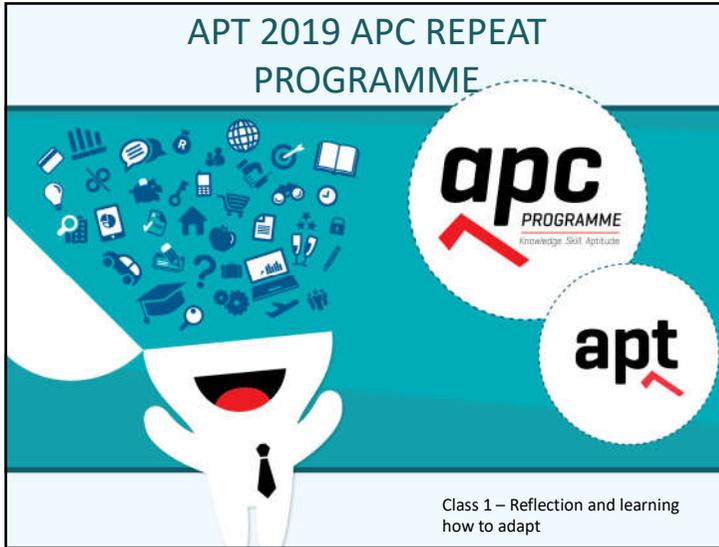


APT 2019 APC REPEAT PROGRAMME



Class 1 – Reflection and learning how to adapt

Introduction

- Welcome to class
- Thank you for trusting us to help you pass
- Work for Honours Roll in APC 2019
- Your success in APC 2019 will be 100% positively correlated to the effort you put into this programme
- Candidates that engaged thoroughly with the programme did much better in the APC
- A roadmap for your success in the APC2019
- We understand the work-life pressures of candidates (BUT YOU NEED TO WORK HARD)





REMEMBER TO COMPLETE THE ATTENDANCE QUIZ:

The Code for this class

- Has NO SPACES
- And is CASE SENSITIVE



Introduction

- There is no separate repeat programme
- It is the main programme
 - With a unique class 1
 - Including script review and feedback
 - And mentorship with your mentor throughout the year
 - Changes to the main programme (extra videos, assessment 1 and assessment 2)
 - After class 1, attend the normal class 2 onwards
 - Attempt Case study 1: Constructco diligently. Also some changes therein
 - Write the assessments diligently. Maximise on your learning!





Process

- You attended the launch session ✓
- You completed your self reports and emailed a copy to enrolments@apt.co.za ✓
- You are currently having interviews and individualised feedback ✓
- Attend all lectures (either online or via class attendance) and be **PRESENT** (mentally and physically)
- We invite you to meet regularly with your “buddy” or anyone of us
- The more you engage with the programme, the better your chances becomes of being successful in APC 2019




Admin

- Course co-ordinators: Ben Marx & Peter Bourne
- Contact details of course coordinators and presenters
- Classes
- FAQ's
- Chat room
- Roadmap vs Dashboard
- APT Assist and push notifications
- Video recordings on alternative media available
- Ewriting videos




APC 2018

- Read Examiners Comments on APC 2018
- Read Specimen Responses on APC 2018
- Downloadable from APT Assist or SAICA website
 - Watch out for the “dumping of theory” or providing “irrelevant information” in responses




Assessment dates – NB!

<u>Assessment 1</u>	<u>Assessment 2</u>
• 22 June 2019	25 September 2019
• Deferred 1: 23 June 2019	Supp: 19 October 2019
• Supp 2: 5 Aug 2019	Study leave required
• Study leave not required	<u>APC Exam date</u>
	20 November 2019
	Study leave required

Might need leave for reflection/catchup during the course



Provisional Course Outline 2019

Class 01	Weeks beginning Monday 15 April	Class 07	Week beginning Monday 12 August
Class 02	Week beginning Tuesday 6 May	Class 08	Week beginning Monday 26 August
Class 03	Week beginning Monday 20 May	Assessment 02	Wednesday 25 September
Class 04	Week beginning Monday 27 May	Preparation Class For Supplementary	Week beginning Monday 14 October
Class 05	Week beginning Monday 10 June	Supplementary Assessment 02	Saturday 19 October
ASSESSMENT 01	Saturday 22 June	Class 09	Week beginning Monday 22 October
Class 06	Week beginning Monday 15 July	Class 10	Week beginning Monday 12 November
Supplementary Assessment 01	Monday 5 August	Final APC	Pra Release 15 November APC Assessment 20 November

Objective of this class

- Revisiting the “deep understanding” model
- The deconstruction of responses following a detailed analysis of PRI, IoD and task (using APC 2018 for illustration purposes)
- How to answer tasks
- Set up for class 2

