



Singapore CA Qualification Examination

10 December 2024

Business Value, Governance & Risk

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **EIGHTEEN (18)** pages (including this instruction sheet). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open-book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the ISCA's regulations. Please note that smartwatches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
5. This examination paper and all video recordings of this exam are the property of the Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

6. This case is hypothetical and has been written exclusively for the purpose of this examination. Names, characters, places and incidents used are imaginary or fictional. Any resemblance to actual events or locales or persons, living or dead, is entirely coincidental. This case is not to be cited without the permission of the Accounting and Corporate Regulatory Authority.

IMPORTANT NOTICE:

If you are not feeling well, please do not press "Start Assessment". If you have started and leave during the exam, you would be deemed to have attempted the paper.

****VERY IMPORTANT NOTICE****

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1. Your question paper is attached under the "**Resources**" tab found at the bottom right of **EACH** question.
2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.

Other important information:

3. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.
4. You are **NOT ALLOWED** to access any websites during the exam.
5. You are **NOT ALLOWED** to print the question paper.
6. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

Should you encounter any issues during the exam, please call the following numbers:

+65 6028 9811

7. **You do not need to fill in an answer to this instruction question.**

The Recruitment Consultancy Industry in Singapore:

The recruitment consultancy industry in Singapore is a highly competitive and dynamic sector, driven by the nation's robust economy and its position as a regional business hub. With a diverse range of industries and a strong demand for skilled talent, Singapore offers ample opportunities for recruitment consultancies to thrive.

The industry plays a vital role in matching job seekers with employers, providing specialised services such as talent acquisition, executive search, and HR consulting. Key players in the market include both large multinational firms and small to medium-sized consultancies, all vying for a competitive edge in this fast-paced environment.

Recruitment firms in Singapore offer a range of services to cater to the diverse needs of clients and job seekers. These services are designed to facilitate the hiring process, streamline talent acquisition, and ensure the best possible match between employers and candidates.

Recruitment agencies in Singapore offer the following essential services for talent sourcing:

- **Talent Acquisition:** Assisting businesses in finding and attracting suitable candidates for job openings.
- **Executive Search:** Specialising in hiring high-level executives and senior management through in-depth searches and networking.
- **Temporary and Contract Staffing:** Providing short-term staffing solutions with a pool of pre-vetted candidates for flexible workforce management.
- **Industry-specific Recruitment:** Focusing on specific sectors like information technology (IT), finance, healthcare, etc., with tailored services to meet industry-specific needs.
- **Candidate Assessment and Selection:** Conducting interviews, skill tests, and evaluations to ensure the selection of qualified and competent candidates.

About WorkSG Limited

WorkSG Pte Ltd (“WorkSG”) is a privately owned, Singapore-based recruitment consultancy that has established a reputable presence with employers in the Singaporean recruitment market. WorkSG was founded ten years ago and is now in its eleventh year of operations. WorkSG has successfully provided recruitment solutions to a wide range of industries, including IT, finance and healthcare.

WorkSG's key differentiators include its personalised approach, in-depth industry knowledge, and commitment to delivering exceptional service to both of its clients and candidates. WorkSG prides itself on building strong relationships with its employer clients, understanding their specific talent needs, and sourcing the best-fit candidates through a combination of candidate sourcing strategies and rigorous screening processes.

The Chief Executive Officer (CEO), Chen Yew, joined WorkSG five years ago and in this time, Chen has earned a reputation for achieving results. Recent financial performance of WorkSG for the year ended 30 November 2024 is as follows:

Statement of profit and loss

For year ended 30 November 2024	S\$'000
Revenue	33,581.6
Employee costs	(22,153.2)
Other costs of service provision	(933.6)
Depreciation of property, plant and equipment	(25.2)
Marketing and other selling expenses	(3,727.2)
Overheads and administrative expenses	<u>(2,777.2)</u>
Operating profit	3,965.2
Finance costs	<u>(1,125.0)</u>
Profit before tax	<u>2,840.2</u>
Tax	<u>(482.8)</u>
Profit after tax	<u>2,357.4</u>

Other information	WorkSG
Permanent candidate placements per annum	602
Revenue for year ended 30 November 2023 (S\$'000)	31,150.3
Estimated value of equity (S\$'000)	60,000
Value of outstanding 5% bank loan (S\$'000)	20,000
Net book value of non-current assets at 30 November 2024 (S\$'000)	4,300

External industry risk analysis by Han Sim, Operations Director

In a proactive effort to improve risk management and the internal control environment at WorkSG, Operations Director, Han Sim, has analysed the main risks associated with operating a relatively small recruitment agency in the recruitment industry in Singapore.

