

Examiners Comments

Assessment of Professional Competence

November 2018

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Assessment of Professional Competence (APC), which is Part II of the Qualifying Examination and which was written in November 2018. Its objectives are to –

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

To accomplish these objectives, the report provides specific comments on each section of the case study required.

The APC consists of a single integrated case study which is based on a comprehensive real-life scenario and is multi-disciplinary in nature, in that it covers multiple competency areas.

The case study is assessed within the context of a certain baseline of technical competence (as developed through the academic programme and as assessed in both the academic programme and the ITC). The case study will also be assessed within the context of any industry, including those that are specifically excluded from ITC.

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

- Background and acknowledgement on the setting of APC November 2018
- Statistics and detailed comments by section/required

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

BACKGROUND AND ACKNOWLEDGEMENT ON THE SETTING OF APC NOVEMBER 2018

The Examinations Committee (Examco) constantly strives to improve its ability to determine whether candidates demonstrate a level of professional competence at entry into the CA(SA) profession. This is done by means of an ongoing process of evaluation and improvement of the way in which it commissions an appropriate case study for the assessment and decides on the evaluation of competence.

Source of the questions

Examco is a sub-committee of the SAICA Initial Professional Development Committee (IPD Committee), and takes overall responsibility for the setting of the case study.

The APC Examco decides on the industry, scenario and topics to be examined and also commissions a separate setting team, who are specialists in their respective competency area(s) and who have a good understanding of the other competency areas, to draft an appropriate case study and solution for the assessment.

The team consists of academics and members of the profession in public practice and / or in commerce and industry. Case studies are commissioned from any person the APC Examco deems to have the relevant experience and competence to do so.

In this regard, the following applies:

- Members in practice who are requested to set case studies by the APC Examco may not be involved in any way in preparing candidates for the APC (this includes formal courses and lectures and training programmes and support programmes put in place to prepare students for the APC but excludes members who perform the normal role of a supervisor, manager or partner on a client); and
- Individuals who are in any way involved in preparing students for the professional programme (this includes formal courses and lectures and training programmes and support programmes put in place to prepare students for the APC but excludes members who perform the normal role of a supervisor, manager or partner on a client) are PROHIBITED from preparing or reviewing any aspect of the case study.

Academics, former academics and/or members of the profession in public practice and/or in commerce and industry are also selected by Examco each year to assist in the external review of the case study. These external reviewers are selected based on their experience and ability.

Anyone involved in the professional programmes may not be engaged by SAICA to perform the role of external reviewer.

The involvement of such individuals as external reviewers in the assessment setting and review process is crucial for achieving the quality objective of the assessment.

Where appropriate and where possible, external reviewers are appointed for a period of at least three years as continuity is important.

The external reviewers have the following tasks:

- Review of the case study for conceptual problems and consistency in the use of terminology;
- Indicate whether the relevant case study is set at an appropriate level;
- Comment on whether the level of competence in accounting and external reporting (underpinned by the pervasive skills) is set at an appropriate level;
- Comment on whether a minimum level of competence in the remaining five specific technical competence areas and communication skills is set at an appropriate level;
- Comment on the provisional mark grid;
- Comment on whether the time limit is appropriate (assessment can reasonably be completed within a six-hour period, including reading time); and
- Comment as to whether the principles of assessment have been met.

In addition, the quality and appropriateness of the case study are monitored by at least two external sitters, who attempt each APC case study. These external sitters are required to provide the APC Examco with a formal, independent report in which they comment on the overall case study and suggested solution.

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

An alphabetical list of all the people involved in various roles, including members of the Examinations Committee, setting team, reviewers and external examination sitters, is as follows:

Bohlokwa Napo	Nico van der Merwe
Christo Landman	Nomonde Holomisa
Ferdinand Mokete	Paolo Giuricich
Frans Prinsloo	Shalin Naidoo
Greg Beech	Sphiwe Stemela
Gregory Plant	Stéfani Coetzee
Janine Claassens	Terry Moore
Keshni Kuni	Thabang Molepo
Mandi Olivier	Tumeka Matshoba-Ramuedzisi
Marielienne Janeke	Zuleka Jasper
Mpumi Monageng	

COMMENTARY ON CANDIDATES' PERFORMANCE IN THE APC 2018

The 2018 case study was based on a hypothetical hotel group namely; Millennial Hotel Group (Proprietary) Limited (MHG). The feedback from various stakeholders in the process was positive. They thought the selection of the hotel industry was appropriate and candidates would have had ample opportunity to do pre-research. The Professional Programme Providers (PPPs) in particular were pleased with the multi-disciplinary integration within tasks and also the approach to assessing ethics in task (h). The PPPs thought the 2018 case study was one of the more difficult and challenging APC case studies.

The technical aspects of the tasks were well triggered in the pre-released information. Certain candidates however, were unable to apply their pre-release preparation to the tasks on the day of the assessment, which could be attributable to not having prepared themselves adequately during the pre-release period in the triggered information.

It is important to note that being assessed as borderline competent (BC) in a task reflects that a candidate may have attempted the task but not quite at the level expected of an entry level CA(SA). Hence BC in a task is neither competent (C) nor limited competence (LC).

Task (g) proved to be the easiest task in the case study with the majority of candidates being assessed as C or higher. Candidates generally coped well with tasks (a), (b), (c), (d) and (e) although the assessment of these tasks could be regarded as moderate. Task (f) was deliberately set as a difficult task to assess whether candidates could cope with complexity. All of which was factored into the overall assessment of the candidate. Conversely, an assessment of C in task (f) was a strong indication of overall competence. A balance of easy, moderate and difficult tasks in the APC is deliberate and assists in the overall evaluation of professional competence.

We were concerned by the number of candidates who refused to respond to task (h) on the grounds of confidentiality. The information on the day made it very clear that the junior disruptor had permission to share any confidential information with his/her mentor and the fall back on the SAICA Code of Conduct in this regard was inappropriate. Hence, an email response stating that he/she could not divulge any confidential information was not a competent response. The feedback we received from candidates were that they thought SAICA had set task (h) as a 'trick' question. SAICA would never set a 'trick' task to establish whether candidates behaved unethically. Our intention and opinion on task (h) was that it was an appropriate way to assess ethics particularly in the current business environment.

