

**MAY 2020 PROFESSIONAL EXAMINATIONS**  
**PUBLIC SECTOR ACCOUNTING AND FINANCE (PAPER 2.5)**  
**CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**GENERAL COMMENTS**

The overall standard of the paper was very good and the performance of the candidates has improved over the previous examination's performance. However, the performance falls below expectation.

**STANDARD OF THE PAPER**

The paper contained five (5) questions with eleven (11) sub-questions and 24 sub-sub questions. The standard of the paper is comparable to previously administered ones. The marks allocated was consistent with the weights assigned in the syllabus. The marks were fairly allocated to each question, sub-questions and sub-sub questions. The questions were clear, unambiguous, free of errors and well typed.

**PERFORMANCE OF CANDIDATES**

The general performance of the candidates in the paper was below expectation, however it was better than the previous examination's performance. In all 1,380 candidates sat for the paper and 23.26% were successful compared with 9.63% in the previous examination. Performance has therefore improved by 13.63%. This may be explained by the publication of the study manual and question bank of public sector accounting and finance by the Institute.

**NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

An analysis of the performance reveals the strengths and weaknesses of the Candidates. Most candidates were good at financial reporting in the public sector. In the current diet, the candidates were asked to prepare set of financial statements from financial information of a Municipal Assembly and almost all did very well in it. Candidates were also comfortable with questions on public procurement, public private partnership (PPP) and accounting policies of cash and accrual accounting systems.

These are some general weaknesses of Candidates in the examination. Most candidates failed to read and understand the questions well before providing answers. As a result, they deviated from the requirements of the question. For example, question 1b) asked candidates to explain two (2) function of the Internal Audit Agency Board as required by the Internal Audit Agency Act 2003, Act 658, but most candidates were providing the functions of Internal Audit Agency under the law. This clearly showed that they did not read the question carefully. Similarly, question 3b) was poorly understood by candidates because they failed to read the question carefully. Another weakness observed was that candidates were not able to organize and communicate their ideas clearly and professionally in their write ups. Further, reflective of the performance of candidates is the poor preparation towards the examination. The candidates lack in-depth knowledge of the subject and therefore found it difficult to answer practical questions.

## QUESTION ONE

- a) Cash accounting policies and accrual accounting policies when applied respectively to the same transaction or events of the same entity will produce different pictures of the financial performance, position and cash flow information of the entity. Thus, the choice of alternative policies needs to be given much consideration. The International Public Sector Accounting Standards Board (IPSASB) permits the use of cash accounting policies whilst encouraging the application of accrual accounting policies in the preparation of financial reports for public sector.

**Required:**

Discuss the difference between *cash accounting policies* and *accrual accounting policies* in terms of recognition and or treatment of the following in the Financial Statements:

- i) Revenue
  - ii) Capital asset
  - iii) Allowances and provisions
  - iv) Contingent liability **(4 marks)**
- b) Explain **TWO (2)** functions of the Internal Audit Agency Board as required by the Internal Audit Agency Act, 2003, (Act 658). **(4 marks)**
- c) Explain what a *covered entity* is in Public Sector Accounting and Finance? **(2 marks)**
- d) Some accountants hold the view that development of a Conceptual Framework for General Purpose Financial Reporting (simply, the Conceptual Framework) in the Public Sector is needless and a mere information overload on the Accountants. This argument is predicated on the fact that the Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopts IPSAS, nor does it override the requirements of the International Public Sector Accounting Standards (IPSAS) or the Recommended Practice Guides (RPGs).

**Required:**

- i) Explain the connection between the *Conceptual Framework* on one hand and *IPSAS* and *RPGs* on the other hand. **(2 marks)**
- ii) Illustrate a practical case where the *Conceptual Framework* would be useful to an accountant in the preparation and presentation of a *General Purpose Financial Report* for his organisation. **(4 marks)**
- iii) Explain **TWO (2)** constraints on information included in the General Purpose Financial Reports **(4 marks)**

**(Total: 20 marks)**

## QUESTION TWO

Below is the extract from the records of Damsa Municipal Assembly (DMA).

<b>Trial Balance as at 31 December 2019</b>		
	<b>GH¢'000</b>	<b>GH¢'000</b>
Travel and transport	10,000	
Seminar and conference	8,700	
Independence Day celebration	5,600	
Office consumables	4,100	
Inventory of office consumables	1,200	
Local Consultancy	300	
Limited engagement	1,300	
Non-established post salaries	4,400	
Allowances for staff	2,100	
Assembly members allowances	950	
Foreign travels per diems	500	
Foreign travels	1,800	
Share of District Assembly Common Fund		68,000
Share of stool land revenues		13,000
Ceded revenues from GRA		11,250
Basic rates		10,000
Property rates		26,000
Market tolls		6,800
Market store fees		9,100
Lorry parks		600
Advertisements and promotions		1,400
Vehicle licenses		560
Hawkers licenses		120
Entertainment licenses		700
Fixed deposit interest		800
Fixed deposit investment	10,000	
Motor vehicles	25,000	5,000
Furniture and fittings	15,000	3,000
Premises	86,000	5,600
Equipment	34,000	3,600
Cash and cash equivalent	5,400	
Loans and advances	6,200	
Revenue receivable	300	
Other expenses	1,700	
Accumulated surpluses		47,020
District development facility		<u>12,000</u>
	<u>224,550</u>	<u>224,550</u>

