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# **FINAL ADMITTING EXAMINATION**

## **2011 PROGRAMME REPORT**

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## Executive Summary

- In general, the 2011 FAE Programme has been well received by the student body.
- The volume of support material is considered to be adequate. It is particularly pleasing that far fewer errors in the materials have been reported, although the materials are not yet error free.
- The provision of additional examination standard Elective questions has been identified as the most pressing requirement in this respect.
- Students are generally satisfied with the lecture environment and the standard of teaching. CASSI recognises that this report is not the appropriate forum for the performance of individual lecturers to be discussed and will provide such feedback in confidence to the CAI, should the requirement for such be established.
- The Core examinations were well received and generally deemed to be of an appropriate standard.
- However, students reported that they encountered severe time difficulties during each day of the examination. In particular the Core comprehensive paper was adjudged to be too long.
- CASSI is aware that reported time pressures are not a new complaint. This report therefore attempts to analyse why this continues to be an area of great concern to students, particularly in light of new FAE examination, and offers explanations which CASSI believes are worthy of further consideration.
- There is a perception that the solutions to some of integrated cases studies, while deemed to be of immense value, may include points which have been described as arbitrary.
- The arbitrary nature of these solutions has been deemed to increase uncertainty disproportionately and is potentially an explanation for the very high levels of time pressure reported by students.
- CASSI believes that, at a minimum, a repeat Elective examination should be introduced immediately

## **Introduction**

In compiling this report, CASSI have amalgamated submissions from over 320 students in all regions, following the Autumn 2011 Final Admitting Examination, held from 30 August to 01 September 2011.

The report outlines the FAE students' comprehensive and considered responses to all aspects of the FAE programme, with the exception of the AAFRP Continuous Assessment which has been reported on previously. In keeping with the extended scope of CASSI reports this year, this review encompasses key areas from lectures and tutorials provided to the quality and availability of support materials, the facilities and venues employed and exam papers themselves.

## **Course Delivery**

The overall response to the lectures provided by the CAI was positive. Most students found the lecturers in each subject to be engaging and informative and praised the standard of lecture delivered.

In particular the Case Study days have been highlighted as especially beneficial and many students have recommended increasing the number of case study and cross marking sessions held. The delivery of the Financial Reporting, Corporate Governance, Tax Core and Audit Core modules were also widely praised. Throughout their responses to each area, students called for a greater number of exam oriented case studies to be provided.

Many students also endorsed the streaming of lectures and online tutorials as an effective and helpful study aid. They highlighted the difficulty many students have attending all lectures given their current workload and the demands placed on students by their firms at particular times during the year.

Opportunities for improvement were identified in respect of the remainder of the Business Leadership and IMP module. A common theme was that the content of lectures should more accurately reflect the content required in answering indicators in the examinations. Students recognise that it can be difficult for a lecturer in a more specialised area to balance adequately the twin goals of covering the topics listed on the Competency Statement and yet give sufficient attention to potential exam questions and how their module might be examinable. It has been suggested that there is a danger of falling between these two stools.

As an example, there is a large quantity of support material available for both Strategy and IMP. Both areas are covered in great detail by comprehensive and very technical textbooks. It would appear that, given the time constraints and number of direct lecture hours involved, a choice would have to be made by each lecturer as to whether they should either focus on the potential exam questions in each area or on ensuring that students have sufficient understanding of the topics. The current volume of material to cover in these two areas may preclude a lecturer from doing both.

Students appear to favour a focus on the exam itself and therefore on potential exam topics. At present, students have reported an emphasis on technical aspects in the support materials of Strategy and IMP, at the expense of exam type indicators and suggested solutions, and have requested more of the latter.

In contrast, some students have suggested that the balance may have tilted too far in the other direction for Management Accounting and Finance. Some students have called for an increase in the level of theoretical material provided as the lectures in these areas tend to focus on case studies almost immediately (this was mentioned in particular by those students who had completed a Masters). While this focus is in keeping with student preferences, many students feel that the standard of case study provided in the Management Accounting and Finance toolkit to be far higher than any potential indicator that would appear on the examination.

It may be beneficial for the CAI to review this publication and clarify which of the cases involved are intended as comprehensive revision aids and which reflect the standard of potential indicators which may appear (and indeed whether any of the cases could be deemed no longer relevant). Many students noted that the first two sittings of the new FAE required little in the way of computation while much of the focus of this toolkit appears to emphasize complex and extended calculations.

CASSI recognises that this report is not the appropriate forum for the performance of individual lecturers to be discussed and will provide such feedback in confidence to the CAI, should the requirement for such be established.

## **Availability and Quality of Support Materials**

There has been a generally positive response to both the availability and quality of the support materials provided, with some clear opportunities for improvement identified. The Tax books, Financial Reporting Toolkit (by Derry Cotter) and Resource pack case studies were praised in particular.

Students have identified the Electives as the area requiring the most urgent attention. In particular the provision of additional case studies for each elective (especially audit) at the appropriate level for examinations has been requested.

The perception among students is that the current “supporting” case studies for the electives are more suited towards helping a student gauge their level of understanding of a particular topic and fall some way short of the standard encountered in the FAE. CASSI notes that future years’ students will have two full sets of examination papers with which to practice. The provision of one additional set of challenging case studies for each Elective should help to address the current need.

The need to refocus in respect of the support materials available for Strategy, IMP and the MABF toolkit has been discussed in the previous section of this report.

Students also again commented on the errors in materials received, although it should be noted that this appears to be a far less common complaint than at CAP 1 or CAP 2 level.