Each risk identified by Han presents its unique challenges and considerations for the Board of WorkSG that need to be addressed to ensure the recruitment agency's success and sustainability.

Han has determined that the following six risks are the most significant to WorkSG:

- 1. Economic downturn:** The recruitment industry in Singapore is highly competitive and barriers to entry are low. The recruitment industry in Singapore is highly sensitive to economic conditions, which can result in reduced demand for recruitment services during periods of economic downturn, fluctuations, or recessions in specific industries.
- 2. Industry competition:** The recruitment industry in Singapore is highly competitive due to low barriers to entry, with numerous agencies vying for clients and skilled recruitment consultants.
- 3. Changing labour market:** The labour market in Singapore is dynamic, influenced by technological advancements, changing skill requirements, and demographic shifts.

- 4. Employee recruitment and retention:** Attracting and retaining skilled recruitment consultants can be challenging due to the competitive job market and high demand for recruitment consultant experience, skills and market knowledge. The recruitment industry generally has a high employee turnover rate. However, employee turnover at WorkSG has been low since the recruitment agency was founded.
- 5. Key client dependence:** Reliance on a few key clients for a substantial portion of revenue can be risky. If any key client reduces their recruitment needs, switches to a competitor agency or ceases operations, it can significantly impact WorkSG's financial stability.
- 6. Cybersecurity and data protection:** Handling sensitive personal and confidential data exposes WorkSG to potential cybersecurity breaches and data protection risks. There have been some minor recorded incidents at WorkSG where there have been breaches of client data. However, WorkSG has had no legal or client consequences to date due to its timely and excellent response to any issues that arise.

By addressing each of these risks with a well-thought-out risk evaluation and risk response strategy, Han has advised the Board that WorkSG can enhance its chances of success and long-term sustainability in the competitive recruitment industry in Singapore.

Sustainability performance

The CEO, Chen Yew, has told the Board that he would like WorkSG's sustainability performance to be more transparent and measurable so its sustainability credentials can be used to attract new clients and new sources of finance.

Chen believes that by implementing new sustainability metrics, WorkSG can demonstrate its commitment to sustainability, such as in the domains of diversity, employee engagement, ethical practices, environmental sustainability, supplier diversity, social impact and good company governance.

**e-Exam
Question
Number**

Question 1 required:

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(a) For each risk identified by the CEO of WorkSG:

(i) Evaluate the expected **likelihood** as high or low and explain your assessment; and

(ii) Evaluate the expected **impact** as high or low and explain your assessment.

(12 marks)

3

(b) Recommend **ONE** specific risk control/mitigation response for each risk identified in **part (a)**.

(6 marks)

4

(c) Explain **THREE** beneficial impacts to governance of improving the internal control environment at WorkSG.

(3 marks)

5

(d) Elaborate **THREE** domains where WorkSG could improve its sustainability performance. For each domain identified, recommend a distinct and measurable Key Performance Indicator (KPI) which will help the Board to monitor its sustainability performance.

(3 marks)

(Total: 24 marks)

Proposed acquisition of Link2Career Limited

WorkSG is considering the acquisition of Link2Career Pte Ltd (“Link2Career”), a similar-sized Singapore-based recruitment consultancy. Link2Career has been operating in the market for eight years and has established a strong reputation for its expertise in the engineering and construction sectors.

The acquisition presents an opportunity for WorkSG to expand its service offerings, broaden its client base, and gain access to Link2Career's specialised industry knowledge and client relationships. The proposed acquisition is aligned with WorkSG's growth strategy to strengthen its market position by leveraging synergies, and capitalising on the combined expertise and resources of both companies to deliver enhanced value to clients and candidates.

The acquisition of Link2Career would create a new group, which has been tentatively rebranded as XTalent Group.

The proposed acquisition reflects WorkSG's strategic vision to solidify its position as a leading recruitment consultancy in Singapore, expand its market reach across various industries and provide a basis for the growth and open the door for a possible future listing on the Singapore Exchange (SGX).

The Directors of Link2Career have indicated they may consider an offer from WorkSG to purchase 100% of Link2Career for S\$50 million.

WorkSG's Board of Directors would like to understand the equity value of the new XTalent Group, using the free cash flow valuation to the firm method as at 1 December 2024, to determine if an acquisition price of S\$50 million will provide WorkSG's shareholders with value for money.