### **Additional Information:**

- i) The central government has a constitutional responsibility to pay all established post salaries of the Assembly from the Consolidated Fund. The established post salaries paid by the central government on behalf of the assembly for 2019 amounted to GH¢64,000,000. This payment has not reflected in the books of DMA.

ii) Office consumables in respect of stationery and other items bought for GH¢ 1,800,000 remained unused during the year. The current replacement cost of the inventories is GH¢1,050,000. Meanwhile, the net realisable value of the inventories is estimated at GH¢1,400,000. No market exists for unused office consumables and other items.

iii) Consumption of fixed capital is to be charged as follows:

<b>Assets</b>	<b>Estimated useful life</b>
Motor vehicles	5 years
Furniture and fittings	5 years
Premises	10 years
Equipment	8 years

iv) During the year, the following assets were acquired and outright payments made for them: Motor Vehicle GH¢7,000,000; Equipment GH¢ 4,000,000. These have been accounted for.

v) DMA could not pay the electricity bill for the last quarter of 2019. This was brought to its attention by the Electricity Company Ltd. of Ghana. The amount involved is GH¢4,000,000.

vi) The government has assigned some young graduates to DMA as part of the Nation Builders Corp programme to support the Assembly in revenue mobilisation. The allowances amounting to GH¢2,000,000 due them from DMA for the last month of the year was outstanding. DMA promises to pay them by the end of the first quarter of 2020.

vii) Fixed deposit attracts interest of 20% per annum and some interest is due as at 31 December 2019.

viii) The market store fees received was for two years: 2019-2020.

ix) During the year, the chiefs and people of the Assembly donated a new vehicle valued at GH¢400,000 to the DMA. No record was made in the books.

x) Extract of the 2019 Budget of the DMA is as follows:

	<b>GH¢'000</b>
Decentralised transfer	185,000
Compensation of employees	74,300
Goods and Services	35,600
Other expenses	1,700
Internally Generated Funds	102,000
Donations and grants	1,000

**Required:**

Prepare in accordance with the *IPSAS* and the *Public Financial Management Act, 2016 (Act 921)*:

a) Statement of Financial Performance for the year ended 31 December 2019. **(5 marks)**

b) Statement of Financial Position as at 31 December 2019. **(5 marks)**

c) Statement of Budget Information in Comparison with Actuals for the year ended 31 December 2019. **(5 marks)**

d) Notes to the financial statements. **(5 marks)**

**(Total: 20 marks)**

### QUESTION THREE

- a) The Public Expenditure and Financial Accountability (PEFA) framework recognises the importance of internal control systems in achieving the desired fiscal and budgetary outcomes. Internal control systems play a vital role across every pillar of public financial management. It addresses risk and provides assurance that operations meet the control objectives of the PEFA framework therefore assesses how effectively the internal control systems operates in the country by making reference to the internal control components developed by other international organisations, specifically Committee of Sponsoring Organisations (COSO) of the USA.

**Required:**

- i) Explain **THREE (3)** control objectives in public financial management relevant to the PEFA framework of assessment. **(3 marks)**
- ii) Discuss **FIVE (5)** components of internal control in relation to the PEFA Framework. **(5 marks)**
- iii) Explain **TWO (2)** limitations of the PEFA Framework for assessing public financial management. **(2 marks)**
- b) Presented below is the Statement of Financial Performance of the Consolidated Fund of Ghana.

**Revenue and Expenditure Statement of the Consolidated Fund  
for the year ended 31 December, 2018**

	GH¢'million 2018 Actual	GH¢'million 2017 Actual	GH¢'million 2018 Budget
<b>Revenues</b>			
Direct tax	16,450	12,400	20,200
Indirect tax	22,200	25,600	34,100
Non-tax revenue	7,500	5,800	7,000
Grants	<u>1,300</u>	<u>1,900</u>	<u>2,000</u>
<b>Total revenue</b>	<b><u>47,450</u></b>	<b><u>45,700</u></b>	<b><u>63,300</u></b>
<b>Expenditure</b>			
Compensation for employees	29,800	24,300	25,900
Use of goods and services	10,300	9,860	18,000
Consumption of fixed Asset	240	220	-
Interest	19,660	14,550	16,780
Subsidies	510	430	1,920
Other expenses	1,600	1,430	2,450
Exchange difference	<u>620</u>	<u>400</u>	<u>-</u>
<b>Total Expenditure</b>	<b><u>62,730</u></b>	<b><u>51,190</u></b>	<b><u>65,050</u></b>
<b>Net Operation Result</b>	<b><u>(15,280)</u></b>	<b><u>(5,490)</u></b>	<b><u>(1,750)</u></b>

**Required:**

Based on a Common Size Statement of Financial Performance, write a report discussing and analysing the financial performance of the Consolidated Fund in line with the *Recommended Practice Guide 2, Financial Statement Discussion and Analysis*.