Students recognise that over the past four years the emphasis has necessarily been on the development of sufficient volume of support material and case studies to reflect the redeveloped syllabus, education and examination system. There now appears to be sufficient volume of material in most areas not referred to specifically above.

CASSI has agreed to conduct its own research to identify areas where the students feel that sufficient volume of material exists and where the focus should turn to ensuring the material is accurate and up to date. Should deficiencies be identified, the particular area will then be subject to a full review by the CAI.

The topic of the website (and in particular access to notes) has been addressed at length in both the CAP 1 and CAP 2 2011 Programme Reports submitted by CASSI. Students have reiterated their desire for a centralised and structured location for notes and case studies, broken down by module. We understand that the CAI is aware of the need to improve this area and that action is forthcoming.

CASSI notes that not all support materials are intended to be posted at the beginning of each year as a staggered release is deemed preferable by the CAI, especially in respect of the integrated case studies. However, this system requires careful management and has been a source of significant stress for students previously. Unless each student is granted access to identical material within a reasonably short timeframe, perceived inequalities between groups has led to unnecessary anxiety as students can begin to question whether others have “gained an advantage”. Students have reported sourcing materials from boards.ie as they have been unable to locate it themselves.

## **Case Studies**

The somewhat arbitrary nature of a portion of the suggested solutions to integrated case studies has been a source of frustration to many students. Most students have made extensive use of the case studies provided in the Resource Pack. However, it can be demotivating when the suggested solution appears to require the inclusion of a specific point where a student may feel that more than one answer is appropriate.

This is especially disconcerting when the specific point alluded to above becomes the sole distinction between answers that will achieve a grade of “Competent” and those that will achieve “Highly Competent”. This may be expressed best by way of an example.

In the case study “You Look Fantastic”, indicator two focuses on two areas; the recruitment and remuneration of a Chief Executive and the incorporation decision. The suggested solution distinguishes between “Highly Competent” and “Competent” answers on the basis that highly competent answers will additionally include “particular mention for tax efficient cash extraction”.

While not disputing that cash extraction will be a key consideration, given the focus in the case study on foreign expansion, the additional fundraising opportunities and access to funds that incorporation will bring could be argued to be of equal import, and yet there is no mention of this in the solution.

The end result is that the “suggested” solution from one case study can quickly become the “only” solution to each and every mention of the particular topic. This level of specificity in the above distinction between “competent” and “highly competent” can be unhelpful as it may potentially skew expectations. Was cash extraction the “only” valid additional point in the above example, without which “highly competent” was unattainable? It may be of benefit for the CAI to stress whether alternative, relevant points may also have elevated the response to this level. Most of the case study suggested solutions appear to be similarly specific and do not clarify if any other suitable answer is permissible.

The “take away” can then become that every discussion of incorporation needs to focus primarily on cash extraction regardless of the circumstances of the case. Examiners have reported that students frequently fail to distinguish cases on their own merits and that they have become too reliant on the use of “checklists”. The absence of the words “...or any similar, relevant point” from suggested solutions may go some way towards explaining this pattern.

A further example arises in respect of suggested solutions to indicators involving Fraud provided in the resource pack. In the case study “Quancore”, students must discuss the two aspects of the Fraud triangle to attain a grade of Highly Competent. Equally (if not more so) extensive discussions on Fraud in the “Southern Fisheries” and “Victoria” case studies fail to mention the fraud triangle at all.

The point being made is not whether any one of the above is “right” or “wrong”; it is whether this level of specificity will be applied to the correction of FAE 2011 scripts. Should a range of answers be allowable, it might ease student concerns in this area if a similar range was highlighted as being acceptable in the case study solutions.

The reason for the lengthy discussion on this topic is that it encapsulates the fundamental fear of many students sitting the FAE – that they will fail to include an arbitrary aspect of an indicator and be punished severely for it.

It may also explain why so many students cited time pressure as the major factor in this examination – they were unwillingly to omit any aspect of a discussion point due to the potential for that one aspect to be the crucial point required to elevate their answer. While acknowledging that there are some fundamentals which simply must be included (and exclusion of which may constitute a fundamental error), it has been suggested that clarification of acceptable range of answers may alleviate the above fear and lead to increasingly focused answers in the examination arena.

## **Paper One – Core Comprehensive**

### **30 August 2011**

Please note that discussion of indicators will tend towards the most commonly identified and the following is not intended to represent a full and complete list of all relevant material.

In general the Core Comprehensive paper was deemed to be of an appropriate standard with the majority of students satisfied that the areas tested were clear and the requirements fair and achievable. Many commented that the case was very well written and clearly understandable, with interconnected indicators allowing students to link the issues raised and overtly demonstrate their knowledge and expertise. However, by far the most common response to this paper was that students were under intense time pressure from beginning to end.

This is not a new complaint. Students are aware that the exams are designed to be challenging. Students are aware that they will always be under pressure in examinations. However, the volume and consistency of responses in this case would suggest that concerns over time were almost universal.

Students feel strongly that their concerns over the time pressure in this case are justified, given the nature of the new examination system. Previous classes (with the exception of last year) have had the benefit of stated requirements with an explicit marking scheme. While many felt that the perceived requirements and level of difficulty was appropriate, students questioned whether enough consideration had been given to the amount of additional time required to analyse and plan answers accordingly in the absence of requirements.

Given the presence of both directive and non-directive indicators, the greatest challenge that students face is often not what to include but what to leave out. This year, an additional element was introduced in the form of fundamental error.

Students reported that they were constantly “second guessing” the requirements and even when reasonably confident they had identified an indicator, they then had to consider the scope of answer required. Add to that the danger of fundamental error and it may be easier to understand why time pressure is cited so frequently.

