

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Business Value, Governance and Risk (BG)

EXAMINATION DATE: 7 December 2022

General comments

The December 2022 BG examination consists of a single company case study with financial and industry data covering four questions across the BG syllabus, with each question covering particular syllabus areas, consistent with prior examinations.

The scenario company, SingPower Limited (“SingPower”) is a large engineering company in the energy sector and has been listed on the Singapore Exchange for over thirty years. SingPower is a significant provider of engineering design, procurement, and construction services for energy creation (design and construction of power-plant technology for coal and gas) and energy transmission infrastructure. The Board of SingPower recognises that fossil fuel power station revenue streams will diminish as the world recognises the importance of addressing climate change and recognizing the importance of renewable energy. As a first step, SingPower is considering diversifying into the design and supply of solar powerplants with a view to increasing the proportion of its revenue from renewable energy sources.

Business valuation learning outcomes are covered by Questions 1 and 2.

Question 1 required Candidates to analyse past financial performance with the aim to describe where SingPower was creating value (or not) and recommend how SingPower could improve its future financial performance and working capital position.

Question 2 focused on evaluating the potential to create new value through a change of strategy towards developing new sustainable energy generating technology using adjusted present value and discuss other non-financial risks and benefits associated with this strategic option.

Risk and Governance learning outcomes are covered by Questions 3 and 4.

Question 3 required Candidates to evaluate six new sustainability initiatives and recommend a new KPI to monitor the performance of each new initiative. Also, evaluate how governance at SingPower can play an essential role in ensuring SingPower meets its sustainability KPI objectives.

Question 4 required Candidates to focus on risk evaluation and evaluate and explain the likelihood and impact on six risks identified by internal audit and advise on a suitable and relevant control response strategy for each risk. Question 4 also required Candidates to demonstrate their knowledge of Enterprise Risk Management (ERM) and explain the main benefits of ERM and possible implementation challenges which SingPower is likely to encounter when implementing ERM for the first time.

As with prior BG examinations, it was noted that overall Candidate performance was marginally better on the numerical elements of the examination than on the discussion requirements. Some Candidates were still providing written explanations which were too brief, vague, generic or did not reference the facts provided in the scenario or reference the company and its products. The advice for future Candidates is to use the scenario facts to provide detailed and specific explanations which directly respond to the nature of the requirement. Candidates are advised to practice their written explanation skills as part of their BG examination preparation.

Question 1

Part (a) required Candidates to calculate the ten financial ratios for SingPower for the year ended 30 September 2022 and the year ended 30 September 2021, as requested by the Board of Directors of SingPower. In general, most Candidates were able to calculate 7 or 8 of the 10 financial ratios. A few Candidates calculated the year to 30 September 2022 only instead of calculating ratios for both years. Common mistakes were return on capital employed where Candidates did not remember the formula for this ratio. For inventory days, receivable days and payable days, some Candidates calculated an average for 2022 and 2021 instead of a ratio for each year as specified in the requirement. As a result, the Candidates were not able to provide a meaningful explanation of changing performance in **part (b)**.

Part (b) required Candidates to provide explanations which interpreted the financial performance of SingPower for the year ended 2022 versus 2021 using each of the ten financial ratios calculated in **part (a)** and provide an overall conclusion. Overall, approximately half of the Candidates were able to meaningfully interpret the financial performance by discussing the economic environment, business issues and financial impact. Some Candidates only provided explanation without providing the numerical ratios which was required as evidence to support the explanation. Some Candidates missed out the requirement to provide an overall conclusion. Some Candidates were unable to present a coherent conclusion from a business perspective taking into account past challenges, present economic recovery and future opportunities. Candidates should expect similar requirements in the future and be ready to provide scenario specific and detailed explanations of performance using financial ratios.

Part (c) required Candidates to recommend two actions which could improve overall financial performance and two actions to improve working capital management. Most Candidates were able to recommend actions of varying quality. However, many Candidates chose to provide generic recommendations rather than provide advice which focused on the context of SingPower scenario. A significant number of Candidates were unable to provide four recommendations, as required.

Question 2

Part (a) required Candidates to calculate an ungeared discount rate to evaluate the proposed investment in the pilot solar powerplant. Candidates were well prepared for this computation.

Part (b) required Candidates to evaluate the proposed investment in the pilot solar powerplant by calculating its Adjusted Present Value (APV). Most Candidates had some difficulties with this requirement with very few able to get near perfect answers. Surprisingly, quite a number of Candidates did not correctly compute the inflation for the revenue and overhead costs and the total costs that qualified for tax allowable depreciation. Many Candidates missed the tax adjustment for the computation of loan subsidy and debt issue costs. In adjusting the NPV to APV, most Candidates were able to calculate the after-tax cash flow effect from the interest expenses and the subsidy, however, the cost of issuance of new debt was often omitted. Most Candidates provided a numeric answer only, so failed to provide a written conclusion to explain the meaning of the outcome for the SingPower Board.