11 apt

The importance of group forming and group work

- Why is it important?
 - Knowledge sharing and identifying issues
 - Critical thinking and problem solving
 - Validation of work done with peers
- What should the nature of your group be?
 - Size? Not too big
 - Committed people
 - Balanced group
- What should a group do?
 - Meet as a group at key milestones
- Form groups with people of same Program

10 apt

Introduction to the signal protocol

Type of signal	Response	Action
Contextualisation	Information that is absorbed and correlated	
Embedded knowledge	Do I have a basic and working knowledge of this?	If not, brush up.
Triggers: 1) Direct triggers • Technical matter • Industry research • Analysis 2) Triggers resulting from analysis 3) Triggers resulting from overall themes	Triggers work to be done	Study up on the relevant technical / perform research on the industry / analyse information

Strategic and risk considerations?

12 apt

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APC 2018

- Clear indication aforementioned approach was not followed.
- For most tasks in the APC, the following was evident:

Based on your self reflection, can you relate?
If so, how to remedy it?

13 **apt**

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Practical application of “deep understanding” (day of the exam)

File

Analyse & Evaluate
Consider all alternatives during your analysis phase. Interpret and evaluate

Plan the task
Need to solve the problem by applying myself to the expectation of the reviewer: Context, Technical, Audience

Understand how the issue has evolved
Understand the problem in the CONTEXT of both the PRI and the IOD

Apply
Apply the knowledge to the facts comprehended in previous step. Remember to be practical (REAL LIFE)

Perform the task

15 **apt**

Workflow for an understanding of a trigger (“pre release”)

Knowledge / Research
Knowledge is the prerequisite to be able to IDENTIFY THE PROBLEM. Always ask WHY

Analyse & Evaluate
Consider all alternatives during your analysis phase. Interpret and evaluate

Anticipate
Have I formed a logical/methodical approach to numerous scenarios (NOT PREPARED SOLUTIONS)

Understand the issue
Understand the problem in the CONTEXT of the case study (what links need to be established)

Apply
Apply the knowledge to the facts comprehended in previous step. Remember to be practical (REAL LIFE)

Compile your file

14

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Deep understanding model: Tasks

- Planning your response in terms of the expectation
 - Technical
 - What technical aspects applies to this issue?
 - Context
 - What is the issue – how to resolve?
 - What is the broader context
 - Audience
 - How does this issue affect the specific audience?
 - Tone, level of detail, level of technicality required for the applicable audience.

16 **apt**

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Analyse and evaluate

On the day of the exam

File

Analyse & Evaluate

Plan the task

Understand how the issue has evolved

Apply

Perform the task

3) Brief notes to explain what you did in this table

Notes to the table:

- The lease term has been taken as 5 years as it is MHG general practice renew all leases.
- IAS 17:
 - The impact to profit is the straight-line expense of the lease payment, determined as the sum of all lease payments divided by the lease term (5 years)
 - The liability balance each year is the cumulative effect of the difference between the actual lease payment and the straight-line expense.
 - No asset is recognised in line with the standard, MHG does not control the building.
- IFRS 16:
 - Relevant discount rate assumed at 10% per annum, this is a market-related interest rate for new borrowings. In practice MHG leases would be assessed using the company's weighted cost of capital or incremental cost of borrowing.
 - At inception the right of use asset and lease liability are the same at the present value of the five lease payments due over the lease term.
 - Right of use asset is decreasing annually by straight-line depreciation of R964K p.a.
 - Liability is decreasing by the net of the annual lease payment and unwinding of interest at 10% p.a.
 - The impact to profit it is the sum of the fixed depreciation charge above and the interest expense (decreasing annually).
- Percentage impact is negative showing where IFRS 16 results in a higher expense to MHG and positive where the impact is lower compared to IAS 17.

21 apt

apc PROGRAMME

Analyse and evaluate

On the day of the exam

File

Analyse & Evaluate

Plan the task

Understand how the issue has evolved

Apply

Perform the task

5) Workings

IAS 17 Workings

Straight-line expense	1290652				
Lease accrual Mvmt	T1 190652.2	T2 102652.2	T3 7612.211	T4 -95031	T5 -205896
Lease accrual Bal	190652.2	293304.4	300916.6	206885.8	6.98E-10

PV of each lease pmt	1000000	T1 981818.2	T2 963966.9	T3 946440.3	T4 928232.3
Amortisation table		CB	Interest	Payment	CB
T1	4821458	482145.8	-1100000	4203603	
T2	4203603	420360.3	-1180000	3435964	
T3	3435964	343596.4	-1283040	2496520	
T4	2496520	249652	-1385683	1360489	
T5	1360489	136048.9	-1496538	0	