### **Performance Measurement**

A notable feature of the responses received was the number who expressed surprise at the level of Financial Reporting present throughout the FAE. Some students commented that following the introduction of the AAFRP they assumed that Financial Reporting would not feature prominently in the examination. It appears that these students' expectations were not correctly managed.



Whether the fault for this ultimately lies with the student or the CAI remains unclear. However, CASSI would encourage the CAI and Financial Reporting lecturers to remind students that Financial Reporting and use of journals remain a significant part of the course and one unlikely to remain unexamined.

Some students noted that the Performance Measurement indicators appeared to be heavily weighted towards Financial Reporting at the expense of Management Accounting, although many acknowledged that this is in line with parameters set by the Institute.

Students commented that two specific Financial Reporting indicators appeared to be clearly identifiable; the financial reporting implications of the IPO and the treatment of the Share based payment schemes.

In respect of the IPO, students felt that a discussion of a combination of IFRS 1 – First time adoption of IFRS, IFRS 3 – Business Combinations (including non concurrent year ends), IAS 27 – Consolidated and Separate Financial Statements, IAS 34 - Interim Financial Statements, IAS 24 – Related Party transactions and (potentially) IFRS 8 - Operating Segments would be applicable and outlined how they were relevant to the company.

The second indicator required the preparation of two years' journal entries for a share based and cash based scheme under IFRS 2 – Share Based Payments. Some students noted that this is a relatively under-examined and less familiar area of the course, while others reported that the notes provided in respect of IFRS 2, coupled with the standard itself, provided a solid basis for an attempt at the two calculations required.

Some students noted a potential discussion of IAS 10 – Events after the Reporting Period and IAS 37 - Provisions may be warranted in respect of the Solicitor's letter received while others felt that this issue could be referred to in respect of audit report. It is hoped that both approaches to this issue will be acceptable.

Having identified at least two directive Financial reporting indicators, many students commented on the reference to the by-product of the CBTC process and stated that in their opinion there was insufficient information provided to require a full discussion of treatment under IAS 2 - Inventories and therefore that this issue was ignored.

Opinion was also divided on whether there was an explicit indicator present in respect of requirement for and benefit of Key Performance Indicators for the company or whether this issue could be dealt with in discussions on the reward structure, corporate governance and change management.

## **Business Leadership**

In general students seemed to focus on two areas within Business Leadership; Corporate Governance and Change Management.

The majority of respondents described the above indicators as identifiable and manageable, if somewhat open ended and therefore potentially lengthy.

For Corporate Governance most students seem reasonably satisfied that they picked up on the relevant issues and addressed them accordingly, referencing best practice and the Combined Code.

In respect of Change Management, some students outlined alternatives to the requested power point slides on the basis that the requested presentation was inadequate. It is worth noting that students have identified weaknesses in respect of Human Resources management and that the case study also made reference to cross selling opportunities (i.e. Marketing). Many students commented that they had been led to understand that only one of the three options (HRM, Marketing and Change Management) would be examined and therefore focused on Change Management as this appeared to be the most directive.

It is worth noting that throughout the year students have been continually reminded by lecturers of the importance of ethics. The 2010 FAE Board Report specifically highlighted this area as one which was inadequately addressed in the 2010 FAE and reiterated how important this topic is. The result of the enhanced focus on this area was that many students went in to this exam “primed” to unearth ethical dilemmas at every opportunity for fear of fundamental error should a potential discussion point be missed.

Given this focus, some students identified an additional indicator in respect of the reported profit before tax target, in particular in respect of the decision to reduce health and safety spend which may or may not have contributed to the accident referred to in the Solicitor’s letter. Other students felt that this area could be addressed as part of a general review of the bonus structure.

The net result of the uncertainty, however, is that students feel under severe time pressure as potentially each area identified merits separate discussion. The single most important message that the CAI could give to students would appear to be whether a justified and rational discussion of a topic could be acceptable as a substitute for another similarly relevant area.

## **Taxation**

This appeared to be the most controversial potential indicator of the Core Comprehensive paper. Many identified discussion of reorganisation relief as a non directive indicator was required while other queried whether this was an indicator at all.

Most students recognised that a discussion of the structure of the business through a single IPO listing was required. However, some interpreted the requirement to centre on the strategic rather than taxation implications of reorganisation, and therefore focused their attention on Finance or Business Leadership perspectives.

The relevant paragraph (paragraph 1 on page 3) seems to request a discussion on whether the potential structure was available and strategically viable, as opposed to the taxation implications of achieving the structure. In addition, the reference to disposal led some students to interpret that a discussion of the Section 626B (or Northern Irish equivalent) was required and that therefore the focus was on the taxation implications of future disposals, rather than on the taxation implications of creation of the new structure.

A large number of students reported that they failed to identify any taxation indicator in the Core Comprehensive paper. Some of those who reported this and later discussed the potential presence of such an indicator with others following the exam described the indicator as too well hidden.

## **Audit**

The perception among students was that this indicator was very broad and open to interpretation. From a student perspective, in an examination without requirements and with fundamental error, this is rarely welcome. Students reported the audit considerations were potentially very open and a number of issues were apparent, each of which could have constituted an indicator in their own right.

Many students identified that there was potentially several significant issues in respect of the audit and discussed their potential impact on the audit report, linking the consequences of a potentially qualified audit report to the planned IPO.

