SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Integrative Business Solutions (IB)

EXAMINATION DATE: 5 December 2022

Section 1
About the company in the case study

The case is about a Singapore based global provider of carrier- and cloud-neutral data centre, colocation, and interconnectivity solutions, Encom, established in 2000 and listed in the Singapore Exchange. Encom employs approximately 1,700 people worldwide and owns 41 data centres in 25 countries across North and South America, Europe, APAC, Africa, and the Middle East. Encom's Asia footprint includes two facilities in Singapore, one in Hong Kong, one in Seoul, one in Osaka, and one in Tokyo. Three new facilities in Hyderabad, Auckland, and Muscat are in the pipeline and will be completed during the year ended 31 October 2022. It has a 5% market share in the global data centre market. Encom has to meet operational efficiency, adopting sufficient and effective cooling techniques, and optimising overall consumption of electricity and water to meet the sustainability criteria set by Encom as part of its environmental, social and governance (ESG) commitments as well as by the Singapore government.

Candidates received Advance Information (AI) documents three weeks before the examination date to undertake research, analysis and preparation. The AI documents contained 44 pages and 11 Exhibits, and it covered financial performance, organisation structure, ESG indicators, COVID-19 impacts and potential acquisition of a data centre.

The Examination Day Documents (EDD) were given to the Candidates on the examination day itself. The EDD had 20 pages and 7 additional Exhibits. The EDD evaluated the ESG performance concerns, investment appraisal assumptions for purchasing an existing data centre or building a new one, as well as artificial intelligence spent during the year.

Candidates were expected to combine their pre-reading and analysis of the data centre expansion, ESG and artificial intelligence concerns, their other pre-examination research and the new information in the EDD to address the issues raised in the requirements and demonstrate their ability to work diligently and accurately under time pressure. There were four broad requirements to address as stated below with the relevant marks allocation:

- Requirement 1 – An executive summary (10 Marks)
- Requirement 2 – Evaluation of existing financial performance and non-financial policy and governance (cyber security) and strategic data centre expansion options (42 Marks)

- Requirement 3 – Evaluate artificial intelligence network, accounting treatment and tax implications and comparison with big data and data science on finance department (23 Marks)
- Requirement 4 – Evaluate ESG performance and personal data loss and data protection (25 Marks)

The structure of the AI and EDD as well as the minimum performance expected by the Examination Team from the Candidates were similar to previous IB examinations, as was the level of difficulty and the domain knowledge required.

General comments on the overall performance of Candidates

Overall performance is good for this sitting. Similar sub-questions format may have helped in compartmentalised answers. As with previous sittings, candidates performed well in computation due to the sufficient preparation on the AI data and on the question on financial analysis as well as expansion plan, which in this case was a new data centre. Candidates also showed good knowledge on current trends in ESG, artificial intelligence and use of big data. Time management remains an issue particularly with this cohort with many candidates having at least 1 question unanswered, including executive summary which can be prepared in base format prior to the exam. Accounting treatment is another technical challenge for many.

Section 2

Analysis of individual questions

Requirement 1

A high number of candidates scored the 1 extra bonus mark for sign off, boosting their score. There are many who came prepared with almost similar summaries except the tweak with additional information in EDD although this impact is minimal. 3rd quartile scores were given to candidates who provided clear succinct summary while the top 10% scorers substantiated with numbers as per marker's guide. Overall this question was well answered unless due to time constraint.

Requirement 2

2(a)

Majority of candidates were able to comment on revenue and profit but many failed to cover finance cost structure and gearing/liquidity which is key for going concern of Encom. Common mistakes made included many merely discussing quantitative variances without commenting on the changes. Some candidates had their own assumptions for what the budgeted numbers should be and where reasonable, such assumptions were fully accepted. Another common mistake made was too much emphasis on revenue and profit to achieve full 3+3 marks but nil for rest of the questions. By and large question well answered.