← IAS 17: Straight-line expense
← Using CF function in calculator Or discounting each payment back to T0 terms R12.5 mil not a lease payment

VS The incremental borrowing rate (interest rate) has been assumed to be the escalation rate as per the terms and conditions, of 8%. ← Use of escalation is incorrect

VS Using a financial calculator, we have applied the time value of money principles in order to determine the value that exists as at today of the liability (total debt payable to the company providing the building to us for use). This amounts to R16.472.336.53. ← Including R12.5 mil in lease liability is incorrect

23 apt

apc PROGRAMME

Analyse and evaluate

On the day of the exam

File

Analyse & Evaluate

Plan the task

Understand how the issue has evolved

Apply

Perform the task

4) A conclusion on the impact of IFRS 16

Conclusion

From the above scenario, it can be seen that over the total lease term the impact to the actual profits and earnings of MHG is nil, the difference lies in the year on year impact to profit due to the difference between the straight-line expense practice under IAS 17 and the depreciation and interest expense combination recognised under IFRS 16. ← Front loading

With regards to the statement of financial position, under IFRS 17 MHG will benefit from a boosted asset base by recognising the right of use asset, however the corresponding liability must be brought on too for the minimum lease payments which will be substantially higher at inception compared to the operating lease accrual which is currently recognised under IAS 17. Ultimately, there should be a negligible impact to net assets through the adoption of IFRS 16, but shows a more fair representation of the assets in use and how they are being financed by MHG.

This will also impact the following ratios of MHG:

- EBITDA - this will most likely increase as the interest expense will be smaller than the lease expense under IAS 17. ← Increase EBITDA
- Debt / Equity ratio - this will lead to our debt to equity ratio increasing which could have significant effects since the 6vcf loan will become repayable if this ratio exceeds 50% and this could also effect other financial institutions considerations when we apply for a loan. ← Debt covenant

22 apt

apc PROGRAMME

Plan the task

On the day of the exam

File

Analyse & Evaluate

Plan the task

Understand how the issue has evolved

Apply

Perform the task

Task (a): CFO's expectation - summarised

NC/LC	BC	C	HC
<p>Technical:</p> <ul style="list-style-type: none"> No IAS 17 No IFRS 16 Too many errors <p>Audience:</p> <ul style="list-style-type: none"> Inappropriate <p>Context:</p> <ul style="list-style-type: none"> No application of information on the day to the scenario (no example, no table with numbers, too much irrelevant information) 	<p>Technical:</p> <ul style="list-style-type: none"> IAS 17 Some technical correct/some errors: Lease term, straight-line expense, lease equalization reserve IFRS 16 Some technical correct/some errors: Lease term, discount rate, lease liability, right of use asset, depreciation and interest <p>Audience:</p> <ul style="list-style-type: none"> Board – tone and context <p>Context:</p> <ul style="list-style-type: none"> Limited explanatory notes Table with 1 year only Use of example on the day 	<p>Technical:</p> <ul style="list-style-type: none"> IAS 17 Majority of technical correct: Lease term, straight-line expense, lease equalization reserve IFRS 16 Majority of technical correct: Lease term, discount rate, lease liability, right of use asset, depreciation and interest <p>Audience:</p> <ul style="list-style-type: none"> Board – tone and context <p>Context:</p> <ul style="list-style-type: none"> Explanatory notes Table for more than 1 year Use of example on the day Context 	<p>C+ insight = HC</p> <p>Examples:</p> <ul style="list-style-type: none"> Difference between IAS 17 and IFRS 16 computed in Rands/%s Is the R12.5 mil an unguaranteed residual value? Impact on systems/IT General profound impact Why is the market value of Sandton property lower in 5 years time?

24 apt

Task (d) – overview

DOCUMENT F
EMAIL FROM BRIAN STEWART TO JUNIOR DISRUPTOR

From: Brian Stewart
Sent: Friday, 16 November 2018, 4:58 PM
To: Junior Disruptor; Internal audit team
CC: [redacted]
Subject: Focus areas for next week

Dear AJ,

I am really delighted to welcome Junior Disruptor to our team, albeit for a limited time, to assist us with the detection and reporting of any material misstatements in MHG's 2018 annual financial statements – prior to the Board's approval of these at its December meeting.

This also seems to inform you that during the course of next week our focus will be on the following areas:

- Director's loan accounts – since the volume of transactions in these accounts has increased significantly from prior years, the auditors will not doubt want to verify them including the related tax consequences; and
- Overstatement of accommodation revenue – if your years is wanting to go by, Charles Jones and his team will again be concerned about this area (unless the tax lot account referred to was a significant one).