The senior markers noticed even more of a decline in the quality of responses to the 2018 APC in comparison to prior years. In particular, the following were a concern:

- Many candidates were 'writing' far too much in response to the tasks. One candidate typed over 43 pages in Microsoft Word and Excel! In real life, your immediate boss may cease reading a 10 page email after two or three pages.;
- Contrary to above, we also noted that certain candidates wrote far too little and/or not applying their thinking to the case study, making it very difficult to assess the candidate's understanding/competence in the task.
- We noticed an increasing incidence of ITC type responses particularly in tasks (a) and (b). Dumping theory and providing too much technical detail would not be an appropriate response in practice; and
- We noticed 12 no attempts (NA) to task (f) and 8 to task (h). A NA to any task places candidates at enormous risk of being deemed limited competent overall.

The section below contains a summary of candidates' general performance for each part of the case study. These should be read in conjunction with the published examples of actual candidate attempts per task, based on mark team assessments of LC, C and 'highly competent' (HC) attempts.

Task (a)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Accounting & External Reporting	27.8%	36.7%	35.5%

(a)	<p><i>Respond to Travis Jagger's email by drafting a memorandum regarding IFRS 16 Leases as requested.</i></p>
	<p>DOCUMENT 1</p> <p>EMAIL FROM TRAVIS JAGGER TO JUNIOR DISRUPTOR</p> <p>From: Travis Jagger Sent: Wednesday 21 November 2018, 5:49 AM To: Junior Disruptor CC: Subject: Leasing</p> <p>Good morning</p> <p>Need to get an early start this morning ... there's a lot to do! We have a Board meeting coming up and everyone is waiting for some documents from me in preparation for the meeting.</p> <p>You might recall my email to you on 9 November about the looming IFRS 16 adoption. The Board is really struggling to understand why our operating leases for the properties must now all of a sudden be capitalised, and have expressed their uncertainty about the impact it would have. I think this could be best illustrated using an example with numbers and conditions similar to our actual existing lease agreements.</p> <p>I would like you to use the following illustrative lease terms and conditions, which are typical to our business:</p> <ul style="list-style-type: none"> • A three-year lease with the option to renew for two years (the maximum term is usually ten years, but that will make your table too cumbersome). • Assume annual lease payments for the sake of simplicity. The first lease payment at the end of year 1 is R1,1 million, which escalates by 8% every year. • You can work on an initial property value of R13,5 million and the property will be worth R12,5 million at the end of the lease (not sure if you would need this information). <p>Kindly draft a memo on my behalf, for circulation to the Board members, which includes the following:</p> <ul style="list-style-type: none"> • A table with numbers based on the example above, covering the full lease term, showing the impact on (a) total assets excluding cash, (b) total liabilities and (c) profit for the year, of (1) the old treatment under IAS 17 and (2) the new treatment under IFRS 16. • Brief notes to explain what you did in this table. • A conclusion on the impact of IFRS 16 for MHG. <p>Please don't include the tax implications in your memo for now; the Board will have enough to cope with! One step at a time...</p>

Regards
Travis

CFO: Millennial Hotel Group

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In task (a), the task at hand was that the junior disrupter (represented by the candidate) was required to prepare a memorandum for the board of directors which included:

- a table with numbers based on a hypothetical example, covering the full lease term, showing the impact on (a) total assets excluding cash, (b) total liabilities and (c) profit for the year, of both the old treatment under IAS 17 and the new treatment under IFRS 16;
- brief notes to explain what was done in the table; and
- a conclusion on the impact of IFRS 16 for MHG.

The candidates did not have to include any tax implications in their memorandum.

In answering the task successfully, the candidates needed to demonstrate the required technical competence in connection with both IAS 17 *Leases* and IFRS 16 *Leases*, in addition to the ability to exhibit the pervasive skills of being able to present the financial effects of a hypothetical example in a table illustrating the impact on the total assets, total liabilities and profit for the year over the full lease term. Further the candidates were required to conclude on the overall impact of adopting IFRS 16.

There was a trigger in the pre-release information to research the potential impact of IFRS 16 *Leases* on MHG's financial statements. This implied that the candidates needed to understand the technicalities of the current accounting treatment of the leases in terms of IAS 17 *Leases*.

The information on the day presented a hypothetical lease example which was to be used for the illustration. A renewal option of two years was available and the candidates had to conclude that the renewal was likely because it was stated in the pre-release information that MHG generally renews their leases since suitable alternative properties are not easy to find. Therefore, the correct lease term to be used was five years. An interest rate implicit in the lease was not provided. Here, the candidates could have attempted to compute the interest rate implicit in the lease or argued that this was not available and that the incremental borrowing rate should be used. It was incorrect to use the 8% escalation as the incremental borrowing rate. Instead, an acceptable borrowing rate was the rate on the 6CVCF loan or a prime borrowing rate. The lease payments were given at R1.1 million escalating by 8% every year and the candidates had to use a series of escalating lease payments in the cash flow calculations. Further, as the escalations in the lease payments were fixed, the lease payments had to be equalized. The equalized amount was to be recognised on a straight-line basis over the lease term. The initial property value was given as R13.5 million and the property would be worth R12.5 million at the end of the lease. It was reasonably clear that the lease payments did not comprise the R12.5 million as the lessee had no obligation to pay the R12.5 million at the end of the lease term. Therefore, the R12.5 mill was arguably an unguaranteed residual value.

The candidates who displayed competence in this task were those who at a minimum answered the task, i.e. what was required. These candidates used the hypothetical example given on the day and provided a table for five years setting out the financial impact on the total assets, total liabilities and profit for the year for IAS 17 and IFRS 16. Some candidates went a step further and compared the difference numerically between total assets, total liabilities and profit for the year under IAS 17 and IFRS 16 respectively. Other candidates provided an overall conclusion on the difference and impact in discursive terms. A certain number of errors were accepted before it became apparent that the candidate was not clearly competent.

Overall, a majority of the candidates understood the technical aspects of IAS 17 and IFRS 16. Quite a few candidates made various technical errors, which lead to a borderline competent grading when aggregated. Typical errors were:

- Using a three-year lease term instead of five years for IAS 17 or IFRS 16 or both.
- Not straight lining the escalating lease payments in determining the annual operating lease expense.
- Omitting the operating lease accrual in the total liabilities under IAS 17.