**(10 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

- a) A newly appointed Chief Executive Officer (CEO) of a large Government Teaching Hospital has just resumed work. The Hospital is finance by 40% Internally Generated Funds and 60% subventions. At his first meeting with the Management Committee of the Hospital, the CEO briefed the Committee about his policies and strategies to improve efficiency in the Hospital's operations. He identified the use of the Public Procurement Procedures as the major obstacle of the Hospital in achieving its objectives. He therefore suggested the use of established commercial procurement practices because a consultant advised him that it is very possible and permissible under the Public Procurement Act 2016 (Amendment) Act 914. He added that the head of an entity has the responsibility to decide whether to use public procurement rules or otherwise.

**Required:**

- i) Explain to the Chief Executive Officer, the *conditions* under which the Public Procurement Act 2016 (Amendment) Act 914 permits the use of established commercial practices. **(3 marks)**
- ii) Describe the *approval procedure* involved prior to the use of established commercial practices of procurement. **(2 marks)**
- iii) In your opinion, would the Hospital meet the *conditions* for using the *established commercial practices* of procurement? Explain. **(2 marks)**
- iv) Explain **THREE (3)** functions of the Head of Procurement Entity under the Public Procurement Act 2016 (Amendment) Act 914. **(3 marks)**
- b) A Public Private Partnership (PPP) is a contractual arrangement between a public entity and a private sector party, with clear agreement on shared objectives for the production of public infrastructure and services traditionally provided by the public sector. PPPs can have many different forms.

**Required:**

Explain the following types of Public Private Partnership arrangement

- i) Operating and Maintenance Contract **(2.5 marks)**
- ii) Rehabilitate Operate and Transfer **(2.5 marks)**
- iii) Service Concession **(2.5 marks)**
- iv) Joint Venture **(2.5 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

- a) The Controller and Accountant General who's appointed by the President in accordance with article 195 of the constitution and recognised as the Chief Advisor to the Minister of Finance and government in matters relating to accountancy has urged all Metropolitan, Municipal and District Assemblies (MMDAs) to strictly comply with a directive to use the Ghana Integrated Financial Management Information Systems (GIFMIS) platform for all government businesses. In effect the budgeted funds for these MMDA's would be blocked or not released to any State Agency who refuses to enrol and go live on the GIFMIS Platform.

**Required:**

- i) Explain **FIVE (5)** other responsibilities of the Controller and Accountant General in accordance with section 8(4) of the Public Financial Management Act, 2016 (PFMA) Act 921. **(5 marks)**
- ii) Identify **FIVE (5)** objectives for the adoption of GIFMIS. **(5 marks)**
- b) Parliament of the Republic of Ghana performs several functions such as enactment of laws, securitisation of law, approval of national budget, among others. However, in reference to section 11 (1) of the Public Financial Management Act 2016 (Act 921) provide that Parliament shall also provide oversight responsibilities in several areas. In achieving this the Speaker of Parliament may assign responsibilities under this to a committee of Parliament or an Office established by Parliament.

**Required:**

State and explain **FIVE (5)** areas you expect Parliament of the 4th Republic to provide these oversight responsibilities. **(5 marks)**

- c) Below are some observations made after an assessment of the General-Purpose Financial Report (GPFR) prepared by a public sector entity in 2018:
- i) Not only transactions were not treated in accordance with the IPSAS some were omitted unknowingly.
- ii) In presenting the financial performance, position and cash flow for the current financial year, 2018, the accountant has also provided information on the current year's budget.
- iii) Investment amounting to GH¢1,000,000 in short term security report in the financial position lacks supporting document even though the investment may exist.
- iv) The financial report was dated 30 June 2019, which is an improvement over the previous years, which was signed in September 2018.

**Required:**

**In line with the Conceptual Framework for GPFR by public sector entity:**

Explain the qualitative characteristics of GPFR for each observation in (i) to (iv) above and explain how each of the observations affect the usefulness of the GPFRs to the Users.

**(5 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

### QUESTION ONE

a)

#### *Revenue*

##### **Cash accounting policy**

Revenue is recognized in the statement of cash receipt and cash payment when received. No asset is recognized when the revenue is not received at the reporting date.

##### **Accrual accounting policy**

Revenue is recognized when earned but not when received. Revenue receivable are treated as assets on the statement of financial position.

#### *Capital asset*

##### **Cash accounting policy**

Capital assets are recognized as expenditure for the year in which the asset was purchased or developed. No depreciation is charged to the determination of cost of service of the period.

##### **Accrual accounting policy**

The asset is recognized as an asset. The cost of the asset is written off over its useful life in the determination of financial performance.

#### *Allowances and provisions*

##### **Cash accounting policy**

No room for allowances and provisions since recognition is purely on cash basis.