The difficulty appeared to arise in respect of the extent of the discussion that was subsequently required. Six issues were raised in Appendix Three and a seventh issue in respect of the Solicitor's letter in Appendix Four was identified. Students were unsure of the direction their answer needed to take. Should each issue be analysed separately? If so, to what extent? Did students need to detail the further work required to address each issue? Should the conduct of the auditors be questioned? Did students need to merely reference internal control weaknesses, or was a discussion of potential impact required? If so, should amendments to the current system then be suggested?

Issue four seemed to indicate related party transactions and potentially the need for a written policy governing transfer pricing. Did this need to be disclosed in the context of this question?

It is hoped that the above series of questions will adequately explain the possible thought processes behind answers that have been submitted and the Board will recognise the breadth of potential directions which may have been validly pursued.

### **Information Management Principles**

Students reported little difficulty in identifying the indicator for IMP or the requirements for their discussion. A large majority found the indicator and requirements to be fair and clear.

Some students questioned whether the assertion by the directors that the “management information needs of each business were straightforward” could be trusted given how many errors in judgement were identifiable in every other aspect of the case. Whether this statement is accurate or not could be regarded as central to the evaluation of suitable systems and their acquisition. Some students interpreted the assertion as a statement of fact and focused on off-the-shelf systems while others disputed the assertion and opted for bespoke or hybrid systems. It is hoped that a well defended choice of either system will be equally admissible.

Comment generally centred on the prevalence of IMP over the two days of Core. Some students interpreted evaluation of the competing IMS systems in Simulation One as an IMP indicator while others felt this was investment appraisal. Some students asserted that the level of IMP overall was above the scope indicated by the competency statement, which CASSI recognises is incorrect, regardless of the classification of the indicator in Simulation One.

### **Finance**

The majority of students identified a Finance indicator in respect of the explanation and ranking of due diligence considerations from an investor’s point of view. Few students reported any difficulty in identifying this requirement.

Many noted that the switch in emphasis from consideration of aspects to their explicit ranking was a subjective and tricky process. This was considered to be one of the more difficult aspects of day one. Many commented they hoped for a degree of flexibility in acceptable rankings.

Some students commented that they had considered a general discussion of IPOs but had discounted the requirement for one as plans in this area appeared to be well advanced (if incomplete).

## **Paper Two – Core Simulations**

### **31 August 2011**

#### **Simulation One – Amy**

Simulation one was generally very well received with students ranking it as the most approachable simulation on day two. Most students felt the indicators were clear and the requirements identifiable. Students commented that the case was well written and the time allocated and degree of difficulty appeared appropriate for the responses required.

Three indicators were identified by the majority of students. Firstly, an audit indicator was identified in respect of the controls appropriate for charities. Some students commented that the absence of a detailed system for review led to a necessarily generic answer for this indicator which is usually a response that students would avoid. Students are aware of the requirement to tailor their answer to the facts of the case; in this instance the lack of detail made this more challenging.

Secondly, most students conducted a qualitative and quantitative review of the potential IM systems including an NPV calculation. Students were divided on whether this was a Finance or IMP indicator, although most noted that this distinction had no impact on their response. There was some confusion as to whether the “Discount rate” referred to in Appendix Two was a discount which the charity received or whether this should be taken to be the appropriate discount factor for the NPV calculation.

Thirdly, students were asked to identify suitable KPIs for the charity, in light of the objectives of the charity. Most students are very familiar with the concept of KPIs and while few would have those relevant to charities included in notes, the process of identifying industry specific KPIs is one which is familiar and was judged to be fair.

A small minority of students queried whether there may have been a further marketing indicator present given the level of bad publicity and some suggested there may also have been an ethical consideration in respect of giving the advice.

#### **Simulation Two – International Tiles Limited**

Students rated this simulation as being significantly more difficult than Simulation One and many felt that the suggested time allocation was inadequate given the complexity of the issues. Most students felt that three indicators were clearly present though many suggested there may have been more.

The first indicator identified was in respect of the Revenue Audit/HMRC enquiry. Most students felt that the indicator was general in nature although some linked the error noted in the 2009 Financial Statements to this indicator. The layout of Appendix Two was criticised by some students who failed to spot that the 2009 error was “mixed in” with the 2010 inventory information. This was held by some to be unnecessarily disguised.

The second identified was an auditing indicator in respect of the shortcomings identified within the partial stock take performed. Most students commented on the numerous procedural errors and suggested potential implications and the necessary recommendations to overcome these.

Indicator number three, the financial reporting obligations and amendments arising from the stock take and other errors, was described by most as particularly challenging and potentially very unclear. Students commented that in order to adequately respond to the directive, several assumptions were required to be made. Paragraph seven on page four seems to suggest that journals are required “to correct any errors” and the implications outlined. This would appear to include the preparation of journals to correct the 2009 Financial Statements, an explanation of the impact of the error on the those statements, a potential restatement of the opening balances for 2010, an examination of the 2010 issues therein with respect to inventory, the preparation of adjusting journals for 2010 and an explanation of the potential impact of these adjustments on the approved but not yet issued statements.

Backup to the above would necessarily include a necessarily brief allusion to IAS 21- Foreign Currency, IAS 2 – Inventory, IAS 8 – Accounting Policies and Errors, IAS 10 – Events after the Reporting Period, IAS 37 – Provisions and IAS 33 – EPS. Clearly the above constitutes a complexity level which would challenge an experienced professional not operating under exam conditions.

In addition, assumptions would have to be made in respect of the errors. For example, we were informed that the foreign currency transaction was initially recorded at the transaction date rate, which is in accordance with IAS 21. We were told that an incorrect year end rate was subsequently input but this should only have affected creditors as non-monetary balances such as inventory are not restated at the year-end rate. Therefore it appeared to be a reasonable conclusion that the 2009 inventory figure had been recorded correctly and needed no adjustment. In addition, assumptions in respect of the ownership of the returned “Mint Perfect” tiles and in respect of the potential resale value the now cracked and unwanted tiles may have had.