- Calculating the present value of lease payments whilst including the R12.5 million as a future value, thereby stating the lease liability at R13.5 million.
- Calculating the present value of lease payments using a fixed payment of R1.1 million and ignoring the escalation.
- Presenting a table of financial effects for only one year and normally at inception date only.

It was worrying to see that there were candidates who did not engage with the hypothetical example given on the day or attempted to illustrate the effects of IAS 17 and IFRS 16 without using the amounts in the hypothetical example.

This task is a good example of what the candidates would be exposed to, and be required to do, in practice.

Task (b)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Accounting & External Reporting, Financial Management	29.4%	46.6%	24.0%

(b)	<p><i>Respond to Travis Jagger’s email regarding the fair value assessment of the Sandton property.</i></p>
	<p>DOCUMENT 2</p> <p>EMAIL FROM TRAVIS JAGGER TO JUNIOR DISRUPTOR</p>
	<p>From: Travis Jagger Sent: Wednesday 21 November 2018, 7:02 AM To: Junior Disruptor CC: Subject: Leasing (again!)</p> <p>Hi again</p> <p>You know what might persuade the Board that IFRS 16 can be good for us? Answer: if we use it to our advantage!</p> <p>As you know, the right-of-use asset on leases can be carried in the financial statements in accordance with the revaluation model. I’ve been playing with this idea to give our balance sheet a bit of a makeover. It’s a pity we will have to wait until FY2020, but I want to give the users of our financial statements a bit of a taste of what is to come, by disclosing an estimate of what the increased NAV per IFRS 16 will bring about – all in the spirit of the disclosures of IAS 8 paras 30–31. I’ve calculated my best estimate of the fair value of the Sandton hotel – see attachment.</p> <p>Would you mind reviewing my spreadsheet and noting any concerns you have? Thanks, you’re a star!</p> <p>Can’t wait for the additional financing we will raise with an improved balance sheet!</p> <p>Regards Travis</p> <p>CFO: Millennial Hotel Group</p> <p>PS: Time is limited, so please assume that the attached spreadsheet is mathematically accurate, i.e. you don’t need to check formulas and casting, etc.</p> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Hotel Group email disclaimer. See http://www.millennialhg.co.za/disclaimer/email.htm for more details.</small></p>

ATTACHMENT TO EMAIL

Workings of Travis Jagger: Fair value estimate of Sandton hotel property

Fair Value Sandton Hotel Excel - Excel													
Travis Jagger													
Fair value estimate: Sandton property													
	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Fair value estimate: Sandton property												
3		(1)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
4			Rand										
6	Number of rooms		69	69	69	69	69	69	69	69	69	69	
8	Average room rate per night	(2)	1,490	1,565	1,643	1,725	1,811	1,902	1,997	2,097	2,201	2,311	
10	Occupancy	(3)	71%	71%	71%	75%	75%	75%	76%	77%	78%	79%	
11	Days per year		365	365	365	365	365	365	365	365	365	365	
13	Estimated accommodation revenue		R 26,643,212	R 27,975,372	R 29,374,141	R 32,580,473	R 34,209,497	R 35,919,971	R 38,218,850	R 40,657,816	R 43,245,131	R 45,989,534	
15	Food & beverage revenue	(2)	R 11,391,778	R 11,961,367	R 12,559,435	R 13,187,407	R 13,846,777	R 14,539,116	R 15,266,072	R 16,029,375	R 16,830,844	R 17,672,386	
17	Sundry & shop revenue	(2)	R 1,869,556	R 1,963,033	R 2,061,185	R 2,164,244	R 2,272,456	R 2,386,079	R 2,505,383	R 2,630,652	R 2,762,185	R 2,900,294	
19	TOTAL REVENUE		R 39,904,545	R 41,899,772	R 43,994,761	R 47,932,124	R 50,328,730	R 52,845,167	R 55,990,305	R 59,317,843	R 62,838,160	R 66,562,214	
21	Expenses	(4)											
22	Commission expense	(5)	R 1,705,166	R 1,790,424	R 1,879,945	R 2,085,150	R 2,189,408	R 2,298,878	R 2,446,006	R 2,602,100	R 2,767,688	R 2,943,330	
23	Food, liquor & beverages	(6)	R 7,404,656	R 7,774,888	R 8,163,633	R 8,571,814	R 9,000,405	R 9,450,425	R 9,922,947	R 10,419,094	R 10,940,049	R 11,487,051	
24	Cost of goods sold in hotel shops	(7)	R 1,308,689	R 1,374,123	R 1,442,830	R 1,514,971	R 1,590,720	R 1,670,255	R 1,753,768	R 1,841,457	R 1,933,530	R 2,030,206	
25	Bank charges	(2)	R 447,556	R 469,933	R 493,430	R 518,102	R 544,007	R 571,207	R 599,767	R 629,756	R 661,243	R 694,306	
26	Employee costs	(8)	R 10,139,667	R 10,748,047	R 11,392,929	R 10,823,283	R 10,282,119	R 9,768,013	R 9,279,612	R 8,815,632	R 8,374,850	R 7,956,108	
27	Lease payments	(9)	R 9,900,000	R 10,692,000	R 11,547,360	R 12,471,149	R 13,468,841	R 14,546,348	R 15,710,056	R 16,966,860	R 18,324,209	R 19,790,146	
28	Repairs & maintenance	(10)	R 2,163,556	R 2,271,733	R 2,385,320	R 2,504,586	R 2,629,815	R 2,866,499	R 3,124,484	R 3,405,687	R 3,712,199	R 4,046,297	
29	Other operating expenses	(2)	R 2,541,222	R 2,668,283	R 2,801,698	R 2,941,782	R 3,088,871	R 3,243,315	R 3,405,481	R 3,575,755	R 3,754,543	R 3,942,270	
30	Depreciation and amortisation		R 1,619,333										
31	Interest expense: 6CVCF		R 240,000										
33	TOTAL EXPENSES		R 37,469,843	R 39,648,765	R 41,966,478	R 43,290,171	R 44,653,519	R 46,274,274	R 48,101,454	R 50,115,674	R 52,327,644	R 54,749,046	
35	PROFIT		R 2,434,702	R 2,251,007	R 2,028,283	R 4,641,953	R 5,675,211	R 6,570,893	R 7,888,850	R 9,202,170	R 10,510,516	R 11,813,168	

Fair Value Sandton Hotel Excel - Excel

File Home Insert Page Layout Formulas Data Review View DM Tell me what you want to do... Janine Claassens Share