##### **Accrual accounting policy**

Allowance and provisions are made on receivables, stock loss and non-current assets.

#### *Expenditure*

##### **Cash accounting policy**

Expenditures are recognized when paid for. Unpaid expenditures are not accounted for.

##### **Accrual Accounting Policy**

Expenditure is recognized in the determination of financial performance when incurred not when paid for. Expenditure outstanding is reported as liability in the financial position of the entity.

**(1 mark for each policy explained= 4 marks)**

- b) The Board shall formulate policies for the Agency and shall
- Establish appropriate structures for the effective and efficient execution of the object of the Agency,
  - Secure the achievement of the object of the Agency,
  - Approve plans for the development and maintenance of an efficient internal audit for bodies and institutions to whom this Act applies, and
  - Take reasonable and timely action on the reports submitted to it by the Director-General.

**(4 marks)**

- c) The PFM Act 2016 defines covered entity to mean

- Executive, Legislature and Judiciary;
- Constitutional bodies;
- Ministries, Departments Agencies and local government authorities;
- The public service; autonomous agencies; and
- Statutory bodies.

**(2 marks)**

- d)  
i)

The role of the Conceptual Framework is to establish the concepts that underpin financial reporting in the public sector entities that adopts the accrual basis of accounting. The IPSASB applies these concepts in developing the IPSAS and RPGs applicable to the preparation and presentation of general-purpose financial reports of public sector entities.

In relation to authority, the Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSAS. It does not also override the requirements of IPSAS and RPGs.

**(1 marks for discussing role and 1 mark for discussing authority = 2 marks)**

- ii) Primarily, the Conceptual Framework provides a conceptual foundation for developing the IPSAS and the RPGs and therefore is relevant to standard setters.

However, the preparers of the GPFR based on the IPSAS will also find the conceptual framework useful in some instances. Particular, the conceptual framework will provide guidance to preparers in dealing with financial reporting issues not dealt with by the IPSAS or the RPGs. The preparer can refer to and consider the applicability of the definitions, recognition criteria and measurement principles and other concepts in the Conceptual Framework.

For example, a preparer of a financial report finds that there is a peculiar transaction of the entity which there is no specific IPSAS in force to deal with the matter and therefore has to use his own judgement. In solving the problem, the prepare may rely on the definitions, recognitions criteria and measurement

principles in the Conceptual Framework to arrive at a treatment of the transaction which will largely conform with the spirit of the IPSAS, if one had existed.

**(Award 2 marks for explaining the circumstances when the preparer will rely on the Conceptual Framework. Award another 2 marks for illustration = 4 marks)**

iii) The constraints on information included in GPFRs are materiality, cost-benefit and balance between the qualitative characteristics.

### **Materiality**

Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the information provided in the GPFR. In developing the IPSAS and RPGs, the IPSASB will consider the materiality of the consequences of the application of a particular accounting policy, basis of preparation or disclosure of a particular item or information. Thus, materiality is a constraint on the information included in the GPFR and thus entities consider the materiality of the information in making the decision on disclosure.

### **Cost-benefit**

Financial reporting involves costs to both the preparer and the user. The benefit of the financial reporting should justify the cost involved in producing that information. Thus, judgment of cost -benefit analysis is required. The standard setters and preparers of financial reports considers the cost in relation to the benefits of the information in making decision on information to be included in the GPFR.

### **Balance between the Qualitative characteristics**

The qualitative characteristics work together to contribute to the usefulness of the information. For example, faithfully representing an irrelevant information in the

GPFR does not achieve usefulness of the information. Thus in some instances, balancing or tradeoff between qualitative characteristics may be necessary to achieve the objectives of financial reporting.

**(2 marks each for any constraints explained = 4 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENT**

The question was made up of four (4) sub-questions. The performance in this question was fairly good. Question 1a) required candidates to discuss the difference between cash accounting and accrual accounting policies in terms of recognition and treatment of revenue, capital asset, allowances and provision, and contingent liability. This question was well answered. Question 1b) which asked the candidates to explain the function of Internal Audit Agency Board was poorly answered by candidate because

most candidate did not read the question well. Question 1c) was well responded to by most candidates. Question 1d) tested candidates' knowledge on conceptual framework and responses provided were good. However, candidates failed to convincingly explain the relationship between the conceptual framework, International Public Sector Accounting Standards (IPSAS) and Recommended Practice Guide (RPGs).

