission and loyalty points separate performance obligations by using the residual approach, which can only be used in very limited circumstances, despite the fact that the separate stand-alone selling prices were known/could be calculated.

A significant number of candidates did not calculate the loyalty points earned for December correctly. Candidates calculated these based on the total trip sales figure, not considering that this amount first needed to be reduced by the amount relating to loyalty points used to book trips. The scenario explicitly stated that customers could not earn loyalty points on trips that were paid for using loyalty points.

Candidates did not correctly calculate the revenue earned from the redemption of loyalty points.

Part (c)

Although candidates were required to discuss the recognition and measurement of the class action lawsuit; most only discussed the recognition and not also the measurement. Some candidates wasted valuable time by including a discussion of both a provision and contingent liability in their responses; and at times it was difficult to determine what their conclusion was.

At times candidates provided an in-depth discussion of the Conceptual Framework even though this was scoped out in the required.

4 Areas that the candidates handled well

- Most candidates identified that it was inappropriate for MasterBus to reflect the total amount received from commuters as revenue and that the amounts payable to the transport providers should be excluded from the amount recognised as revenue.
- Candidates presented easy to follow and understand calculations for part (b).
- Although some candidates wasted time by including a discussion of both a provision and contingent liability; most candidates generally presented their IAS 37 discussion very well and linked the relevant IAS 37 principles to the relevant information in the scenario.

5 Specific comments on sections of the question

Part (a)

Some candidates followed a 'recipe' when it came to IFRS 15 by discussing the IFRS 15 five-step approach in general and failing to identify that MasterBus's performance obligation was to arrange for the supply of transport services by the various transport providers and that MasterBus was therefore an agent. This group of candidates provided IFRS 15 theory without applying it, and thus lost out on marks and wasted valuable time.

Part (b)

This part of the required was, generally, well attempted. Although candidates' calculations did not always display evidence of a proper understanding of how to account for customer loyalty programmes, the calculations presented were easy to follow and enabled the candidates to earn most of the available consequential marks.

Part (c)

Some candidates wasted time by including both discussions for a provision and contingent liability and dumping theory. Those who applied knowledge to the scenario performed very well in applying the relevant IAS37 principles to the information provided in the scenario.

PAPER 4 PART II

Maximum mark	Average mark	Marks \geq 50% (Pass)	Marks < 50% (Fail)
60	31,84	2 330 (64%)	1 327 (36%)

1 What general areas the question covered

Part (d) required candidates to deal with the risk management of computer controls, in the form of a description of the general controls the company should have implemented to ensure the data stored by the third-party service provider in the cloud were secure.

In part (e), also on risk management of computer controls, candidates had to describe the application controls that the company should implement to ensure the completeness and accuracy of the app users' data stored on a registered commuter database.

Part (f) dealt with audit procedures on IFRS 15 in the form of drafting of substantive audit procedures that should be performed during an audit to verify the accuracy of the loyalty programme liability, specifically with reference to information in the scenario.

Part (g) on corporate governance and ethics related to concerns about the ethical behaviour and corporate governance practices of directors.

Part (h) had a fourth industrial revolution focus and candidates had to discuss the threats and opportunities to take the company into the future.

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

It was interesting to note that the candidates who attempted the required sections in the chronological order performed better overall than those that jumped around and completed the sections they were most comfortable with first. This could be because they spent too much time on the first sections and possibly ran out of time on the later ones.

Overall, the candidates –

- provided very generic answers with a lack of application;
- confused themselves between the requirements of part (d) vs part (e);
- did not provide sufficient points even though they understood the required;
- wrote a lot on the same principle or point which counted 1 or 2 marks per the solution (e.g. writing 2–3 pages on board composition and sub-committees whereas the solution allocated only 2–4 marks to this aspect, possibly because they do not realise that if there is no independence, all of these aspects would be irrelevant; and

- did not always complete all of the parts, which was disappointing because the last three parts had communication skills marks and therefore candidates should have timed themselves to make sure that they attempted it.

Part (d)

Candidates generally fared well in this section as there were a number of easy marks that could be obtained. Candidates who did well in this question wrote down all the easier points (mostly those relating to theory) before attempting the more difficult ones (relating to a description of the controls).