A1 Fair value estimate: Sandton property

	A	B	C	D	E	F	G	H	I	J	K	L	M
35	PROFIT		R 2,434,702	R 2,251,007	R 2,028,283	R 4,641,953	R 5,675,211	R 6,570,893	R 7,888,850	R 9,202,170	R 10,510,516	R 11,813,168	
37	Discount rate	{11}	4.3%										
39	NPV = Fair value		R 47,211,184										
41	Notes:												
42	(1) Lease renewed for maximum available period of 10 years.												
44	(2) Used a 5% annual price hike in line with general inflation.												
46	(3) We are planning big renovations in 2022 that will increase hotel popularity substantially.												
48	(4) A reasonable allocation of total expenses made to Sandton property based on size.												
50	(5) Assumptions:												
51	• 50% of accommodation booked directly with MHG, attracting no commission.												
52	• 30% of accommodation booked on booking websites with 8% commission on average.												
53	• 20% of accommodation booked through travel agents with 20% commission on average.												
55	(6) 65% of food & beverage revenue.												
57	(7) 70% of sundry & shop revenue.												
59	(8) In our pursuit to become a "leaner" business; fewer employees will be needed (also computers will replace people).												
61	(9) Lease escalation per contract is 8%.												
63	(10) Used 5% growth until 2023; 9% thereafter as building getting older.												
65	(11) Average yield in SA property market: https://www.privateproperty.co.za/advice/news/articles/the-outlook-for-south-africas-property-market-in-2018/6160												
66													
67													
68													
69													
70													

Fair value

Ready 95%

The revaluation of right of use assets was strongly triggered in the pre-released information however, the nature of the task required application of this knowledge in a different context than what candidates may have anticipated.. The context of the task was from a financial accounting perspective but the majority of the work required pervasive and financial management skills. Candidates should have briefly referred to relevant financial reporting standards regarding valuation principles without dumping too much theory. We noticed that candidates who struggled with this task adopted an ITC type approach of regurgitating accounting standards and then applying it to the problem at hand. This is clearly not an appropriate response in a workplace environment.

Many candidates failed to comprehend what 'asset' was being revalued. The asset being revalued was not the property which is owned the executive directors. The asset being revalued was also not the fair value of the hotel operations conducted from the premises although this could be a useful proxy for fair value.

Candidates who achieved competency in task (b) provided useful and tactful commentary of the forecast cash flows such as:

- Questioning the reasonableness of the forecast revenue (occupancy levels, room rates etc.);
- Commented on the forecast gross profit margins (or the reasonableness of cost of goods sold);
- Questioned the reasonableness of allocating overheads to the Sandton hotel based on size;
- Debating the forecast decline in employee costs;
- Discussing the planned renovations and the potential impact on profitability;
- Identifying that depreciation was a non-cash item which should be excluded;
- Identifying that taxation and working capital forecasts had been omitted from the workings; and/or
- Discussing the appropriate discount rate to be used.

It was not expected of candidates to identify all deficiencies and omissions in the forecast cash flows but rather a reasonable coverage of issues.

Indicators of higher level application included:

- Identifying that the forecast RevPAR was much higher than the MHG average in FY2018;
- Recognising that marketing costs had been omitted from the forecasts;
- Debating what impact the new leasing standard could have on WACC; and/or
- Advising that IFRS 16 could be early adopted.

Task (c)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Audit & Assurance	29.4%	38.6%	32.0%

(c)	<p><i>Prepare the coaching/review notes for Jane Wyman, as requested by Brian Stewart, in order to achieve the objective stated in audit work paper DIR-01.</i></p>											
ATTACHMENT TO EMAIL												
<table border="1" style="width: 100%;"> <tr> <td>Millennial Hotel Group</td> <td>Financial Year: 2017/2018</td> <td rowspan="4" style="text-align: center; vertical-align: middle;">DIR-01</td> </tr> <tr> <td>Prepared by: Jane Wyman</td> <td>Date: 15/11/2018</td> </tr> <tr> <td>Reviewed by:</td> <td>Date:</td> </tr> <tr> <td colspan="2">Subject: Loan: Tshepo Umculi</td> </tr> </table>		Millennial Hotel Group	Financial Year: 2017/2018	DIR-01	Prepared by: Jane Wyman	Date: 15/11/2018	Reviewed by:	Date:	Subject: Loan: Tshepo Umculi			
Millennial Hotel Group	Financial Year: 2017/2018	DIR-01										
Prepared by: Jane Wyman	Date: 15/11/2018											
Reviewed by:	Date:											
Subject: Loan: Tshepo Umculi												
<p>Objective</p> <p>To detect material misstatements in the 2018 AFS resulting from the transactions on Tshepo Umculi's loan account, and from the loan balance at 30 September 2018.</p>												
<p>Audit procedures</p> <ol style="list-style-type: none"> 1. Obtain a printout of the general ledger account for 'Loan: T. Umculi' for FY2018. 2. Reperform the clerical accuracy of the calculations to determine the accuracy of the closing balance. 3. For all entries in the general ledger account, inspect supporting documentation to verify that the entry is recorded at the correct amount, at the correct date, and is appropriately described (in the 'Description' column). 4. Request Tshepo Umculi to sign a written confirmation letter confirming that he is in agreement with the loan balance at 30 September 2018. 												
<p>Findings (for each of the above audit procedures)</p> <ol style="list-style-type: none"> 1. Done – see general ledger account on the next page. (<u>Note</u>: Credit entries are denoted by negative amounts in the 'Amount' column.) 2. Done – no exceptions found. 3. Done – refer to the right-most (shaded) column in the the general ledger account for the identification of the specific documents and records inspected. All amounts, dates and descriptions reflected in the general ledger account correspond to the amounts on the supporting documentation. The following is specifically noted: <ul style="list-style-type: none"> ○ Note A: The amount recorded in the loan account is exclusive of VAT. ○ Note B: The amount debited is the carrying amount of the furniture and fittings transferred from the company's hotels to Tshepo's holiday home. ○ Note C: The amount recorded represents the total charges on Tshepo's company credit card, including VAT and tips, for the period 1/10/2017 to 30/9/2018. 												

4. Done – Tshepo agrees with the NIL balance on his loan account as at 30 September 2018, and his written submission has been filed.

