

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Business Value, Governance and Risk (BG)

EXAMINATION DATE: 10 December 2024

Section 1

General comments

The December 2024 BG examination focused on a recruitment consultancy firm (WorkSG) based in Singapore. WorkSG has been in existence for 10 years and was successful in the provision of services to a wide range of industries. Core service differentiators are its personalised approach and strong relationships with employer clients.

The case study included the risk scenarios in the analysis presented by the Operations Director and the Company's desire to improve its sustainability credentials. A write-up on the Board structure that comprised of its executives and a background information of potential Board members were also included in the case.

A proposed acquisition of a similar-sized recruitment /consultancy firm was also included in the case study, and this was the focused intent of the Question 2 and 3.

Topics covered in the case study included:

- a) Risk – Its assessment, prioritization and mitigation included elements of Internal Controls.
- b) Benefits of Governance and Internal Controls.
- c) Sustainability performance improvement.
- d) Risk management centered around diversity bias
- e) Board Governance structure including suitability and independence of various backgrounds presented candidates.

Question 1 focused on the topics (a), (b), (c) above. Candidates were asked to examine the risk scenarios in the case study and they were required to assess and explain the "Likelihood" and "Impact" of each risk. Candidates were also required to present suggestions to control or mitigate the risks highlighted. Two smaller scored questions were posed to candidates on beneficial impact to governance from improving controls and methods to enhance sustainability performance in WorkSG practices.

Question 2 and Question 3 focused on the business valuation. For **Question 2**, Candidates were required to assess the suitability of the acquisition target by comparing and analysing the financial performance of the two companies and assess the suitability as an acquisition target as well as determine the source of financing should the acquisition happen. **Question 3** was on the application of risk-adjusted weighted average cost of capital (WACC) to evaluate the post-acquisition

and evaluate the additional value added through acquisition in the shareholders' value.

Question 4 (a) focused on examining candidates' knowledge on controlling diversity risks and the respective benefits of doing so. **Question 4(b)** focused on improving governance around the appointment of an independent Board Chair and the related benefits whilst **Question 4(c)** focused on Candidates' ability to assess the suitability and independence of individuals with various backgrounds presented.

In general, most Candidates generally fared well in answering the questions. Although was noted that there were cases of time management issues whereby certain question parts were left unanswered.

As a recurring theme, some Candidates did not utilise the available information from the case scenarios which providing incorrect answer or addressing a wrong question scenario. Some candidates were unsure of the level of detail required in their answers.

Future candidates are again advised to manage their time carefully to ensure that all question parts are at least attempted to maximise their scoring potential.

Principled based answers are recommended rather than quoting codes and regulations and statutes that may not apply in the scenarios or case study.

Candidates are also advised to structure their answers in accordance with the question requirement which will assist them getting to the crux of the question and eventually better their time management.

The Section 2

Analysis of individual questions

Question 1

Part (a) Risk assessment – Likelihood & Impact

Generally, Candidates performed well on evaluating the likelihood and impact of risk identified in the case and providing reasons for their assessment. It was also noted that some Candidates did not differentiate between Likelihood & Impact of a risk and focused their answers on the impact only.

Part (b) Risk mitigation/control approach

Candidates mostly performed well with well-explained answers. Instances of sporadic incorrect answers stemmed from a misread of the scenario, e.g. Risk of turnover of skilled recruiters was read to reference to general employee turnover.

Part (c) Beneficial impact of governance

In general, Candidates performed well on this question, although some candidates had difficulty understanding the notion of governance and the impact of internal controls. As a result, the response did not present specific benefits of improving internal controls but presented broad-based statements on risk mitigation or lower chances of error.

Part (d) Sustainability domains & Key Performance Indicators

Candidates performed reasonably well, although there were cases where Candidates focused all their answers within one domain of sustainability instead of each of the three ESG domains which were part of the question requirement. There was a strong understanding of one sustainability domain – “Energy savings”, but other domains like “Engagement with community” were not well-articulated.

Question 2

Question 2 was well-attempted by most Candidates

Part (a) Calculate financial ratios

Most Candidates calculated the required financial ratios correctly for **Question 2(a)**. However, some focused only on Link2Career, overlooking the need to calculate ratios for both companies as part of question requirement. A common error observed was in the calculation of ROCE.