3. **Scouring business** – Pre-release context - Page 5

MHG uses various marketing channels to attract clients. As previously mentioned, it is active on social media and encourages clients to post reviews. Social media also provides a useful tool to advertise and market forthcoming events and special promotions. MHG has a user-friendly website that provides information on hotel locations, guest services, room types, room rates, restaurant and facilities. Clients can make enquiries and reservations via the website.

Business is also sourced through traditional channels such as travel agents and tour operators. MHG pays commission (negotiated annually in advance) on accommodation revenue sourced from travel agents and tour operators. MHG maintains good relationships with these companies and incentivises them to achieve individualised annual bed night targets. Incentives comprise free accommodation. For example, if XYZ Travel has a target of 100 nights' accommodation in a calendar year, it is awarded five free nights when it exceeds this target. This can be used by XYZ Travel's staff to be sold to its clients.

Embedded requirement

Pre-release Trigger: - Revenue

Two allegations that need to be investigated. The nature of the task relating to revenue was unexpected. Thinking and synthesis required on the day!

DOCUMENT G
EMAIL FROM BRIAN STEWART TO JUNIOR DISRUPTOR

From: Brian Stewart
Sent: Wednesday 21 November 2018, 8:55 AM
To: Junior Disruptor
CC: [redacted]
Subject: Requests related to internal audit secondment

Dear Junior Disruptor,

I must admit that I am tiring the midnight of trying to get through all my work – and hence I will greatly appreciate your assistance with the following urgent matters:

- I referenced a meeting with Telpojo 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:
 - 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 complimentary room nights to travel agents and other third parties in exchange for kick-backs.

Telpojo 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 on 22 November. To facilitate easy execution, I need you to keep these procedures clear, specific and understandable.

Critical thinking – procedures to investigate if there is substance to the allegations

25 apt

Apply

On the day of the exam

File, Analyse & Evaluate, Plan the task, Understand how the issue has evolved, Apply, Perform the task

- Need to address both parts of the task to be competent!
- First part is more onerous, therefore requires more input. Second part is easier.
- (1) Walkins
 - Understatement of revenue
 - MHG employees allowing guests to use empty rooms and pocketing the cash
 - Revenue recognition – understatement of revenue
 - Costs are increasing whilst revenue?
 - What can go wrong and where?
 - Procedures: Inspect what, for what and why?
- (2) Complimentary nights
 - Allocating an excessive number of complimentary rooms
 - Procedures: Inspect what, for what and why?

27 apt

Task (d) – other NB! context

Pre-release context - Page 6 – can be used to extract reports

4. **HotelSys ERP system**

In FY2017 MHG implemented a new cloud-based ERP system to ensure that the many parts of the hotel operations work in sync, thereby providing the best possible experience for clients. The ERP system has a number of modules, such as the following:

- Reservations
- Check-in functions
- Room services
- Food and beverages
- Inventory
- Housekeeping
- Payroll management
- Financial reporting
- Management information systems (MIS) and reports

The MIS and reports module enables customised reports to be extracted daily weekly. It is often used by MHG's management for decision making purposes. MHG's internal auditors (see point 7 below) have also been trained to use this module and have the necessary access rights.

2. **Business model**

Pre-release context – Page 4 Requires an understanding of the revenue model

- MHG has adopted a different approach to traditional hotel groups by embracing technology and empowering employees. Technology plays a key part in delivering the client experience. There are no reception desks at MHG's hotels – instead clients can approach service personnel at the bar, restaurant or coffee stations for assistance. MHG employees are multi-skilled and technologically savvy.
- Reception desks are redundant given that the vast majority of clients check-in online via MHG's secure portal (this can be done from 14:00 on the day the client wishes to access their hotel room), which requires the capturing of the client's booking reference number and surname.
- There are no room keys. Instead, once the check-in has been completed (see previous bullet point), clients are required to register their smartphones on MHG's mobile app (if they have not done so previously). Once clients' hotel rooms are ready, they receive a WhatsApp notification of the room number. The clients can then unlock the door to the assigned room by using their smartphones (containing the mobile app) and a Bluetooth connection.
- There is free Wi-Fi in all rooms and communal areas.
- Each room has access to Netflix and clients are required to pay a daily rate if they access content and watch Netflix.
- Access to all hotel services (room services, laundry, excursion bookings, restaurant bookings, etc.) is possible through MHG's mobile app (that was downloaded previously).
- If hotel rooms are available, clients can extend their stay by logging into MHG's secure portal at any time of the day or night.
- Checking out and payment for accommodation, food, beverages and services are done automatically on the day of departure. Clients who do not book through travel agents are required to provide credit card or debit card details prior to check-in; these details are electronically verified as being accurate and an adequate amount is pre-authorised.