Candidates struggled with the following:

- Listing of words without proper explanations or descriptions;
- Explaining test of controls / audit procedures, which were not required;
- The need to research the service provider before the services started;
- The roles and responsibilities of MasterBus and the service provider, although some identified the need for an agreement;
- Separating the requirements for MasterBus vs the service provider and how to address it - even though this was not as explicit in the final mark plan, candidates did not explicitly separate controls for customers from those of staff at Masterbus (even though in the end they would list controls affecting both);
- Going down the rabbit hole with regard to masterfile amendments, despite this was clearly not the focus of the question;
- Writing down too many password controls and not providing other controls. This earned limited marks and demonstrated poor planning: the section counted 12 marks, so obviously candidates could not earn these from a half page discussion on passwords;
- They were too focused on physical access controls only;
- Candidates battled to link the need for least privilege by clearly linking the allocation of usernames and passwords to the position / duties / functions of staff within the business. Candidates only listed words, without any discussion;
- The training of staff was not often addressed;
- Candidates demonstrated a poor understanding of controls. i.e. talking about backups but describing firewalls; and
- Not differentiating clearly between logical and physical access.

Part (e)

Candidates sometimes confused application and general controls and completely missed the point of this question. The majority of candidates appear to lack an understanding of application controls. Also, some tests of controls instead of actual controls that should be in place were provided. They identified the need for sequential numbering but very few candidates mentioned sequencing controls (i.e. sequential customer IDs) and the resulting sequence testing and follow-up control, thus losing out on two very easy marks;

Candidates struggled with the following:

- Memory dump vs actually applying the theory (i.e. they did not always illustrate points with reference to examples in the scenario).
- Candidates did not always apply the application controls – they either did not provide adequate examples or dumped irrelevant points that could not earn marks;
- Candidates showed a poor understanding of programmed checks (i.e. talking about field size checks but describing validity checks);
- Accuracy vs completeness were sometimes addressed as validity controls simply because candidates apparently did not know what to write, had not read the required carefully or simple could not distinguish

- between validity and accuracy/completeness controls. A fair number of candidates provided similar validity controls to those provided or that should have been provided for part (d); and
- Candidates did not understand the flow of data and consequently did not address controls such as data transmission controls.

Part (f)

Candidates really struggled to answer this section. There were some easy marks, which candidates did not obtain. Some candidates answered it as an accounting question, i.e. explained how the calculation works / should be done without formulating a procedure.

The majority of the candidates did not make use of CAATS/GAS/audit software, let alone applying it properly in the procedure they planned to perform.

Candidates made the following mistakes:

- They provided audit procedures, which were scoped out of the required.
- Providing audit procedures for the scenario and not general procedures.
- Not using the correct audit verbs – most candidates did not know what to inspect, i.e. they often inspected the terms and conditions without linking it to a source document and thus could not be awarded a mark.
- Using inspection instead of recalculation – some candidates did not recalculate the liability, and sadly wanted to inspect everything. Recalculation provides more sufficient, appropriate audit evidence.
- Basic procedures where they could have earned easy marks were missed. These included inspection of minutes of directors' meetings to verify the loyalty program, inspection of the signed contract to verify the 7.5% agreed upon percentage and obtaining an understanding of management's estimate of the 85% rate of loyalty points redemption and corroboration through inspection of an independent market report.
- ISA 540R auditing for the estimate was applicable and candidates struggled to identify this.
- As candidates did not fully understand the accounting implications, they struggled to address the stand-alone values or proportionate liability. Very few referred to it and the need to test the stand-alone value of commission.
- Recalculating the points numbers / value earned / redeemed, as they did not apply a calculation to actually indicate their understanding of the scenario. In the case of these different points in the scenario (earned, redeemed, etc.) candidates did not use the actual wording from the scenario which made it difficult to determine what they were actually trying to address. Some candidates also used their own descriptions of the points, ones not in the scenario, which obscured the answer even more.
- Procedures were often a theoretical dump rather than an application to the scenario.

Part (g)

Candidates did not always appropriately address or link the SAICA Code of Professional Conduct (CoPC) in their response, which caused them to lose marks.

Candidates that did well in this question and on the whole separately addressed Companies Act, King IV and SAICA CoPC in their responses. Candidates that did well in this question generally provided a statement of theory followed by its application to how MasterBus had not followed the theory. Most candidates were able to identify the non-compliance in terms of section 22 and / or the POPI Act.

Many candidates failed to discuss Nosisa as a CA and her ethical behaviour. They just discussed King IV and the Companies Act. Candidates applied the requirements of the CoPC to the entire board as opposed to just Nosisa, not bearing in mind that she was the only CA on the board. In general, the integrity principle was well understood by candidates but the professional competence and due care was not well applied.