Conclusion

No misstatements were detected. As a result it can be concluded that there are no material misstatements in the 2018 AFS resulting from the transactions on Tshepo Umculi’s loan account, and from the loan balance at 30 September 2018.

Printout of general ledger account 723: ‘Loan: T Umculi’

Date	Account	Reference	Description	Amount	Document(s) Inspected
1/10/2017			Opening balance	0.00	
25/10/2017	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
10/11/2017	Accounts payable	Purchases journal	Purchase of BMW 530i vehicle for Tshepo Umculi’s personal use	875 000.00	Supplier’s invoice (note A)
11/11/2017	Bank	Cash book	Deposit	-275 000.00	EFT log
25/11/2017	Salaries and wages	Payroll	Mrs Umculi’s salary	-50 000.00	Monthly payroll report
28/12/2017	Revenue	General journal	The value of hotel accommodation used by the Umculi family	-125 000.00	Memo from Tshepo Umculi instructing transfer
25/1/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
25/2/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
25/3/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
25/4/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
25/5/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-50 000.00	Monthly payroll report
25/7/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
25/8/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
25/9/2018	Salaries and wages	Payroll	Mrs Umculi’s salary	-25 000.00	Monthly payroll report
15/9/2018	Furniture and fittings	General journal	Furniture for Tshepo Umculi’s holiday home	127 875.00	Fixed asset register (note B)
30/9/2018	Entertainment	General journal	Expenditures incurred on behalf of company	-175 895.00	Credit card statements (note C)
30/9/2018	Bank	Cash book	Deposit	-126 980.00	EFT log

	30/9/2018			Closing balance	0.00	
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Most candidates were assessed as borderline competent in task (c).

In answering this task candidates needed to demonstrate technical competence in taxation; and in auditing and assurance. Both of which were triggered.

The information on the day presented candidates with a working paper, prepared by Jane Wyman from Internal Audit at MHG, on Tshepo Umiculi's loan account. Candidates were required to:

- Provide coaching/review notes on the working paper identifying any issues or concerns on the adequacy and appropriateness of the audit work performed in the working paper;
- Provide coaching/review notes that were detailed;
- Not provide audit procedures; and
- Consider risks of material misstatements in other areas of the 2018 AFS.

The level of difficulty of this task was also assessed moderate due to candidates needing to demonstrate the pervasive skill of being able to evaluate information (i.e. being able to work through the working paper in a systematic, analytical and critical manner) and then to respond in an appropriate professional tone to Jane Wyman.

There was a clear trigger in the pre-released information that as a result of the increased volume of transactions in the director's loan account, this account would be a focus area for the internal audit team. The pre-released information also made clear reference that the related tax consequences of the directors loan account would also be a focus area. In addition Document A, Attachment to the email note 6, provided candidates with a list of current directors of MHG. For the purpose of this task, candidates had to identify that Mr. Tshepo Umiculi was the CEO and chairman of the board of MHG

A competent candidate on this task provided coaching/review notes that had sufficient coverage of the issues in the working paper, addressed the tax issues and dealt with the risks of material misstatement.

The following were some of the issues in the working paper, which candidates were expected to address:

- Insufficiency in the audit work performed;
- Companies Act considerations of directors loan accounts;
- The salary granted to Mrs Umiculi when then the loan account is the name of Mr. Tshepo Umiculi;
- The potential fringe benefit tax consequences of certain transactions; and
- The material misstatements in other accounts for example PPE and revenue.

Task (d)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Audit & Assurance	25.0%	46.1%	28.9%

(d)	<p><i>Formulate the procedures that should be carried out by the internal audit team to investigate whether there is any substance to the allegations reported by the anonymous whistleblower to Tshepo Umculi.</i></p>
	<p>DOCUMENT 3</p> <p>EMAIL FROM BRIAN STEWART TO JUNIOR DISRUPTOR</p>
	<p>From: Brian Stewart Sent: Wednesday 21 November 2018, 8:05 AM To: Junior Disruptor CC: Subject: Requests related to internal audit secondment</p> <p>Dear Junior Disruptor</p> <p>I must admit that I am burning the midnight oil trying to get through all my work – and hence I will greatly appreciate your assistance with the following urgent matters:</p> <ol style="list-style-type: none"> 1 Please review the attached audit workpaper DIR-01 – prepared by Jane Wyman, a junior member of my team – and provide her with coaching/review notes regarding the adequacy and appropriateness of the audit work she has performed. While she is in her final year of BCom (Accounting) studies (part time), it is clear that Jane needs a lot of development and hence detailed feedback is required. Please do not formulate a list of audit procedures for Jane – while I want her to clearly understand your concerns and to learn the specific areas that require further audit work, I want her to formulate the audit procedures. Otherwise, how will she ever develop as an auditor? 2 From my superficial review of Jane’s work, I am also concerned that she has interpreted the scope of her assignment too narrowly. Her audit work seems to be confined to detecting material misstatements in the loan balance of Tshepo Umculi, while ignoring possible material misstatements that may exist in other areas of the 2018 annual financial statements (AFS) as a result of the loan transactions. Please also deal with these potential misstatements in your coaching/review notes. 3 I attended a meeting with Tshepo early this morning where he reported that he had received an anonymous email late last night alleging that some of the staff in our hotels were – <ul style="list-style-type: none"> • allowing guests who have not made a reservation (i.e. walk-ins) to use otherwise empty hotel rooms, asking them to pay in cash, and then pocketing all or part of the amount due; and • allocating an excessive number of complementary room nights to travel agents and other third parties in exchange for kick-backs.

	<p>Tshepo has instructed the internal audit unit to undertake an initial investigation into these allegations as our utmost priority to determine whether there is reason to regard these as credible. Should the evidence gathered point to the likelihood of such irregularities taking place, we will appoint a forensic auditor to take the matter further. Can you therefore formulate the procedures that my audit team members should carry out to ascertain whether there is substance to the whistleblower's allegations? Please email these to me by 17:00 for my review. To facilitate easy execution, I need you to keep these procedures clear, specific and understandable.</p> <p>I look forward to your submissions relating to the above. My motto: When the going gets tough, the tough gets going!</p> <p>Kind regards Brian Stewart BCom (Hospitality Management) PGD in Risk Management</p> <p>Chief Audit Executive: Millennial Hotel Group</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Hotel Group email disclaimer. See http://www.millennialhg.co.za/disclaimer/email.htm for more details.</small></p>
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The risks relating to accommodation revenue were triggered in the pre-release however, the nature of the task relating to revenue was unexpected. Pre-research and identifying revenue risks during the pre-release period would have assisted candidates in responding to task (d).