26 apt

Analyse and evaluate

On the day of the exam

File, Analyse & Evaluate, Plan the task, Understand how the issue has evolved, Apply, Perform the task

1) Answer both parts of the task

Risk identified:
Per the whistleblower the risk appears to be related to:
1. Guests staying at the hotel where they have not made a reservation. This is being facilitated by staff pocketing cash but we do not as yet know how staff is overriding the check-in system. ← Both allegations identified and addressed
This has resulted in theft of cash and unauthorised check-ins.
2. Staff are obtaining kick-backs through allocating unauthorised number of complimentary rooms to travel agents. This has resulted in unauthorised room allocations and also engaging in fraudulent behaviour.

Avoid throwing mud – listing a whole lot of procedures (ITC like) in the hope that some are relevant. Filter the procedures to the most useful and relevant!

28 apt

Analyse and evaluate

On the day of the exam

2) Useful and valid procedures to assess "walkins"

3. We can obtain a report from the ERP system showing where hotel functions such as room services have been provided to a room (such as housekeeping or room service) for which per the reservation function - there is no room reserved for that person or for which no person was checked-in per the check-in function.

6. We can also look on our social media pages or any customer complaints of customers who have checked-in and found that somebody else is occupying their room.

Overall we need to obtain an understanding of how staff are able to override this system with regards to checking-in without a reservation as this is an entirely automated process. We might need to obtain IT specialists to come and see if there are instances of override occurring in the system. We can also pull reports from the ERP system showing instances of manual override in these automated processes if possible.

VS

Are these making sense?

Housekeeping/room service/Netflex to unoccupied rooms

External or other validation

Access controls and general control environment

Are these practical?

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Wrap up (Class 1)

- Thinking does not stop once my file has been prepared
- Read actively. Read!Think!Analyse!Question!
- A competent or highly competent response requires a logical/methodical approach to completion of the task
- Discuss the remaining tasks in your mentorship meetings
- APC 2018 will be discussed as case study 4 in August/September

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Plan the task

On the day of the exam

Task (d): Brian's expectation - summarised

NC/LC	BC	C	HC
<p>Technical:</p> <ul style="list-style-type: none"> Walkins Limited useful and valid procedures Complementary nights Limited useful and valid procedures <p>Audience:</p> <ul style="list-style-type: none"> Inappropriate <p>Context:</p> <ul style="list-style-type: none"> Weak understanding of the business model and system description 	<p>Technical:</p> <ul style="list-style-type: none"> Walkins Some useful and valid procedures Complementary nights Some useful and valid procedures <p>Audience:</p> <ul style="list-style-type: none"> Internal audit team – detailed and specific (what, why, how) <p>Context:</p> <ul style="list-style-type: none"> Evidence of understanding the business model and system description 	<p>Technical:</p> <ul style="list-style-type: none"> Walkins Mostly useful and valid procedures Complementary nights Mostly useful and valid procedures <p>Audience:</p> <ul style="list-style-type: none"> Internal audit team – detailed and specific (what, why, how) <p>Context:</p> <ul style="list-style-type: none"> Evidence of understanding the business model and system description Not throwing mud 	<p>C + insight = HC</p> <p>Examples:</p> <ul style="list-style-type: none"> Analytical review procedures that are insightful Use of data analytics/big data

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Wrap up (Class 1) cont.

- A professionally competent CA possess the ability and capacity (**acquired through deliberate, systematic, and sustained effort**) to **adaptively** carry out complex activities or job functions involving ideas (cognitive skills), things (technical skills), and/or people (interpersonal skills).
- The APC test ALL these skills.

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Importance of Reading

- **Importance of Reading**
 - Learn to absorb large quantity of data
 - Learn to distinguish between important and non important info
 - Learn to understand context from reading
 - Must practice and stay fit to read
- **Importance of Business Reading**
 - Stay in touch with business world and changes
 - Understand context of business and economy
 - Better CA

Read article (Warren Buffet):
<https://cfo.co.za/article/learn-from-warren-buffetts-recommended-reading-list->

33 



Next steps

- Before Class 2
 - Read the documents in your file
 - Watch the video's
 - Do the Quiz online
 - Download the Pre-release of CS 1 with 4 comments from *aptassist*
 - And complete the signals (**contextualisation, embedded knowledge and direct triggers**) using the comments function in MS Word ("tracked changes")
 - Upload your marked up signals electronic version of your MS Word document to *aptassist*

34 