Part (b) Compare and analyse financial ratios

Many candidates compared the financial ratios for **Question 2(b)**, however, their analysis often lacked depth, failing to explain the key differences, such as why Link2Career’s revenue growth outpaced that of WorkSG. Additionally, some candidates lost marks for not providing a clear conclusion on the suitability of Link2Career as an acquisition target. Other Candidates missed the requirement to deliver an over-arching conclusion altogether.

Part (c) Strategic reasons for acquisition of business

Responses for **Question 2(c)** were overall too generic, rather than addressing the specific context of the question. A small number of Candidates left this part blank, indicating potential gaps in syllabus coverage.

Part (d) Evaluate the advantages and disadvantages of various financing options

Question 2(d) was a qualitative question examining the advantages and disadvantages of three sources of finance—corporate debentures, share listing, and share swap—for funding the acquisition of Link2Career. While most Candidates

were able to discuss these sources to varying levels of detail, some veered off-topic by comparing the three sources against each other instead of focusing on the specific sources outlined in the question.

Part (e) Discuss advantage and disadvantage of post-acquisition rebranding

For **Question 2(e)**, Candidates were tasked with explaining the advantage and disadvantage of rebranding to a new company name post-acquisition. Although some Candidates identified relevant points, the quality of responses varied. Many relied on generic discussions of merger-related challenges, such as cultural integration or implementation issues, which were not directly tied to the topic of rebranding.

Question 3

Candidate performance on **Question 3** was mixed.

Part (a) Estimate weighted average cost of capital

In **Question 3(a)**, Candidates were required to calculate the risk-adjusted Weighted Average Cost of Capital (WACC) for the newCo. While most Candidates successfully determined the combined market value of the newCo, a significant number struggled with un-levering and re-levering beta to derive the cost of equity.

Many candidates also appeared confused about the distinction between debentures and bank loans, often grouping them together despite their differing costs of funds.

Additionally, some Candidates failed to recognize the need to calculate the Internal Rate of Return (IRR) when estimating the cost of debentures.

Part (b) Calculate equity value using the income approach

Question 3(b), tasked Candidates with using Free Cash Flows (FCF) to calculate the Enterprise and Equity Value of the firm. Although most Candidates performed reasonably well, some demonstrated uncertainty regarding the treatment of finance expenses and depreciation in their calculations.

Part (c) Evaluate value created from acquisition of business

In **Question 3(c)**, Candidates were required to evaluate the increase in shareholder value. While most were able to compute the uplift in value, many struggled to determine the additional value created by the acquisition by comparing it to the required acquisition price.

Part (d) Recommend strategies to reduce acquisition price

Question 3(d) required Candidates to recommend three strategies for the CEO to lower the acquisition price. Most Candidates proposed one or two strategies

effectively. However, a common error was suggesting alternative payment terms, such as deferred payment or benefits-in-kind, which simply spread the acquisition cost rather than reduced it and were not appropriate as direct strategies for reducing the acquisition price.

Question 4

Part (a) Diversity risk (gender and age) management

Generally, Candidates performed poorly in this question. Measures suggested in response to the requirement were either impractical or may result in another form of biasness and in some suggestions- penalising the clients. Candidates provided responses to improve gender imbalance within WorkSG which was evidenced that Candidates misread the question requirement.

Part (b) Governance improvement from new independent Chair

Candidates generally performed well in this question and provided satisfactory reasons on the need to appoint an independent Chair. Role of the Board Chair was also reasonably articulated. There were sporadic cases of Candidates listing out the advantages of just having a Board Chair.

Part (c) Evaluation of Suitability & Independence of individuals for the Board

Performance in this question by candidates was reasonable with many Candidates providing answers that referenced to the Singapore Exchange (SGX) Listing Rules when the WorkSG was stated as a private company.

However, there were also cases where Candidates could not differentiate between the suitability and independence of the proposed Board candidates.

It was also observed that some Candidates' responses contained direct lifting or paraphrasing of case facts without elaboration. Some Candidates also did not realise that the discussion on suitability and independence should be distinct and ended up using the terms interchangeably.

It was noted that a minority of candidates have left this question unanswered or uncompleted. Candidates for future sittings are advised to organise their answers to avoid caught in time-management issues.