The Board of Link2Career has provided the following performance results for the year ended 30 November 2024 for the purpose for determining a valuation.

Statement of profit and loss	Link2Career
For year ended 30 November 2024	S\$'000
Revenue	28,419.4
Employee costs	(19,750.4)
Other costs of service provision	(869.6)
Depreciation of property, plant and equipment	(21.2)
Marketing and other selling expenses	(3,554.5)
Overheads and administrative expenses	<u>(2,635.1)</u>
Operating profit	1,588.6
Finance costs	<u>(500.0)</u>
Profit before tax	<u>1,088.6</u>
Tax	<u>(185.1)</u>
Profit after tax	<u>903.5</u>

Other information	Link2Career
Permanent candidate placements per annum	560
Revenue for year ended 30 November 2023 (S\$'000)	25,675.5
Estimated value of equity (S\$'000)	45,000
Value of outstanding 5% bank loan (S\$'000)	10,000
Net Book Value of non-current assets at 30 November 2024 (S\$'000)	2,400

Performance comparison analysis

As part of its evaluation of a potential acquisition of Link2Career, the Board of WorkSG has requested a comparison of performance between WorkSG and Link2Career. The CEO of WorkSG has requested its finance team to focus on the following five performance ratios when preparing a performance comparison analysis between WorkSG and Link2Career:

- 1) Revenue growth (%)
- 2) Employee costs/revenue (%)
- 3) Operating profit margin (%)
- 4) Return on Capital Employed (%) (measured as profit after tax / (debt plus equity))
SG
- 5) Revenue per permanent candidate placement (S\$'000)

Information and assumptions for the valuation of Link2Career

The following additional information and forecast assumptions have been provided by the Board of Directors of WorkSG for the purpose of estimating a suitable risk-adjusted discount rate to generate an equity valuation of the new XTalent Group as at 1 December 2024.

The forecast equity valuation of the new XTalent Group will then be used by the Board of Directors of WorkSG to commence purchase negotiations with Link2Career's Board of Directors.

In order to deliver an equity valuation for the post-acquisition XTalent Group, the Directors of WorkSG have provided the following assumptions.

- **Revenue synergy and future XTalent Group revenue growth:** The Directors of WorkSG forecast that they can increase combined existing 2024 revenues by 10% in 2025 due to the realisation of revenue synergy.

In addition, XTalent Group revenue is forecast to grow at 3% per annum for each year from 2026 to 2028, inclusive.

- **Cost synergy:** The Directors of WorkSG believe they can significantly reduce WorkSG and Link2Career's existing 2024 combined costs in the first year after acquisition by applying WorkSG operating practices, efficiency targets and achieving economies of scale by reducing overhead duplications in similar staff roles and property costs, as follows:

	% 2025 reduction combine costs (from 2024 base)
Employee costs	5%
Other costs of service provision	5%
Marketing and other selling expenses	10%
Overheads and administrative expenses	20%

- **Forecast XTalent Group operating costs 2026 to 2028, inclusive:** All future XTalent Group operating costs are expected to increase by 2% per annum for each year from 2026 to 2028, inclusive.
- **Depreciation:** Assume depreciation is calculated all on non-current assets at an average of 20% per annum on a reducing balance basis. Also, assume a full year of depreciation is charged for capital expenditure additions during the year. For the purpose of this valuation, assume accounting depreciation is a reasonable forecast for capital allowances on non-current assets.
- **Tax:** Corporate tax in Singapore is payable at 17% in the year it is incurred, and this rate is expected to continue indefinitely.
- **Finance costs:** The Directors have forecasted XTalent Group finance costs as follows:

	2025	2026	2027	2028
	S\$'000	S\$'000	S\$'000	S\$'000
Finance costs	3,500.0	3,500.0	3,500.0	3,500.0

- **Capital expenditure:** Forecast capital expenditure is expected to be S\$450,000 for each year from 2025 to 2028, inclusive.
- **Working capital:** For each year 2025 to 2028, additional working capital, equivalent to 10% of the increase in revenue for that year, will be required. For simplicity, assume that the additional working capital cash flows occur at the end of the year in which the increase in revenue arises.
- **Forecast free cash flows assumptions for 2029 and the years thereafter:** For simplicity, the Directors have assumed that 2029 forecast net free cash flows to the firm will grow by 2% per annum into perpetuity.