The task had two elements to it. Firstly, candidates were required to formulate procedures to assess whether there was any substance to the allegations that MHG employees were allowing guests to use empty rooms and pocketing the cash. The second part of the task related to excessive complimentary room nights to travel agents. Candidates needed to address both parts of the task in order to be assessed as competent in the task. The first part of the task was more onerous and had more elements to consider and therefore carried more weight in the overall assessment at task level.

Candidates who prepared a long list of procedures which included both relevant and irrelevant procedures were generally assessed as LC. This type of approach may have gained a pass at ITC level but in the APC this is inappropriate.

Candidates who identified the key factors relating to undetected room access fared well in the task. The key factors included:

- How could guests physically gain access to rooms (MHG employees opened up rooms? Override of check in system)?
- Any discrepancies between housekeeping records and check in data?
- Any discrepancies between room service data and check in information?
- Was Netflix accessed in any rooms which were supposed to be unoccupied?
- Reconciliations between revenue recorded and room occupancy?

MHG has a sophisticated ERP system and candidates who requested valid and useful reports from the system displayed competence. There were many potentially useful reports that could have highlighted potential issues. An indicator of higher level application was in fact succinctness.

The second part of task was not as intellectually challenging. Most candidates formulated useful procedures to identify excessive complimentary nights. These procedures tended to be largely report generation procedures and analytical procedures.

Task (e)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Strategy, Risk Management & Governance, Accounting & External Reporting, Taxation	11.1%	53.1%	35.8%

(e)	<p><i>Draft the presentation slides, including speaker/presenter notes, regarding the proposed 6CVCF loan restructuring as requested by Travis Jagger in his email.</i></p>
	<p>DOCUMENT 4</p> <p>EMAIL FROM TRAVIS JAGGER TO JUNIOR DISRUPTOR</p> <p>From: Travis Jagger Sent: Wednesday 21 November 2018, 8:11 AM To: Junior Disruptor CC: Subject: 6CVCF loan restructuring</p> <p>Hi there</p> <p>I know that you are having a busy day, but I need your assistance please.</p> <p>As mentioned to you a while ago, 6CVCF wants to get their hands on Class B shares. They have now submitted a proposal to restructure their loan so that 50% of the current loan is convertible at their discretion into 3 000 Class B shares in three years' time. If not converted, the previous repayment terms apply. In return, they will now lend a further R10 million to MHG immediately. It will cost MHG approximately R80 000 in attorney's fees to get the legal paperwork for such a restructuring.</p> <p>I would like you to draft a presentation to be made to the Board at our next meeting, indicating the likely impacts this will have on MHG and its shareholders. I've started working on presentation slides in the typical MHG style (see attached) that you must populate further. Please stick to the six attached slides as we have a lot to cover at that meeting. Also, include speaker/presenter notes for each slide so that I remember what is meant by those bullet points that are not self-explanatory.</p> <p>Thanks in advance, looking forward to your input.</p> <p>Regards Travis</p> <p>CFO: Millennial Hotel Group</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Hotel Group email disclaimer. See http://www.millennialhq.co.za/disclaimer/email.htm for more details</small></p>

ATTACHMENT TO EMAIL

6CVCF proposal

- Lend additional R10m to MHG now
- R15m of existing loan stays the same
- Other R15m of existing loan becomes convertible
 - into 3 000 Class B shares
 - three years from now

1

Pros

- R10m immediate cash injection
- ???
- ???
- Etc.

2

Cons

- Dilute decision-making power of existing Class B shareholders
- ???
- ???
- Etc.

3

Accounting (IFRS) implications

- Not a clue!
-
-

4

Accounting (IFRS) implications (continued)

- Still clueless
-
-

5

Tax considerations

- MHG?
 -
- 6CVCF?
 -

6

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In task (e), the junior disrupter (represented by the candidate) was required to draft a presentation to be made to the Board at their next meeting, indicating the likely impacts the restructuring of an existing R30 million shareholder loan from 6CVCF (shareholder) will have on MHG and its shareholders. This included the following:

- Completing (populating) the given set of slides, which required the candidate to document (a) the pros and cons of the proposed loan restructuring from the perspective of MHG and its current shareholders, (b) the Accounting implications of the loan restructuring for MHG and (c) the Taxation implications of the proposed loan restructuring for both MHG and 6CVCF.
- Candidates were also required to include speaker/presenter notes for each slide for those points on the slides that are not self-explanatory.

In the pre-release information, candidates were presented with an email from Tshepo Umculi (CEO of MHG) indicating that 6CVCF is going through with their request that a portion of their R30 million shareholder loan be converted to Class B shares. The latter email triggered IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*.

In the information presented on the day, this request from 6CVCF changed slightly, from a portion of the loan being converted, to 6CVCF having now submitted a proposal to instead restructure their loan so that 50% of the current loan becoming convertible at their discretion into 3 000 Class B shares in three years' time. The email further noted that if the option to convert is not exercised in three years' time, the previous repayment terms apply. Finally, it was also explained that 6CVCF will now lend a further R10 million to MHG immediately and that it will cost MHG approximately R80 000 in attorney's fees to get the legal paperwork for such a restructuring.

From the information presented on the day, it was clear that a portion of the loan is not convertible immediately anymore, but that 6CVCF now has the option to convert a portion of the loan to Class B shares in three years' time. Furthermore, this proposed restructuring had three elements that required consideration. These included:

- The new R10 million loan;
- The R15 million portion (R30 million x 50%) of the original R30 million loan now being restructured so that 6CVCF has the option to convert this portion into 3 000 Class B shares in three years' time; and
- The remaining R15 million loan (R30 million x 50%) not being affected.

In answering the task successfully, the candidates needed not only to demonstrate the required technical competence in connection with both IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*, but they were also required to display some technical competence in connection with the Taxation implications of the proposed loan restructuring. Furthermore, they needed to display the pervasive skills of being able to critically think and come up with several pros and cons that this proposed loan restructuring would have for both MHG and its current shareholders.