2(b)

Some candidates do not seem to understand and struggled to articulate the geopolitical risks in their answers.

2(c)

Candidates generally scored well in the financial calculations but most of them forgot to include the annual cost calculation in both the purchase and building options.

For the non-financial considerations, some candidates seem to have prepared a lot of information and used it to answer the question without assessing what are the key points applicable in this scenario and considering that the question is a 12 marks question which includes the financial calculations.

2(d)

Most candidates jumped into many good and individual suggestions to improve IT security and hardware.

Except for a few, many candidates failed to discuss the more strategic & governance issues. For example,

- Failed to identify (or did not state) that Governance is a "whole board" matter and
- Failed to mention Operational documentation should be a shared responsibility,
- Failed to suggest the importance of audit of 3rd party application and function.

Requirement 3

3(a)

Most candidates did well enough to pass but a number of candidates left the entire question unanswered which then lost them valuable marks. It appears that candidates are still not able to practice strict time management and then lose out on easy marks.

3(b)

Most candidates did well enough to pass, with only a handful scoring the full 6 marks. Very few candidates discussed amortisation and even fewer scored the full 1 mark for adequately discussing amortisation.

Application of SFRS criteria was not well discussed, with candidates only regurgitating the criteria but not applying it to Encom. Those who discussed the application performed well in this question.

3(c)

Many candidates performed well in this question, identifying the relevant tax provisions for the R&D expenditure.

However, a significant number missed out basic calculations on its tax impact. When explaining the tax implications, it is best practice to elucidate it by quantifying the potential impact. Candidates who did not give literal calculations, but provided a written walkthrough on the calculations needed, were also given merit.

3(d)

A number of candidates left this question unanswered indicating a preference for candidates to answer the numerical questions first, but with poor time management, losing out easy marks on the qualitative or "theory" questions. Overall, responses were very general for example "help to improve productivity or reduce manpower" without answering how AI would assist in this.

Requirement 4

4(a)

This question was straightforward in requiring an evaluation of Encom based on the draft ESG report (Exhibit 4). Most candidates answered well and could appropriately interpret the metrics and the firm's performance.

However, a significant minority focused on Environmental factors only, neglecting the other 2 elements within ESG (Social and Governance). This resulted in much lower marks. Candidates are reminded that a well-rounded evaluation of ESG is required, with all 3 elements being considered.

Unfortunately, some misunderstood the question requirement of "evaluating Encom's ESG performance" as "evaluating Encom's ESG reporting". While there is some overlap, Encom's ESG performance is not merely about its ESG reporting. Candidates are reminded to read the question carefully, as haste may affect the reading of the question in a way that leans to certain bias, rather than grasping the actual requirement.

4(b)

As this related to a point raised within the "Advance Information" given to Candidates, many had identified it as a potential question and prepared answers to address it. This led to a good performance across the cohort, with extensive answers on the relevant legal and ethical concerns.

However, there was a sizeable number of Candidates' answers that lacked meaningful clarity between the terms "legal" and "ethical". This resulted in a repetition of points for both the legal and ethical discussions. It is granted that

anything which is illegal, is already unethical. It would be more meaningful for the ethics discussion to centre on matters that are legal but ethically dubious.

Other answers wrongly emphasised on the consequences of a potential ethical breach (reputation damage, loss of customers) rather than the ethical concern itself. Also, it ought to be noted that Encom's use of Chatbox's data falls more appropriately under a legal concern, as it is a clear legal matter of ownership.

4(c)

Candidates generally know the legalities of the issue, but tend to focus on PDPC discussion only. Yet there are some Candidates that discussed comprehensively on disclosures to both PDPC and the client.

Candidates could have linked the disclosure more to core values of the Company (i.e. transparency).

Candidates could have discussed more on implication of disclosure and ability to mitigate.

Some candidates could have made a clear distinction between obligation to client (AHIC) and the end consumers (individual).