## QUESTION TWO

a)

<b>Damsa Municipal Assembly</b>		
<b>Statement of Financial Performance for the year ended 31 December 2019</b>		
	Notes	GH¢'000
<b>Revenue</b>		
Decentralised transfers	2	168,250
Internally Generated Funds	3	52,730
Donations and grants		400
Total revenue		<u>221,380</u>
<b>Expenses</b>		
Compensation of employees	4	74,300
Goods and services	5	35,600
Consumption of fixed capital	6	20,930
Other expenses		1,700
		<u>132,530</u>
<b>Surplus</b>		<u>88,850</u>

(Marks are evenly spread using ticks = 5 marks)

b)

<b>Damsa Municipal Assembly</b>			
<b>Statement of Financial Position as at December 2019</b>			
<b>Assets</b>	Note	GH¢'000	GH¢'000
<b>Non-current assets</b>			
Property, plant and equipment	6		122,270
<b>Current Assets</b>			
Inventory		1,050	
Receivable	7	1,500	
Loans and advances		6,200	
Fixed deposit		10,000	
Cash and cash equivalent		5,400	24,150
			<u>146,420</u>
<b>Liabilities and Funds</b>			

Revenue advanced		4,550	
Payable	8	<u>6,000</u>	10,550
Accumulated fund	9		<u>135,870</u>
			<u><b>146,420</b></u>

(Marks are evenly spread using ticks = 5 marks)

c)

**Damsa Municipal Assembly**

**Statement of Budget Information and Actuals for the year ended  
31 December 2019**

	Notes	Budget GH¢'000	Actual outturn GH¢'000	Variance GH¢'000
<b>Revenue</b>				
Decentralised transfers	2	185,000	168,250	(16,750)
Internally Generated Funds	3	102,000	52,730	(49,270)
Donations and grants		1,000	400	(600)
		<u>288,000</u>	<u>221,380</u>	<u>(66,620)</u>
<b>Expenses</b>				
Compensation of employees	4	49,240	74,300	(25,060)
Goods and services	5	42,650	35,600	7,050
Consumption of fixed capital	6		20,930	
Other expenses		2,500	1,700	800
		<u>94,390</u>	<u>132,530</u>	<u>(38,140)</u>

(Marks are evenly spread using ticks = 5 marks)

d) **Notes to the financial statements**

1) **Accounting policies**

Relevant accounting policies applied to the preparation of the financial statements include the following

- Basis of accounting. The financial statements have been prepared on accrual basis where transactions and events are recognised as and when they occur.
- Cost measurement. Assets are measured on historical cost basis except for motor vehicle donated to the assembly which was measured and recognized at fair value.

- Consumption of fixed assets. Consumption of fixed assets are charges using the straight-line basis. The estimated useful life of the assets are as follows:

<b>Assets</b>	<b>Estimated useful life</b>
Motor vehicle	5 years
Furniture and fittings	5 years
Premises	10 years
Equipment	8 years

- Valuation of inventory. Inventory of office consumable was valued at lower of cost and current replacement cost in compliance with IPSAS 12: inventory
- Compliance with IPSAS and PFM Act. The financial statements have been prepared in conformity with the IPSAS and the Public Financial Management Act 2016.

## 2) Decentralized transfer

	<b>GH¢'000</b>
Share of DACF	68,000
Stool land revenue	13,000
Ceded revenues	11,250
District development facility	12,000
Salary subvention	64,000
	<u>168,250</u>

## 3) Internally generated fund

		<b>GH¢'000</b>
<b>Licenses:</b>		
Vehicle	560	
Hawkers	120	
Entertainment	700	1380
	<u>          </u>	
<b>Fees and charges:</b>		
Market tolls	6,800	
Market stores	4,550	
Lorry parks	600	
Adverts and promotions	1,400	13,350
	<u>          </u>	
<b>Rates:</b>		
Basic	10,000	
Property	26,000	36,000
<b>Investment income:</b>		
Fixed deposit interest		2,000
		<u>          </u>
		<b>52,730</b>

## 4) Compensation of employees

	<b>GH¢'000</b>
GOG salaries	64,000

Limited engagement	1,300
Non-established post	4,400
Allowances	2,100
Foreign travel per diem	500
NABCOP arrears	2,000
	<u>74,300</u>

5) **Goods and services**

	<b>GH¢'000</b>
Travel and transport	10,000
Seminar and Conferences	8,700
Independence Day celebration	5,600
Office consumable	4250
Local consultancy	300
Assembly members allowances	950
Foreign travel	1,800
Electricity arrears	4,000
	<u>35,600</u>

6) **Non-current assets schedule**

	<b>Motor v</b>	<b>F&amp;F</b>	<b>Premise</b>	<b>Equip</b>	<b>Total</b>
Cost	<b>GH¢'000</b>	<b>GH¢'000</b>	<b>GH¢'000</b>	<b>GH¢'000</b>	<b>GH¢'000</b>
Balance b/f	18,000	15,000	86,000	30,000	149,000
Addition	7,400			4,000	11,400
	<u>25,400</u>	<u>15,000</u>	<u>86,000</u>	<u>34,000</u>	<u>160,400</u>
Depreciation					
Balance b/f	5,000	3,000	5,600	3,600	17,200
	5,080	3,000	8,600	4,250	20,930
	<u>10,080</u>	<u>6,000</u>	<u>14,200</u>	<u>7,850</u>	<u>38,130</u>
Carrying amounts	<b><u>15,320</u></b>	<b><u>9,000</u></b>	<b><u>71,800</u></b>	<b><u>26,150</u></b>	<b><u>122,270</u></b>