The candidates who displayed competence in this task were those who at a minimum answered the task which included completing (populating) the given set of slides presenting:

- The pros and cons of the proposed loan restructuring from the perspective of MHG and its current shareholders;
- The Accounting implications of the loan restructuring for MHG considering the three elements above and taking into account the fact that the loan is not convertible immediately but instead, 6CVCF now has the option to convert a portion of the loan to Class B shares in three years' time;
- The Taxation implications of the proposed loan restructuring for both MHG and 6CVCF; and
- Speaker/presenter notes for each slide for those points on the slides that are not self-explanatory.

In doing so, these candidates would have presented a balanced approach to the pros and cons for both MHG and its current shareholders which includes for example some financial implications such as increased interest expenses (for MHG) and possible dilution of shareholder's interest (for other shareholders). Furthermore, the accounting implications would have focused on the three elements of the loan above and on the option to convert in three years' time, and not on

the fact that it is convertible immediately, as indicated in the pre-released information. Some Taxation considerations for both MHG and 6CVCF would have been included. Some technical errors were also allowed in connection with both the Accounting and Taxation implications, but more so for the Taxation implications as these were not triggered in the pre-released information.

Overall, candidates did attempt all the elements of the task. The element that was attempted the best related to the pros and cons which showcased critical thinking skills. Candidates that were not assessed as competent were those that lacked to firstly, answer all the elements of the task as indicated above, secondly, to incorporate the information included on the day such as the new R10 million loan and the restructuring of the loan changing to only having the option to convert into Class B shares in three years' time; and lastly considering some technically correct Taxation implications for both MHG and 6CVCF. It was therefore critical that candidates were able to use the information presented on the day to populate the slides. Candidates that presented a pre-prepared answer, specifically in connection with the Accounting implications of the loan restructuring and the related Taxation implications, would have struggled to display competence in this task.

Overall, this task was not only inter-disciplinary, but it also assessed whether candidates have the skill of considering the pervasive implications of this loan restructuring in the context provided in the case study. It therefore assessed whether candidates were able to demonstrate their ability of thinking about the broader business implications this loan restructuring would have and did not purely focus on the technical competence of the candidates.

Task (f)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Financial Management	40.0%	47.8%	12.2%

(f)	<p><i>Respond to Tshepo Umculi's email regarding the potential allocation of shareholder value between the Class A and Class B shareholders.</i></p>
	<p>DOCUMENT 5</p> <p>EMAIL FROM TSHEPO UMCULI TO JUNIOR DISRUPTOR</p>
	<p>From: Tshepo Umculi Sent: Wednesday 21 November 2018, 8:18 AM To: Junior Disruptor CC: Travis Jagger Subject: Class B shares</p>
	<p>Hi there</p> <p>I was just wondering about the 6CVCF request to convert a portion of their loan into Class B ordinary shares. Hypothetically, if we all decided to sell 100% of all our shares to a listed or international hotel group for the fair value of the business of say R250 million, how would we allocate the total purchase price between the Class A and B shares? The Class A shareholders have the right to dividends and to vote. The Class B shareholders have no rights to dividends yet have a powerful veto right on any major corporate decision MHG faces.</p> <p>Please don't waste time doing valuation calculations. Rather apply your mind to the key factors and/or issues that we would need to consider in evaluating how to equitably allocate the total purchase price for MHG between the Class A and Class B shareholders. Your thoughts on this would be most enlightening. Thanks.</p> <p>Regards Tshepo</p> <p>CEO: Millennial Hotel Group</p> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Hotel Group email disclaimer. See http://www.millennialhq.co.za/disclaimer/email.htm for more details</small></p>

A feature of the 2018 APC was that candidates could not use pre-prepared answers in responding to tasks. The fact that 6CVCF wished to convert a portion of their loan into class B shares was included in the pre-released information. Some candidates may have anticipated a valuation issue as a result. Information on the day bypassed the valuation issue and rather asked candidates to discuss the potential allocation of sale proceeds to class A and class B shareholders. Candidates who discussed the valuation approach at length were not responding appropriately to the task.

The majority of candidates were flummoxed by the task. It was a difficult task and even a google search would have produced futile results. In assessing the competence of candidates we were looking for them starting a conversation surrounding value allocation rather expecting them to produce an investment banking type list of key factors. Candidates

who discussed potentially allocating sale proceeds based on voting rights versus proportional number of shares held were deemed to have 'started the conversation'. Calculating the percentage voting rights of the various shareholders was also useful information.

A candidate who responded that he/she had no idea how to allocate any sale proceeds and discussed the rights and privileges of shareholders generally may well have been deemed competent in the task. Sometimes it is better to be honest than to profess knowledge and competence where there is none.

There were some insightful discussion points/key factors raised by some candidates such as:

- The 6CVCF proposal to convert R15 million of their loan into class B shares placed a value of R5,000 per class B share;
- Reviewing the MOI of MHG to establish what rights class A and B shareholders have upon liquidation or sale of the business;
- The board of directors of MHG controls the dividend decision, the shareholders can only indirectly influence the process through appointing directors; and/or
- Discussion of examples of shares with powerful voting rights such as those issued by Naspers, Alphabet etc.

Task (g)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Strategy, Risk Management & Governance	10.3%	27.0%	62.7%

(g)	<p><i>Respond to Sarah Naidoo’s email by identifying and explaining five key matters that MHG should consider in evaluating whether to pursue the strategy regarding the corporate ten-year packages.</i></p>
	<p style="text-align: center;">DOCUMENT 6</p> <p style="text-align: center;">EMAIL FROM SARAH NAIDOO TO JUNIOR DISRUPTOR</p> <p>From: Sarah Naidoo Sent: Wednesday 21 November 2018, 8:42 AM To: Junior Disruptor CC: Subject: Guest for life programme</p> <p>Hi there</p> <p>Travis mentioned that he sent you an email about his idea to introduce a ‘guest for life’ programme. There could be benefits and unintended consequences to such a programme but it is interesting thinking. I was wondering whether it would not be better for us to focus on the corporate market – instead of selling lifetime packages to individuals, we could sell, say, ten-year packages to corporate customers. For example, sell ten-year access to any of our hotels to companies but subject to a maximum of 60 nights per customer in any year. Corporate customers may think R500 000 (my gut feeling of a suggested price) for each such package is a bargain? The companies could also potentially get a big income tax bonus – they could claim the deduction upfront on paying for ten-year access.</p> <p>What are the five most important things MHG should consider in evaluating whether to pursue the above corporate guest package strategy?</p> <p>Regards Sarah</p> <p>Marketing & Business Development Director: Millennial Hotel Group</p> <hr/> <p><small>NOTICE: Please note that this email and the contents thereof are subject to the standard Millennial Hotel Group email disclaimer. See http://www.millennialhg.co.za/disclaimer/email.htm for more details</small></p>

We noted that some candidates inappropriately responded to this task with what appeared to be ‘Guest for life’ pre-prepared answers. The information on the day changed the scenario from individual millennial guest for life packages to a 10-year corporate deal.