Overall, many candidates either only addressed governance or only the CoPC, and not both.

The main areas of difficulty were the following:

- Candidates did not apply the Companies Act correctly, not considering that this company was a private company, and thus discussed irrelevant sections.
- Candidates did not identify Nosisa as a senior CA, which was important for this question, thus missing out on the easy mark.
- They were unable to separately identify (link) NOCLAR, and the need to respond to it, from the point on professional behaviour (or even King IV/Companies Act requirements). Candidates gave long discussions on NOCLAR, which was fine, but given the mark allocation of 17 and the many ethical issues of the board, candidates should have planned their responses better.
- Candidates would take an extract out of the scenario and state that it breaches multiple fundamental principles without explaining why that was the case, or without clearly linking their theory to the scenario.
- Some candidates wasted time by providing numerous theoretical principles instead of applying these to the case study.
- Candidates did not limit their principles to those that were relevant to the case study.
- Candidates were also not efficient in applying their knowledge, for they spent too much time explaining content (rewording it) and how it was applicable in the scenario. They took too long to actually drive their points home and obtain the marks.
- Candidates were unable to make a clear link to the breach in fundamental principles. They either did not provide any examples or gave the wrong examples, which indicated that they had a poor understanding of the definitions of some of the fundamental principles.
- Candidates got stuck on explanations of the need for committees in terms of King IV without realising that it was not mentioned in the case study, nor did they have the members to constitute the committees correctly.
- Candidates also struggled to obtain the mark on the majority vote of directors as they focused mostly on the Companies Act requirements for the appointment of auditors.
- Professional behaviour application was often poorly explained (i.e. non-compliance that can bring the profession into disrepute).
- Few candidates identified that the directors were not competent – where they indicated the need for a company secretary, they didn't link it to the fact that the directors needed guidance.
- The mark for the nomination process was rarely awarded as candidates stumbled around trying to explain why the process to appoint Nosisa was poor, which also led to not all areas of the process being addressed.
- Even though candidates identified the problem arising from the friendship between Nosisa and George (and the rest of the board sometimes), they did not always identify what impact this could have. Thus they identified the matter but did not necessarily state its implications (i.e. impaired objectivity).
- Sadly, some candidates discussed a reportable irregularity (RI) – which was not applicable/necessary here. Some did so in detail, with the explanation that this was due to non-compliance with the POPI Act. This was not only incorrect, but also meant that candidates wasted time and did not get to the glaring ethical issues in the scenario.

Part (h)(i)

Candidates did not identify that the industry related to an app that was developed and not transport as such. Points written by a notable number of candidates were light, and many did not receive marks because they did not focus on 4IR and were just too generic. Some candidates lacked an understanding of 4IR or completely missed the 4IR focus and listed standard threats and opportunities.

Generally, candidates obtained marks here, but the problem was that some would not align the threats and opportunities to 4IR or the implications / impact of the threats applicable to MasterBus's business model.

More candidates than anticipated missed the mark with part (h) where they explained the threats and opportunities for the directors to go on a breakaway, as opposed to the threats and opportunities they should be discussing at the breakaway (thus to take the company 'into the future' as stated in the required).

Overall threats were addressed better than opportunities. Most candidates did not even attempt opportunities (probably because this was only a three-mark question):

- Many candidates identified Uber / Bolt / Taxify as existing competitors in this sphere as they were looking at transport providers as opposed to those that perform similar service as the company itself;
- While job losses were identified, the need to reskill often was not;
- The impact of the negative media was not always clearly linked to the implication – i.e. loss of customers and reputation;
- High data prices were identified more often than the large capital investment required to improve the technology; and
- Candidates discussed issues with the actual breakaway – stating for example that it was not ethical for the directors to have such a breakaway as it wasted money and showed that the board did not have a risk committee to take on these issues.

Part (h)(ii)

Candidates struggled with the following:

- Providing explanations of opportunities and not just list words;
- The opportunity to dominate the market or increase market share was not well explained or addressed;
- Many different ways to merge with competitors, do deals with data providers, or other ways to change the structure of the business were suggested;
- The need for safer transport was not often linked to brand – some candidates however also addressed the need to be more environmentally friendly (carbon impact of public transport should be considered); and
- Candidates did not really understand the benefit of big data and could not explain well how that could be used to improve the competitiveness of the business.