Other market information

- Listed companies in the Singapore recruitment industry have an average beta of 1.75 and an average gearing of 1:3 (measured as debt: equity). The Directors of WorkSG believe this average beta provides an appropriate starting point to determine an appropriate financial risk adjusted weighted average cost of capital to value the new XTalent Group.
- The current yield on Singapore Government Securities is 2.5% for all debenture maturities.
- The current market return on the Singapore equity market portfolio is 6.5%.

Proposed finance to acquire Link2Career

The Board of WorkSG is considering issuing a new S\$50 million 6.25% corporate debenture, with interest paid annually in arrears, which will be issued on the day of the acquisition as the preferred finance for the purchase of Link2Career. This corporate debenture is expected to be issued at par value (where par equals 100) and will redeem in five years' time at a 5% premium above its par value. The Directors of WorkSG have instructed that the form of finance should be assumed as part of the valuation assumptions.

The Board of WorkSG Board has advised that the weighted average cost of capital (WACC) applied to the free cash flow to the firm valuation should incorporate the current combined debt and equity finance of WorkSG and Link2Career, excluding any uplift for synergy, and include the proposed S\$50 million of new debt finance which will be required to help fund the acquisition of Link2Career.

The Board of WorkSG would also like to understand the advantages and disadvantages of other forms of acquisition finance, namely:

- (i) Issuance of convertible corporate debenture
- (ii) Listing WorkSG on the Singapore Exchange (SGX)
- (iii) A share-swap between WorkSG and Link2Career

**e-Exam
Question
Number**

Question 2 required:

- 6** (a) Calculate the **FIVE** financial ratios for WorkSG and Link2Career for the year ended 30 November 2024 as requested by the CEO of WorkSG.
(5 marks)
- 7** (b) Compare and analyse the financial performance of WorkSG and Link2Career for the year ended 30 November 2024 by applying the **FIVE** financial ratios calculated in **part (a)**. Conclude Link2Career's suitability as an acquisition target.
(7 marks)
- 8** (c) Discuss **FOUR** strategic reasons why WorkSG would make an offer to acquire Link2Career.
(4 marks)
- 9** (d) Evaluate **ONE** advantage and **ONE** disadvantage of each of the following sources of finances which Work SG could arrange to fund the acquisition of Link2Career.
(i) Issuance of a convertible corporate debenture
(ii) Listing of WorkSG on the Singapore Exchange (SGX)
(iii) A share swap between WorkSG and Link2Career
(6 marks)
- 10** (e) Discuss **ONE** advantage and **ONE** disadvantage of a post-acquisition rebranding from WorkSG and Link2Career to XTalent Group.
(2 marks)
(Total: 24 marks)

**e-Exam
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Question 3 required:

- 11** **(a)** Determine a risk-adjusted weighted average cost of capital (WACC) to evaluate the new XTalent Group.

Note: Present your answer as a percentage to one decimal place and show all workings.

(9 marks)

- 12** **(b)** Calculate the equity value of the new XTalent Group using the free cash flow to the firm valuation method.

Note: In doing so, use the WACC determined in **part (a)** and apply year-end discounting and present your answer in S\$000's.

(16 marks)

- 13** **(c)** Using the estimated equity value for XTalent Group calculated in **part (b)**, evaluate the increase in shareholder value should the Directors of WorkSG proceed with the acquisition of Link2Career for the offer price of S\$50 million.

(2 marks)

- 14** **(d)** Recommend **THREE** strategies that the CEO of WorkSG could employ to lower the S\$50 million acquisition price of Link2Career.

(3 marks)

(Total: 30 marks)

Potential for bias in candidate recruitment processes

There is concern by the Board of WorkSG (“the Board”) that some of its recruitment consultants are putting forward a higher proportion of younger, male candidates for interviews with employer clients. The Board acknowledges that there are currently no reliable metrics to support this.

When questioned, one WorkSG recruitment consultant told the Operations Director, “This can be in response to pleasing some employer clients who state a preference for younger, male candidates to be put forward, but also, there is a belief amongst some of the recruitment consultants that younger, male employees can be placed more quickly.”

In response, the Board has agreed that measures to counter the risk of gender and age bias in its clients' recruitment and selection processes and by its employer clients are required. The Board would also like to understand the benefits of doing so.

New Chair of the WorkSG Board

Currently, WorkSG has no permanent Chair, as this role is rotated by each of the current executive board members, including the CEO, Chen Yew. As WorkSG is now in its eleventh operating year, the Board has discussed appointing someone to the role of Chair but there has been some disagreement on what benefits a new Chair could deliver to WorkSG's governance arrangements and board effectiveness.