Students felt it was unrealistic to expect the above transactions and implications to be correctly restated under intense time pressure and with so many assumptions required to be both made and stated, especially given the impact of differing Corporate and VAT rates, which proved a further complication.

A minority of students have also identified a potential ethical indicator in respect of the reluctance of the Financial Controller to communicate these issues to the key stakeholders, which some interpreted as a potential breach of Director's Duties and advised the Controller of this accordingly. However, given that the report (the format of which was seemingly unspecified) had been requested by the Controller, some students felt overt reference to this issue might not be appropriate. Some students suggested "cc-ing" the Financial Director as a means of alerting him/her to the issues while others suggested that a separate note may be required.

### **Simulation Three – Real Job Limited**

Simulation Three was regarded as the most difficult of the three simulations presented by a majority of students. Additionally, some students commented that this case could have been a core comprehensive paper in its own right, given the abundance of issues and potential indicators.

A large majority of respondents cited time pressure as being a significant factor while some commented that the suggested time of ninety minutes was hopelessly optimistic. Others commented that the format required was also unclear regarding whether students were expected to address the memorandum to the manager who requested it or to the owners who sought assistance.

Students generally identified a minimum of four indicators while most believed that there were five. It should be noted that there was the least consensus on this Simulation with potentially seven separate indicators receiving attention from students.

The first four potential indicators below were outlined by most respondents.

IMP – most identified the requirement to discuss the benefit that IMS would bring in light of the proposed expansion and many linked the need for the new system to both the weaknesses in the current IMP environment and enhanced compliance with the Data Protection Act.

Taxation – Cash extraction. Students outlined potential cash extraction planning points and strategies, such as availability of retirement relief, salary, termination payments and disposal of shares, while some refrained from outlining potential pension planning points as directed by the case study.

Finance – Students discussed the most appropriate sources of finance for the proposed expansion and the likely availability of each given the current level of gearing.

Business Leadership/Tax – Students discussed the strategic, commercial and tax implications and potential benefits and costs for limited companies in comparison to partnerships.

Several other potential indicators have also been suggested.

Some students felt that there was a directive Strategy/Finance indicator suggested in paragraph six of page seven, “you should use your skills and industry knowledge to report on the business” and performed a year on year analysis of financial performance and conditions as dictated by the Competency Statement - *Undertaking appropriate financial analysis to inform the decision making process (Finance 4.4)*, and *Advise on the preferential strategies to be adopted bearing in mind suitability, acceptability (including risks) and feasibility (considering resources and constraints) of the identified strategy (Strategy and Organisational Planning 2.6)*. Other students did not feel that this was a separate indicator and preferred to weave the relevant year on year comparatives into their discussions on the earlier indicators.

Many students felt that there was a Performance Measurement indicator in respect of paragraph two of page seven “it is now considered that property value has reduced by 20%” and included a discussion on the cost and revaluation model requirements of IAS 16 – Property, Plant and Equipment and IAS 36 – Impairment of Assets, making relevant assumptions in respect of depreciation and the measurement model utilised. Some others felt that not enough information was present for this to constitute a separate indicator and referred to the figures given in terms of a potential sale and leaseback of the site. Some further noted that the question stated you worked in the advisory (and not the audit) department and queried whether advice on revaluations would be given.

A small number students queried whether a discussion of IAS 38 – Intangible Assets may be required given paragraph seven on page six “client and financial data, which is the key intellectual property of the business” and the appropriate recognition and measurement of such, paying attention to the source of the data (i.e. internally generated lists).



**Paper Three – Electives**  
**01 September 2011**

**Advanced Auditing and Assurance**

**Simulation One – Executive Motors Limited**

Students generally regarded Simulation One as the least difficult of the three presented, however some issues were identified.

The main issue highlighted by students related to the type of report which was required. Students felt that the requirements regarding the type of report were too vague in this simulation, with students stating that the report required could potentially have been from any of ISAE 3000, ISRE 2400, ISRE 4400 or possibly M39. ISAE 3000 is explicitly described as non-examinable in the Advanced Auditing and Assurance FAE Elective text book (Pg 456), which was considered confusing by students and led to further difficulties for students sitting the examination. Students also noted that ISRE 4400 is not listed on the competency statements as examinable; this led to further confusion to what was required in this simulation.

CASSI would suggest that the issue of which report is required should therefore be brought into consideration during the marking conference, as this issue was highlighted by a large number of students, due to the lack of clarity on its status as an examinable topic and the difficulties this would cause to even the most prepared of students.

Students also felt that the layout of the working paper presented for examination was very unclear and were unsure if this was an aspect the examiner was looking for commentary on, or if it was due to the poor layout in the examination paper. Students also felt that apart from a small number of issues which seemed apparent that they required correcting that they were unsure as to what was required of them to be deemed competent. To overcome this, students examined all aspects of the working paper for errors, recommending corrections where necessary and also suggested work they considered appropriate to complete the assignment. As a consequence, students felt they expended unnecessary time on this simulation.

The final aspect commented upon by students was the recommended time for this simulation. Students felt that in comparison to the amount of work which was required for simulations two and three that the recommended time was excessive for the number of issues which they were required to address.

## **Simulation Two – Progressive Construction Limited**

Simulation Two was rated as the second most difficult simulation by students.