Part (c) required Candidates to discuss two risks and two benefits for proceeding with the pilot solar powerplant. This was not a well-answered requirement on the whole. Candidates were expected to provide non-financial considerations in addition to investment appraisal already performed in **part (b)**. Many Candidates repeated the financial benefit from **part (b)** or repeated facts from the scenario without added further context. Some of the answers were on the pros and cons of the methodology and not on the benefits and risks of proceeding with the project. A minority of Candidates were unable to answer this part of the question, which was disappointing as some relevant creativity would have yielded some marks.

Question 3

Part (a) required Candidates to explain the six new sustainability initiatives proposed to SingPower's Board with the aim to improve sustainability performance at SingPower. Many Candidates were able to discuss the initiatives but were unable to fully articulate the future sustainability performance impact on SingPower. Instead of providing responses for each initiative, some Candidates combined them and provided responses for each ESG category (i.e. Environment, Social and Governance). In doing so, most of these Candidates lost focus and were unable to provide answers specific to each initiative. Also, some of the written responses were merely paraphrased from the case facts and added no further evaluation. Candidates should aim to add insights as to whether a proposed initiative has particular risks, benefits, downsides or practical challenges as such insights will be rewarded.

Part (b) required Candidates to recommend one new key performance indicator for each of the six new sustainability initiatives proposed by the Chair. In doing so, Candidates were required to explain how each KPI will be measured and explain how it will help SingPower to monitor its sustainability performance. KPIs need to be focused and measurable and allow a basis for comparison. Some Candidates suggested responses which were not a KPI (e.g., a survey, a list, annual sustainability

reports) or KPIs which did not provide adequate context for review and comparison. For example, some Candidates suggested the number of community complaints as a KPI. However, a number does not provide enough context on performance if it is not compared against a target or analysed over a period, such as a day, week, or month. Some Candidates provided at least two answers. In such instances, only the first response would be marked, so Candidates are advised to read the requirements carefully to avoid wasting valuable time.

Part (c) required Candidates to explain how each of the following boards (Board of Directors, Remuneration Committee, Audit Committee, Nomination Committee) can play a different role in ensuring SingPower is meeting its ESG key performance indicator targets. Many Candidates struggled to differentiate between the four boards and as such, were not able to credibly articulate how each board could support meeting sustainability KPI's in different ways. Copying and pasting general roles and functions of each board committee from reference sources was not sufficient to earn credit as Candidates were required to apply their knowledge to a specific situation.

Question 4

Part (a) required Candidates to evaluate each of the six risks identified in the internal audit report by applying the Likelihood (High/Low); and Impact (High/Low) criteria. Most Candidates did generally well and are able to provide reasonable explanation for the likelihood and impact involved. However, some Candidates simply listed the likelihood and impact without any accompanying explanation, or explained impact and likelihood together, which limited available marks. Candidates are advised to pay greater attention to the scenario facts and use these to justify their risk evaluation. For example, likelihood of a cyber security attack should be low as there were no incidences of this before at SingPower.

Part (b) required Candidates to explain how SingPower can implement a control strategy to mitigate the potential impact of each risk identified by the internal audit committee from **part (a)**. Most Candidates attempted a recommended control response to each of risk evaluation in **part (a)**. However, marks were limited where generic, vague, or irrelevant controls were provided. Candidates are advised in future to provide specific control solutions which address a risk specified in the scenario.

Part (c) required Candidates to advise on four potential benefits which SingPower will gain when implementing Enterprise Risk Management (ERM). Most Candidates were able to explain many potential benefits of ERM implementation. However, some explanations failed to specifically state how this would benefit SingPower's business model. Candidates are advised to ensure that they provide focused responses rather than to provide generic answers without any reference to the case facts. Some Candidates did not attempt these requirements, which indicated either some difficulties with the topic or a lack of time.

Part (d) required Candidates to explain two expected challenges which SingPower are likely to encounter when implementing Enterprise Risk Management (ERM). Candidates were able to explain some of the possible implementation challenges to

implementing ERM. However, the quality of responses varied. Some Candidates stated challenges such as changing risks, or the requirement to monitor risks. However, these are features of ERM, not initial implementation challenges. ERM is an important framework as it links the achievement of strategic objectives with good governance and risk management so future Candidates should expect ERM to be assessed in the future.