Appointment of new Independent, Non-Executive Director

WorkSG has not yet got around to appointing an independent Non-Executive Director as WorkSG's focus since its founding has been principally on growing the company and managing its working capital to achieve this. As a private company, Chen Yew is aware that WorkSG is not bound by the provisions of the Singapore Code of Corporate Governance but acknowledges that it is now time for WorkSG to enhance its governance arrangements, especially if it proceeds with the strategy to grow by acquisition and purchases Link2Career.

The WorkSG Executive Board members have determined that one independent Non-Executive Directors (INEDs) will be a beneficial start and have shortlisted a potential

group of six candidates for the role of INED using its recruitment desk, which specialises in the board level vacancies.

The candidates shortlisted for the positions of INEDs are as follows:

Candidate 1 - Lim Wei Xiong

Lim Wei Xiong, a 67-year-old male, retired three years ago as the Finance Director of Link2Career. With a wealth of experience in financial management and an in-depth understanding of the recruitment industry, he brings valuable insights to WorkSG. His tenure at Link2Career showcases his commitment to the sector's growth and stability. As an INED, Lim Wei Xiong aims to contribute his expertise in financial governance and strategic planning to ensure WorkSG's continued success.

Candidate 2 - Tan Li Ying

Tan Li Ying, a 54-year-old female, is currently serving as a Non-Executive Director for a training and development company. Her diverse board-level experience and keen interest in talent development align well with WorkSG's mission. Additionally, she is the sister of WorkSG's Sales and Marketing Director, providing her with an inherent understanding of the agency's vision and goals. Tan Li Ying seeks to contribute her expertise in leadership development and governance to foster a culture of excellence within the Board.

Candidate 3 - Chan Mei Ling

Chan Mei Ling a 45-year-old female, is an ex-CEO from the IT industry and currently serves as a Non-Executive Director for six other companies, including one listed recruitment service company. With a comprehensive background in diverse industries and a proven track record in executive leadership, Chan Mei Ling is an accomplished female leader with a strong vision for talent development and innovation.

Candidate 4 - Wong Chun Ho

Wong Chun Ho, a 58-year-old male, holds the position of Operations Director at a large property company, which happens to be the leaseholder for WorkSG's current business premise. His experience in property management and operations complements WorkSG's growth strategies, especially if the company plans to expand

its physical footprint. Wong Chun Ho envisions aligning WorkSG's operational efficiency with industry best practices, fostering a conducive environment for talent development.

Candidate 5 - Loh Xi Wen

Loh Xi Wen, a 34-year-old female, was one of the founding members of WorkSG. After leaving the agency four years ago to set up her own recruitment firm, which she subsequently sold to Xceed, a Singapore-listed recruitment agency, Loh Xi Wen retains a 2.5% shareholding in WorkSG. Her entrepreneurial spirit and deep understanding of the agency's roots make her an invaluable candidate. As an INED, Loh Xi Wen intends to bring innovative ideas and forward-thinking strategies to drive WorkSG's growth and expansion.

Candidate 6 - Teo Yew Meng

Teo Yew Meng, a 66-year-old male, was the former audit partner for WorkSG until his retirement one year ago. His expertise in financial oversight and regulatory compliance can significantly enhance WorkSG's governance. Having been closely associated with the company, Teo Yew Meng holds in-depth knowledge of its financial practices and corporate culture. As an INED, he aims to ensure transparency and ethical conduct in all aspects of WorkSG's operations.

By appointing one of these candidates, the CEO of WorkSG aims to improve the agency's governance and strategic decision-making. A new INED will contribute to the continued growth and success of WorkSG as it embarks on its expansion plans, including the potential acquisition of Link2Career.

**e-Exam
Question
Number**

Question 4 required:

- 15** **(a)** Advise how WorkSG can implement **FIVE** measures to mitigate the risk of gender and age bias in its clients' recruitment and selection processes and by its employer clients. In addition, **conclude** on the overall benefits of doing so. **(6 marks)**
- 16** **(b)** Explain **FOUR** reasons how the appointment of a **new, independent Chair** can improve governance at WorkSG if implemented. **(4 marks)**
- 17** **(c)** Evaluate the **suitability** and **independence** of each of the six proposed candidates for the roles of Independent, Non-Executive Directors to the Board of WorkSG. **(12 marks)**
- (Total: 22 marks)**

END OF PAPER