Many felt that the legal issue which they were supposed to report lacked sufficient detail. Students felt that not enough background information was included in respect of what the fraud related to, how it had been eventually found within the company and what the future implications of the fraud were to the company. Students therefore felt when completing the answer that they could not go into enough specific requirements regarding the testing which was required as they were unaware of the work which had been completed or the circumstances under which the fraud had occurred.

In respect of the planning meeting requirement which students were asked to prepare, it was felt that this issue was unusual as it was not covered in the text book as a separate issue in itself. In addition, the majority of students would not have the practical experience in their workplace environment with which to answer this question appropriately. As a result of this, students answered with what were recognised to be general points but in the knowledge that to reach competency they would be required to submit specific points, which they were unaware of.

Regarding the evaluation of risk, students felt that the ambiguity of the information which they had been provided with in the simulation meant that they were unable to fully establish the specific risk factors which would further impact the client. The lack of information about how the client had responded to the fraud meant that students were unaware when preparing their answers if changes had been implemented within the company and thus could not comment on the risk factors associated with these.

The fact that the suggested time for two case studies was ninety minutes was raised by a number of students. Including two case studies which are supposed to take ninety minutes meant that students felt under extreme pressure for “planning time” in the exam; an area stressed by the examiner as vital to analyse the situation and prepare an adequate response. Students felt that, due to the time constraints posed by two ninety minute case studies, they were unable to adequately prepare their answers and thus may have missed important issues within their answers which, given a more generous time allowance, they would have been able to address in full.

## **Simulation Three – RX Pharmaceuticals Limited**

Simulation three was rated as the most difficult by almost 80% of respondents.

Students felt that the examination of controls relating to revenue was an unusual and very specific area to focus on. The information supplied in the simulation was very difficult to separate out into the relevant sections as each of the revenue streams were very detailed which made it difficult for students to gain clarity on the information.

Students also felt that the layout of the information supplied was very poor with the majority of information closely packed together, leading to further difficulty when attempting to pick out the details of the revenue streams separately.

Students felt that by focusing on a specific area in the examination, some students may have had a distinct advantage over others as they may have worked more extensively in this area in their work environment. Some students suggested that students who are based more in financial services areas at a distinct disadvantage to their peers when attempting to understand the requirements of such a specific area.

## **Advanced Taxation – Republic of Ireland**

High level commentary received in respect of this Elective was remarkably consistent across all responses. While students felt that the cases were significantly more difficult than those on previous papers, the greatest source of frustration seemed to be the apparently unfocused and contradictory information presented.

Students commented that they had significant difficulty in gauging requirements as the cases often seemed more intent on specifying what not to address rather than providing clear instructions on what was required. Some stated that it seemed unrealistic that advice would be offered before further clarity was obtained from the client and questioned the value of such necessarily unstructured, open ended and caveated guidance. Others commented on the absence of traditionally more straightforward topics such as Trusts and Revenue Audits.

### **Simulation One – Maple Electronics**

Simulation one was generally regarded as the second most challenging case study. Students tended to focus on three specific areas; the transfer at undervalue in the friend's company, planning ideas in respect of the grandchildren and the potential transfer of the business to the sons. Some students questioned the need to include certain information – for example, the client brought up the subject of his daughter Eileen only to specifically instruct against the provision of any advice in respect of her two sentences later.

In respect of the first issue outlined above, students commented that the requirement for this issue seemed reasonably clear. Students addressed the tax consequences of the transfer and outlined why such a structure was inappropriate for Maple Electronics. However, in the absence of any specific detail on Mark's scheme, students felt compelled to discuss the issue in only the most general terms which did not allow them to showcase knowledge.

In respect of the options available regarding the grandchildren, the topic of trusts was specifically disallowed. Students struggled to understand the logic of prohibiting advice on potentially the most advantageous planning tool. Many commented that again the prohibition did not allow students to display their knowledge in this area.

Discussions in respect of the third issue centred on the availability (or lack thereof) of CAT and CGT relief should the business pass to the sons now or at certain points in the future. Again, given the lack of clarity on whether the transfer was likely, students were unsure if they should also address the issue from the sons' point of view. Given the client's reluctance to review items related to actions "more than a year in the future", students struggled to ascertain what exactly was required.

The perceived lack of clarity in respect of each issue prompted students to discuss the above issues in unsatisfactorily general terms and many commented that the suggested time limit for this case study was greatly exceeded as a consequence.

### **Simulation Two – Derby Electronic Security Ltd**

Simulation Two was perceived to be slightly less difficult than the other simulations, as the requirements were slightly easier to identify. However, students reported similar frustrations to those in respect of simulation one.

Most students identified the VAT issue and felt the requirement was clear, if tricky. Students also reviewed the CGT consequences of disposing of the property held outside the company; however it was unclear if this should form part of a discussion on the overall disposal of the company or whether separate advice in this respect was warranted.

The major issue appeared to be the disposal of the company and the CGT, CAT, Stamp duty and VAT consequences of –

- 1) Disposal of Derby Electronic to his son Duncan
- 2) Disposal to Duncan if Duncan then decides to become a concert pianist and finally
- 3) Disposal of the company to Delta Inc.

Again, the lack of clarity surrounding the circumstances of the case required students to discuss a multitude of options in general terms under several stated assumptions rather than allowing students to demonstrate that they possess the specific knowledge to analyse a given situation and plan effectively within clear constraints.

A further example of this was the specific direction not to discuss the potential sale of the trade and assets of Derby Electronic as Delta was only interested in acquiring the

shares, thus limiting opportunities to display knowledge further. Some students queried whether they should address the issue of disposal to Duncan at all and simply include a very brief explanation as to why the specified relief will not apply.