7) **Receivable**

	<b>GH¢'000</b>
Per trial balance	300
Interest receivable	1,200
	<u>1500</u>

8) **Payables**

	<b>GH¢'000</b>
Compensation of employees	4,000

Electricity	2,000
	<hr/>
	6,000
	<hr/>

9) **Accumulated fund**

	<b>GH¢'000</b>
Balance b/f	47,020
Surplus	88,850
	<hr/>
	135,870
	<hr/>

**(Marks are evenly spread using ticks = 5 marks)**  
**(Total: 20 marks)**

**EXAMINER'S COMMENT**

The question was on preparation and presentation of financial statements of a local authority in accordance with IPSAS and relevant laws. The performance of candidates was very good in this question. However, some candidates did not know how to prepare statement of budget information in comparison with the actual in accordance with IPSAS 24. In addition, some candidates failed to include accounting policies in the notes to the financial statement. It must be noted that accounting policies is always the note 1 to the financial statement and must be reported as such.

**QUESTION THREE**

- i) An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the control objectives. Controls are instituted in a PFM system to achieve these objectives:
- To ensure that operations are executed in an orderly, ethical, economical, efficient, and effective manner;
  - To ensure that accountability obligations of public officers and institutions are fulfilled;
  - To insist that applicable laws and regulations put in place are complied with; and
  - To ensure that resources are safeguarded against loss, misuse and damage.

**(Any 3 well explained point @ 1 mark each = 3 marks)**

- ii) There are five known components of an internal control system and these are:

- **Control environment.** The control environment deals with values and culture of the organisation. It sets the tone of the control at the top by which the entire organisation is directed and controlled.
- **Risk assessment.** It emphasizes the identification and mapping of risk in the organisation to ensure that risk is effectively managed by management. It moderates the exposure of the entity to risk of the organization.
- **Control activities.** It relates to the rules, policies and procedures that are instituted within the organisation to ensure that resources are safeguarded. Accounting controls is an example of control activities.
- **Information and communication.** It deals with information flow within the entity. The right information is received by the right person at the right time.
- **Monitoring.** It entails review and monitoring procedures that are put in place to ensure that deficiencies in systems and policies are corrected.

(5 points well explained @ 1 mark each = 5 marks)

iii) The PEFA framework is a very usefulness too for improving public financial management across countries and governments. However, the framework has some inherent limitations:

- The PEFA indicators focus on the operational performance of key elements of the PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance.
- PEFA also does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable.
- PEFA does not provide recommendations for reforms or make assumptions about the potential impact of ongoing reforms on PFM performance.
- For the purpose of a PEFA assessment elements of the defense, public order and safety function may not be included if information is not available.

(Any 2 points @ 1 mark each = 2 marks)

b)

**Common Size Statement of Financial Performance of the Consolidated Fund**

**For the year ended December 31, 2018**

<b>Revenues</b>	<b>2018</b>	<b>2017</b>	<b>2018 Bud</b>
Direct tax	34.67	27.13	31.91
Indirect tax	46.79	56.02	53.87
Non-tax revenue	15.81	12.69	11.06
Grants	<u>2.74</u>	<u>4.16</u>	<u>3.16</u>
<b>Total revenue</b>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

**Expenditure**

Compensation for employees	62.80	53.17	40.92
Use of goods and services	21.71	21.58	28.44
Consumption of fixed Asset	0.51	0.48	-
Interest	41.43	31.84	26.51
Subsidies	1.07	0.94	3.03
Other expenses	3.37	3.13	3.87
Exchange difference	<u>1.31</u>	<u>0.88</u>	=
Total	<u>132.20</u>	<u>112.01</u>	<u>102.76</u>
Net Operation Result	<u>-32.20</u>	<u>-12.01</u>	<u>-2.76</u>

(40 ticks @ 0.1 mark = 4 marks)

## **REPORT ON FINANCIAL PERFORMANCE OF CONSOLIDATED FUND FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2018**

### **Introduction**

The report provides an analysis and discussion of the financial performance of the Consolidated Fund in line with the Recommended Practice Guide (RPG). The analysis and discussions are based on the common size statement of Revenue and Expenditure of the Fund for the period.

### **Revenue Performance**

The Fund performance in terms of direct taxes and non-tax revenues exceeded the previous year's results and that of the budget for the period. Direct tax revenue constituted 34.7% of the total revenue of the year as against 27.1% and 31.9% of the prior year and budget totals respectively. This may be attributed to massive tax education and technology applications introduced in to the tax administration system during the period. However indirect taxes performed below the budget and prior year performance likely due to sharp economic decline caused by external factors. Grants has also seen a downward trend over the period, indicating that donor support is decreasing over the years.