As mentioned previously, this task was the easiest in the case study. Candidates needed to list 5 key factors to consider in evaluating the feasibility of the corporate guest package strategy. Some candidates listed 10 factors which was not

competently responding to the task – restricting discussion to 5 factors requires pervasive skills. Listing 10 factors when asked for 5 is adopting an ITC type approach or ‘throwing mud’. Certain candidates incorporated multiple factors within one heading thereby attempting to circumvent the restriction of 5 key factors. This approach was detected and competence was assessed at lower than C.

There were numerous valid key factors that were discussed by candidates. We were impressed by those candidates who discussed the corporate package in relation to MHG’s strategy of focusing on millennials. Some interesting remarks were made by candidates about business travelers who may be from a different generation and be uncomfortable in the MHG hotel format.

Task (h)

Competence area	APC 2018 candidate results		
	Not competent	Borderline	Competent
Strategy, Risk Management & Governance	39.8%	32.2%	28.0%

(h)	<p><i>Respond to Eileen Barkingmad's email.</i></p> <p style="text-align: center;">DOCUMENT 7</p> <p style="text-align: center;">EMAIL FROM EILEEN BARKINGMAD TO JUNIOR DISRUPTOR</p> <p>From: Eileen Barkingmad Sent: Wednesday 21 November 2018, 8:58 AM To: Junior Disruptor CC: Subject: Mentoring</p> <p>Hi there</p> <p>It has been so good getting to know you over the past three weeks and developing a mentoring relationship. I think it is amazing that MHG invests so much in its key staff and uses outside consultants like myself to mentor young talent like yourself. Remember that I am here to assist you in developing and learning within the workplace in whatever way I can. Our discussions and interactions are strictly confidential and I may not share this with anyone at MHG except with your express permission. It's a safe space for us to interact! In addition, you are free to share whatever confidential information you wish about MHG and its operations since MHG has given express approval for you to do so.</p> <p>Ok, a question for you ahead of our next mentoring session: MHG prides itself on its Code of Conduct. Is there anything that you have observed or encountered regarding the behaviour and actions of the executive directors and other key employees during your brief employment at MHG that may conflict with the second key principle listed in the Code ('MHG employees should use good judgement at all times and do the right thing')?</p> <p>I look forward to your email response. Please list any such issues that you may have encountered or become aware of, together with brief explanations of each. This will enable us to discuss these issues meaningfully when we next meet.</p> <p>Regards Eileen</p> <p>PhD (Industrial Psychology) <i>Your personal mentor in business and executive sparring partner</i></p> <hr/>
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The objective of APC Examco with this particular task, as mentioned in the *commentary on candidates' performance in the APC 2018* earlier, was to assess the ability of candidates to identify ethical dilemmas in a business ethics context, and not to assess professional ethics in this task. Various instances were cited spanning the pre-released information and information on the day, which should have left the candidate feeling uneasy. These include the following:

- Board of directors: the majority of the members of the board of MHG are not independent, non-executive directors, as Laine Pegasus and Reginald Zim are employees of 6CVCF, the venture capital fund providing financing to MHG.
- Travis' suggestion that using IFRS16 to value the right-of-use assets at fair value, could be used to MHG's advantage, in boosting the value of the assets in the statement of financial position of MHG.
- The suggestion that Junior Disruptor (JD) visit MHG's competitors so that JD could complete guest reviews of the service offerings of the competition – is this industrial espionage or industrial sabotage?
- Allegations that hotel staff were pocketing the cash paid by walk-in guests for the latter's accommodation.
- The various transactions recorded in Tshepo Mculi's loan account – ranging from claiming VAT input tax on a motor vehicle, accommodation provided for the Mculi family, transferring of MHG furniture for use in the Mculi's holiday home, etc.

Given the breadth of the task, competency was assessed on the grounds of coverage of the issues identified above. The majority of candidates were assessed as being not competent. As indicated earlier in this report, the reason for this was the response of candidates that SAICA's Code of Professional Conduct (CPC) prohibited them from sharing information with the mentor (Eileen Barkingmad) as divulging such information would result in a contravention of the Code given that such information is considered confidential. Eileen's email made it clear that the discussions and interactions between Eileen and JD would be strictly confidential and that Eileen would not be allowed to share this with anyone at MHG except with JD's express permission. Eileen in fact went further: "It's a safe space for us to interact! In addition, you are free to share whatever confidential information you wish about MHG and its operations since MHG has given express approval for you to do so." A number of candidates were of the impression that it would be wrong in terms of MHG's code of conduct, to divulge such information

The cop-out option which was chosen by numerous candidates was in this context inappropriate. It needs to be reiterated that APC Examco would never formulate a task with the express intention of catching candidates out. The notion, that some candidates had, the Eileen Barkingmad was a hacker of some sort launching an attack on MHG is also nonsensical. In her email, Eileen makes it clear, that she and JD have been interacting for sometime already (three weeks in fact). Candidates need to remember that the details regarding the board composition were not confidential and in the public domain. At minimum candidates should have addressed this matter.

In responding to the task, candidates needed to not only identify the issues but also needed to provide a brief explanation of each issues/dilemma. The intention here was that a candidate should explain what made them feel uncomfortable regarding each of the respective issues identified. If a candidate merely identified the issues without providing the required explanations, then the candidate could not be deemed competent on this task.

It needs to be emphasised that although the technical competence area is Strategy, Risk Management and Governance, business ethics are pervasive – the majority of the indicators in this task therefore are pervasive in nature. It was therefore not the candidate's technical skills that resulted in them being not competent on this task, but rather their pervasive skills, or lack thereof.

A limited competent candidate either chose to cop-out and not divulge anything or the candidate's coverage of the issues was too limited. The differentiating factor between a competent and borderline competent candidate on task (h) was the degree of coverage – the competent candidate having addressed a sufficient number of the issues.