### **Simulation Three – Kelso**

Simulation Three was rated as the most difficult of the simulations by a large majority of students. Three specific areas were identified as potential indicators although some students noted that no format for reporting them seemed to be suggested.

Most students reviewed the availability of the US subsidiaries losses to the Irish companies and commented on whether loss relief was appropriate in this circumstance. However, it was unclear just how much detail was required once students had identified an issue – i.e. restatement of 2010 liabilities, the treatment of preliminary tax, the possibility to self correct and, given the time constraints, whether a discussion of unprompted qualifying disclosures was then required if self correction was not an option.

Secondly, students addressed the directive indicator of the potential methods of Kelso Ireland accessing cash in a tax efficient manner. This centred on two separate schemes; the repatriation of cash reserves held overseas via dividends and potential disposal of an overseas subsidiary via Section 626B participation exemption.

Students again commented that the lack of detail required assumptions to be made. Students would have to assume an amount to be repatriated by dividend if they wished to support assertions with calculations; a judgement would have to be made on whether the cash reserves of the German subsidiary could be regarded as arising from trading income and the implications for onshore pooling under both circumstances.

Some students also commented on the relevance of the 2011 information presented and queried whether a 2011 preliminary tax calculation was required.

## **Advanced Taxation – Northern Ireland**

Overall students felt very frustrated with this module. It was reported that the support material for the tax elective was inadequate. Many students felt there were too few case studies available for practicing simulations. Students felt the paper was difficult and not representative of the standard set either last year or the sample papers to date. Students also raised concerns that they felt that the mock paper was of an easier standard than the FAE. They felt that this should not be the case in future.

The textbook itself was reported to be unsatisfactory by a number of students; with students reporting that such areas such as World Wide Debt cap and Dividend exemption were entirely omitted.

### **Simulation One**

This indicator was adjudged to be the second most difficult of all by 29% of students. Whilst the indicators were deemed identifiable, some students felt it was unclear if you had to deal with the question from the point of view of the client personally or the client's company. There was also some confusion amongst students as to the treatment of the trusts within the question. It was suggested that a lot of irrelevant information was provided, which can be very distracting given the pressure of the exam.

### **Simulation Two**

This simulation was deemed to be the least difficult, with only 21% of students felt it was the most challenging. Generally students felt that the timeframe for this question was acceptable and that the indicators reflected the syllabus. Some of the students voiced concerns that they found it difficult to pick out the indicators on this simulation and are worried that they may have attempted the question from the wrong angle. Some students also felt that the wording of the simulation could have been improved upon.

### **Simulation Three**

This indicator was adjudged to be the most difficult of all with 51% of students reporting this was the case. Students felt aggrieved as it was felt that there was a lack of clarity and direction in the question. It was felt that the case study was unlike any previously included the sample and past papers. It was suggested that the resource material didn't cover this area sufficiently. Students had concerns that at the prevalence of foreign tax issues and have requested confirmation that these issues reflect the weighting of 20-25% of the paper, per the competency statement. Some deemed the weighting given to this area to be unfair, as one entire simulation was dedicated to his area. In conclusion, many thought that this simulation was not an accurate measure of student's knowledge.

## **Advanced Performance Measurement**

Overall it was felt the APM paper was relatively fair with a spread across the syllabus and similar layout and content from class materials and sample cases. There was also a relatively fair weighting of timings across the three simulations with 120 minutes for the first case and two shorter and less time-consuming cases following.

Students were appreciative of the materials provided for this elective, and overall they felt that they were of a higher standard than those provided for the core.

### **Simulation One**

This simulation was adjudged to be the most difficult by a small majority of students. Overall, students thought the case was fair although very time consuming with the level of analysis required, the NPV calculation and the economic assessment of African countries. The calculations required were deemed representative of the course, albeit difficult to complete under exam pressure within the time period.

It was felt that a 12 year NPV requiring numerous calculations was excessive and was unnecessary in terms of displaying competence in determining relevant cashflows. In addition, students felt it was difficult to present their solutions well in the answer book provided. Students also raised concerns that there was no indication from past papers or practice cases that there would be such a long case on the paper, which left many students flustered.

### **Simulation Two**

This simulation was considered to be the second most difficult. Overall it was the most difficult simulation in terms of identifying the indicators. Many of the students were quite confused in places and found the indicator on developing a new company structure was very challenging, as it was difficult to judge the level of detail required by the examiner. The exit strategy indicator was also considered challenging and unusual. The management information presented in appendix one was described as confusing in terms of the inter-company sales. The SEMS indicator was also picking up on a very small area of the course. It was difficult to get an idea of any direction in this case. It was felt that the seventy minutes given for this case was insufficient and again it put students under greater time pressure.

### **Simulation Three**

This simulation was reported to be the least difficult by students. Overall it was deemed that this was a good analytical question, requiring a quantitative and qualitative assessment of the German proposal which students found to be fair and suitable for FAE. Some students found the financing angle challenging as the company was not a large multinational PLC and yet required massive investment, which is an unusual scenario to be presented with. It was felt in some cases that students did not know what level of detail was required and given the short timeframe, some felt that this may have hindered their response.

### **Examination Venues**

Students were generally happy with the exam venues, although some issues were reported. The invigilators across all the exam centres were widely commended for their sensitive and supportive attitude to students during the exam, which was greatly appreciated by all. Repeat students also praised the decision to complete identification checks prior to commencement of the examination as a particular improvement on last year's procedures.

**Athlone** - Students reported that the desks were considered small, although some noted that extra desks were available.