### **Expenditure performance**

Compensation of employees remain the biggest expenditure of the fund for the year with over 60% of the total revenue generated spent on it. This exceed the expenditure level of 2017 and even the budget of the year. The fund was expected to spend 40.9% of total revenues of the year on compensation but ended spending 62.8% on it, showing clearly a budget over run in excess of 29%. This may result from employment without establishment warrants or increase in wage due the labour unrest during the period. There is a budget under run in goods and services during the year. The fund budgeted to spend about 28% on goods and services during the year but spent only 21,7% during the year. This may affect efficient delivery of public services as input are likely to be lacking due to failure to release budget allocation to the departments. Interestingly, over 41% of total revenue was spent on interest expense, far in excess of the budgeted proportion of 26.5%. This results from huge public debt during the period. Governments should ensure that debt levels are controlled so as to create fiscal space for spending on goods and services.

### **Conclusion**

The net operating result of the Fund was deficit 32% compared to deficit 12% in 2017 and budget deficit of 2.8%. This shows that financial performance of the Fund was not good enough. Drastic measures should be taken to increase revenues from indirect revenues sources and to reduce spending on compensation of employees and interest on debt.

**(6 marks)**

### **EXAMINER'S COMMENT**

This question tested candidates on public expenditure and financial accountability (PEFA) framework for assessing public financial management (PFM) systems and discussion of financial statement. Question 3a) examined candidates on the controls in public financial management in relation to PEFA. Whilst the question 3ai) was well answered, question 3aii) was largely misread by candidates to mean pillars of PFM instead of the components of control system. Thus, majority of Candidates performed poorly in this question. Candidates are strongly advised to read the questions well before answering.

The question 3b examined candidates' ability to discuss financial statements of public sector entities. The question impliedly required candidates to prepare common size financial statement upon which discussion and analysis would be carried. Few candidates were able to prepare common size financial statement correctly and therefore scored very good marks. However, majority of candidates failed to prepare common size financial statement but proceeded to discuss and analyse the raw financial statement as given. Such candidates merited no mark for that unsolicited effort therefore performing poorly in that question.

### **QUESTION FOUR**

a)

i) Public sector entities are generally required to apply the Public Procurement Act 2016 to their procurement activities. However, the Public Procurement Act has allowed the use of commercial practices under certain conditions. The conditions under which a public sector entity can use commercial practices are that:

- The entity is legally and financially autonomous and operates under commercial law
- It is beyond contention that public procurement practices are not suitable, given the strategic nature of the procurement.
- The proposed procurement method will ensure value for money, provide competition and transparency to the extent possible.

**(3 points @ 1 mark each = 3 marks)**

ii) For an entity to apply the commercial practices of procurement, they must seek the approval of the Governing Board of the Procurement Authority. Board approval to use commercial method must be published in a gazette.

**(2 marks)**

iii) The hospital is not legally and financially autonomous and does not operate under commercial laws. The hospital is established under the Ministry of Health and Ghana Health Services therefore cannot be said to be autonomous legally and financially.

It will be a tough order to justify that the public procurement practices are not suitable for a public hospital like ours. Similar, the value for money argument for using the commercial practices will be difficult.

In my opinion based on the above analysis, the hospital does not qualify to apply for approval to use the commercial practices for procurement. I suggest, the public procurement practices should be made more efficient in the hospital.

**(2 marks)**

iv) Under the Public Procurement Act 2016, the head of procurement entity has the following functions:

- Ensure compliance to the Act 914 and concurrent approval from a tender review committee does not absolve the accountability of the head for contracts made.
- Establish procurement unit within entity staffed with qualified personnel.
- Empanel competent and qualified evaluation panels
- Ensure that procurement procedures are followed (due process)
- Ensure stores, vehicles and equipment are disposed of according to the Act
- Exercise sound judgement in making procurement decisions
- Seek concurrent approval from the tender review committee when threshold is exceeded.
- Facilitate contract administration and ensure compliance to contract reporting requirements

**(Any 3 points @ 1 mark each = 3 marks)**

b)

i) **Operational or management contracts:** this model the public authority contracts with a Private Partner to operate and maintain a publicly owned facility or infrastructure. The private sector is partially involved, for example it provides a service or manages the operation. Services or management contracts allow the private sector to provide infrastructure related service for specified periods of time.

**(2.5 marks)**

ii) **Rehabilitate Operate and Transfer:** The initial worn-out asset is provided by the public agency requiring the private partner to invest in revamping the asset and allowed to operate it for a specified period and residual asset transfer to the consolidated fund.

**(2.5 marks)**

iii) **Service Concession:** Service concession arrangements involve contracts under which a public sector entity ('grantor') grants a private entity ('operator') the right

to operate the grantor's infrastructure (e.g., an airport, toll road, bridge, hospital, power distribution). The infrastructure may already exist or may be constructed by the operator. The concession arrangement may also require significant upgrades to the infrastructure without any equity right to the operator. The operator is allowed to recoup its investment over a specified contract period and return the residual asset to the grantor (government).

**(2.5 marks)**

- iv) **Joint venture:** This takes place when the private and public sectors jointly finance, own and operate a facility. **(2.5 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENT**

The question was of two sub-questions. The first sub-question dealt with public procurement and the second sub-question tested PPP. Both were well answered by candidates, except that most candidates were not able to explain joint venture in question 4biv).

### **QUESTION FIVE**

a)

- i) Responsibilities of section Controller and Accountant General. 8(4) of Act 921  
The Controller and Accountant-General shall;
- compile and manage the accounts prepared in relation to public funds;
  - issue general instructions to a Principal Spending Officer in accordance with this Act and the Regulations;
  - keep, render and publish statements on public accounts under this Act;
  - develop efficient accounting systems for a covered entity;
  - approve accounting instructions of a covered entity;
  - receive, disburse and provide secure custody for public funds;
  - on the instructions of the Minister, open an account with the Bank of Ghana and its agents necessary for the deposit of public funds subject to compliance with the Treasury
  - Single Account system established under section 46;
  - authorize the opening of an account for a covered entity;
  - in consultation with the Auditor-General, specify for a covered entity, the accounting standards, policies and the classification system to be applied in public accounting to ensure that a proper system of accounting operates;
  - provide accounting officers to covered entities; and be responsible for the classification and management of value books

**(Any 5 points @ 1 mark each = 5 marks)**

ii) **Five (5)** objectives for adoption of Ghana Integrated Financial Management Information System (GIFMIS)

- Aggregated and disaggregated expenditure control;
- improve treasury system and budget control
- eliminate redundancies and integrate data to ensure better financial control and information systems
- improve efficiency and reduce cost of operation
- improve strategic and day-to-day decision making
- quick availability of the data or MIS, effective control
- allow better cash flow management and budget control
- ensure adequate control to minimize risk of fraud and malpractices
- provide better interface with Bank of Ghana, Commercial Banks and the Controller and Accountant General
- debt as well as grant tracking from various agencies to the State
- predictability for financial flows;
- expenditure and investment planning;
- ability to monitor expenditures;
- fiscal budget management control;
- timely management, financial and statutory reporting; and
- accountability and transparency over Government of Ghana and Donor revenues and expenditure.

(Any 5 points @ 1 marks each = 5 marks)

b) Subject to the Constitution, Parliament shall provide oversight in respect of

- matters relating to budget and finance;
- government expenditure;
- performance reporting;
- post-legislative scrutiny; and
- impact of financial policy measures on the economy.

(5 points @ 1 mark each = 5 marks)

c)

i) **Observation**

The issue borders on error in presentation and omission of information unknowingly. The case related to faithful representation. Faithful representation is attained when the information about the economic and other phenomena represents what it purports to represent.

The error and omission revealed in the in the financial report undermines the faithful representation of the information contained therein.

ii) **Observation**

The fact of the case is that a budget information was included in the GPFR. The qualitative characteristics that will be affected is comparability and relevance.

Comparability is the quality of information that enables users to identify similarities and differences between two sets of phenomena. Relevance is achieved if information provided is capable of making a difference in achieving the objectives of financial reporting and this occurs when the information has confirmatory value and predictive value.

In this case, the disclosure of budget information in comparison with the actual outcomes will enhance comparability of the information thereby increasing its usefulness to the users. In addition, the inclusion of budget information will make the information relevant by enhancing its confirmatory and predictive value.

**iii) Observation**

Here an asset, investment reported in the financial statement is not supported with relevant documents. This will affect the verifiability of the financial information. Verifiability is the quality of information that helps assure users that information in the GPFAR faithfully represents the economic and other phenomenon that it purports to represent.

In this case, the absence of supporting document to the investment undermines the verifiability of the information hence decreases the usefulness of the information to the users.

**iv) Observation**

The 2018 financial report was issued in June 2019, six months after end of year. The 2017 financial report was issued in September 2018, 9 months after year end. There is improvement over 2017 but the issue here is about timeliness of the information. Timeliness means having the information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Under the Public Financial Management Act 2016 Act 921, a covered entity is required to issue its report two months after the end of the year, that is, by February every year. In the case reported, the financial report of the entity cannot be said to be timely.

Lack of timeliness can render information less useful.

**(Each well explained point @ 1.25 marks each = 5 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENT**

It was made up of three sub-questions testing responsibilities of Controller and Accountant General and Ghana Integrated Financial Management System (GIFMIS), the oversight responsibility of Parliament and qualitative characteristics (QCs) of financial report. The questions were well answered by candidates except that some

candidates failed to recognize the QCs in the scenario given. This is indicative that candidates learn to recite the QCs without understanding the practical application.

### **CONCLUSION AND RECOMMENDATIONS**

There is an improvement in performance of candidates over the previous examination administered, however the pass rate is far below expectation. Candidates are encouraged to prepare well for the exams and ensure that questions are well understood before attempting to answer. This way they will be providing very good answers and managing their time effectively in the examination hall. Candidates and prospective candidates are advised to use the Institute's Study Manual and Question Bank in Public Sector Accounting and Finance (Paper 2.5) in their preparation since it has been prepared strictly in accordance with the syllabus. Other textbooks may also be of help. Partners in Learning (PILs) should also endeavour to provide quality tuition to students so as to improve the pass rate of the Institute.