**Belfast St Nicholas** - Students were satisfied with this venue.

**Belfast Indoor Bowls** - It has been reported that as not enough large desks were available, two different desk sizes were utilised. Students sitting at the significantly smaller desks felt disadvantaged by this. CASSI would strongly recommend that facilities provided to students at each venue should be uniform in nature. The FAE is a stressful environment and perceived inequities can disproportionately affect performance.

In addition, students at this venue have asked CASSI to request that invigilators at this venue make every effort to keep chat to a minimum during the exam itself as some disruption was reported. Some students have also queried whether each examination script was collected as promptly as possible following the end of each exam.

**Cork** - There was much positive feedback about the Cork exam centre. Students thought it catered to their needs and was in an accessible location. Unfortunately there appeared to have been an issue with the Ladies bathroom. It is hoped that the CAI will stress to providers the importance of having working facilities when hiring venues.



**Derry** - The supportive and helpful invigilators were praised; however desk size was again an issue.

**Dublin** - Students were generally satisfied with the exam centre in the RDS. Students were happy with the exam location as it is well serviced by public transport and easy to get to. The professionalism and efficiency of the invigilators was highly praised; students are aware of the significant challenges presented in facilitating over one thousand people in one venue and appreciated the smooth running of FAEs.

Students would recommend that the opening time of the venue be clarified in advance of the examinations week to minimise delays experienced on entry this year. CASSI would propose that an opening time of forty five minutes prior to the stated start time is suitable for the larger venues with thirty minutes deemed adequate for the smaller venues.

Some students expressed annoyance at the cost of parking in the RDS, although many have acknowledged that the CAI may not have significant influence in this respect.

Some students also noted that the tables in the RDS are quite high which could lead to some discomfort for those of a smaller stature. They suggested that the CAI could highlight this in the examinations guidance and state that cushions may be brought to the venue.

Finally it is to be hoped that for future exam sittings the RDS could ensure that all bathroom facilities are operational.

**Galway** - The feedback received in respect of the venue in Galway was positive.

**Limerick** - Students were very happy with the Thomond centre. Desk size and the invigilators were again praised and students enjoyed sitting their exams in the home of Munster rugby.

**Sligo** - The decision to retain Sligo as an exam venue was greatly appreciated, and the conduct of the invigilators was also praised. Several students raised an issue during day two in respect of lights in the hall flicking on and off, however this had been remedied for day three.

**Waterford** - Waterford received more complaints than any other venue. The space was described as cramped and very cold by several students. The feedback received was positive in respect of the invigilators, although students complained that the desks were also too small.

## Future Initiatives

Many students noted the absence of a repeat FAE examination. The introduction of a repeat examination at FAE level remains the number one priority for CASSI. This is particularly important for those students who will shortly come out of contract. Few in the accountancy, tax and consultancy professions will be unaware of the depressed position of the employment market. Recent economic indicators, such as the downward revision of growth rates by the ESRI, suggest that the situation will not improve dramatically in the short term. At present, students are emerging into an extremely competitive market without a full qualification, which can significantly impair employment prospects.

CASSI would like to call for a full repeat examination to be offered within six months of the publication of the Autumn sitting results to allow students the opportunity to obtain their qualification and membership of the Institute. We are calling on the CAI to protect its most vulnerable future members.

It would be remiss of CASSI not to acknowledge that this issue has been raised and discussed with the CAI previously. In full knowledge of the challenges that introduction of a repeat will present and the additional resources which will be required, CASSI would advocate *at a minimum* the immediate introduction of a repeat Elective examination for the 2011 FAE students.

Over the past four years, the CAI have fully redeveloped their education and examination models based on the highest international standards, at significant cost and effort. CASSI is delighted to note the rise in the pass rates at CAP 2 and especially CAP 1 level this year. Given the current momentum at CAP 1 and CAP 2 level, it is to be hoped that a portion of the resources which the transition to the current competency based system consumed will now be allocated towards the repeat examination.

The decision to delay the Elective examinations until the afternoon of day three was endorsed by the student body, with over half respondents indicating that the current timetable was their first preference over any other combination of morning or afternoon examinations. This amendment to the timetable was particularly welcomed by those who had to travel long distances to and from examination centres. CASSI would therefore recommend that the current format be retained for future sittings of the FAE.

However, a large number of students have again highlighted the intense and exhausting nature of the examination week and called for the introduction of a rest day between exams. The FAEs remain potentially the most important and pressurised set of examinations most students will endure. Students have again reported that performance has been adversely affected by fatigue and stress.

While CASSI recognises that the conditions are the same for each student in a given year, we are also frequently reminded by the CAI that Institute examinations are not graded on a curve and that all students who attain the required competency level will pass, regardless of the results attained by others. It stands to reason that a rested and more relaxed student body will lead to a higher pass rate for the CAI overall. CASSI would again like to call for the introduction of rest days into each set of examinations.

## **Conclusion**

In general, the FAE programme has been well received in 2011 by the student body. The volume of support material appears adequate, fewer errors have been reported (although the materials are not error free), students are generally satisfied with the lecture environment and the Core exams were deemed to be generally of an appropriate standard, barring the time difficulties encountered.

CASSI is grateful to the CAI for extending the invitation to provide this report. We trust the feedback provided will be beneficial and will be taken in the constructive and co-operative spirit intended.

CASSI would like to thank the examinations team and CAI for communicating the availability of the feedback survey to students in the exam venues and via the Student Services Notice board. This assistance is greatly appreciated by CASSI and the regional committees and, together with the continued support of student services, enables CASSI to contact students throughout the year and carry out its role effectively.

Should you require any further elaboration on any of these issues raised, please contact the CASSI Education Officer.