

**MAY 2017 PROFESSIONAL EXAMINATIONS
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

One could describe the overall understanding of the examination questions by candidates as 60% weak and 40% fair. However, there were a handful of good and excellent answers that were given by some candidates indicating that they were well-prepared for the examination. The nature of answers presented by candidates in the examination generally depended on various factors, such as skills and experience acquired in practical Public Sector Accounting and Finance work by some candidates. In some cases, it was also due to some knowledge and competency of other subject areas such as Management Accounting and Corporate Strategy and Ethics acquired by some candidates.

STANDARD OF PAPER

There were no questions deemed to be sub-standard by the moderators and examiners during the coordination. Evaluation of the examination questions indicated that the syllabus coverage was good. This is quite fair as it provided the candidates enough flexibility to answer the variety of topics in the PSA and Finance syllabus appropriately. Again, the type, relevance and quality of the questions provided in the examination were well-balanced. There were hardly any typing errors in the question. Time allotted for questions were reasonable.

PERFORMANCE OF CANDIDATES

Scripts that were marked and moderated indicated poor performance in many centres. This is not surprising because of the structure of the questions. On the other hand candidates' performance may also be a function of better teaching facilities available in some centres and the absence or non-availability of good teaching facilities in other areas of the country. Generally most candidates fared better in question 4, that is, Preparation of Financial Statements. The weaknesses of many candidates were exhibited in the theory questions and this was due to the structure of some of the questions.

QUESTION ONE

- a) The current medium term strategic plan of Dumko Municipal Assembly (DMA) has overall objective of improving the performance of the Assembly. One critical strategy towards attainment of this goal is adoption of new public management strategy to increase participation of private sector in the provision of public services without losing sight of the differences between public sector and private sector. In fact, some of these differences are so fundamental that they cannot be washed away any time soon.

The Chief Executive suggested outsourcing as a key strategy in improving the delivery of public services at local level through the private sector. DMA is currently bedevilled with poor revenue mobilisation, lack of proper data on the Assembly's activities, and poor infrastructure provision. Other supporting activities like cleaning and security are not well performed or performed at very high cost by internal staff. These issues have been tabled at the first strategy meeting convened by the Chief Executive.

Required:

- i) Describe **THREE** fundamental differences between public sector and private sector entities that DMA should take cognizance of in pursuance of the new public management strategy. **(3 marks)**
 - ii) Explain the term '*outsourcing*' in public sector context and advance **TWO** arguments for the use of outsourcing by DMA in its operations. **(4 marks)**
 - iii) Explain **THREE** factors that the management of DMA should consider in making the decision to outsource some of its functions. **(3 marks)**
- b) You have received an official email from your Director which reads:

"Hello Accountant,

Hope you are doing well. We have closed from a workshop organised by the Controller and Accountant General's Department on public financial management not long ago and the discussion was all about adoption of accrual accounting in the public sector. It was emphasised that migration from cash basis to accrual basis is necessary to improve financial reporting and transparency in the public sector. You know I have little knowledge in Accountancy so I was completely lost in the discussions and I wished you had attended the workshop with me.

Another issue discussed was commitment accounting. We were made to understand that commitment accounting strengthens public financial management and therefore departments must ensure that every expenditure is committed in accordance with the appropriation prior to spending.

Please could you help me with some information on these issues?

Thank you,
Director".

Required:

- i) Explain to the Director **THREE** differences between accrual accounting and cash accounting. **(3 marks)**
- ii) Identify **THREE** justifications for adopting accrual accounting in the public sector. **(3 marks)**
- iii) Explain the term *commitment accounting* and illustrate how it could strengthen public financial management. **(4 marks)**

(Total: 20 marks)

QUESTION TWO

- a) The objective of enactments relating to public financial management, among others, is to safeguard the public funds from plunder. One way to achieve this objective is by making specific provisions on the modalities for making payment from the Consolidated Fund (Article 178 of 1992 Constitution). The law requires that all payments from the Consolidated Fund should be authorized and the payment should comply with certain general rules.

Required:

- i) Identify and explain **THREE** ways of authorising payments out of the consolidated fund. **(6 marks)**
 - ii) Identify **FOUR** statutory payments permissible by law in the public sector **(4 marks)**
- b) The Procurement Unit of a government department has drawn up a procurement plan for the current financial year and has submitted it to the entity tender committee. A review of the plan revealed that single sourcing method of procurement is recommended for most of the procurement packages. This raises serious concern from the Entity Tender Committee members, however the head of procurement entity and the chairman of the entity committee holds a different view. He states that every procurement entity has the liberty to use any method of procurement it deems fit and so the decision to use single sourcing in most of the procurements of the department cannot be challenged by the Entity Tender Committee.

According to the head of procurement entity, the entity tender committee has limited role in public procurement and therefore the committee should work within its restricted powers and responsibilities. The role of the committee is to approve the selection of suppliers or contractors.

Required:

- i) To what extent do you agree with the assertion of the head of procurement that *“every procurement entity has the liberty to use any method of procurement it deems fit”* in the light of the public procurement law. **(6 marks)**
- ii) Explain **TWO** conditions under which single sourcing may not be an appropriate method of procurement. **(4 marks)**

(Total: 20 marks)

QUESTION THREE

- a) KTM Regional Hospital, is a public referral hospital under Ghana Health Services established in 1980. The hospital is a sub-vented organisation that finances its operations from Internally Generated Revenues (IGR) and government subventions. In order to forecast for the first quarter of 2017, you are provided with the following information on revenues and expenditure projections of the Hospital for the fourth quarter of 2016 and first quarter of 2017.

Months 2016/2017	IGR GH¢000	Subvention GH¢000	Donations GH¢000	Non- established post GH¢000	Goods and services GH¢000	Non- financial assets GH¢000	Other expenditure GH¢000
October	2,000	8,000	200	300	700	1,200	120
November	2,400	-		310	740	-	240
December	2,500	-	100	400	900	1,000	125
January	3,000	10,000	500	600	800	-	130
February	3,200	-		700	820	1,600	150
March	3,400	-	900	800	840	-	290

Additional useful information for the forecasting exercise.

- 1) The cash and bank balance of the Hospital as at December 2016 was a deficit of GH¢500,000.
- 2) The breakdown of the IGR is as follows:
 - National Health Insurance Customers constitute 60% of the IGR, who are expected to pay their claims two months after service has been rendered.
 - Corporate customers constitute 20% of the IGR. They are granted one-month credit term.
 - Cash Customers constitute remaining 20% of the IGR.
- 3) The experience shows that the government subvention for each quarter is actually released in two equal instalments in the second and third month of that quarter respectively.
- 4) The donations are from creditable partners so they are always received on time. However, the donation for March 2017 amounting to GH¢900,000 will be received 40% in cash and 60% in kind.
- 5) Non-established post refers to wages and salaries paid to casual workers and those on contract appointment. They are paid in the month in which they are incurred.
- 6) Goods and service will be paid for as follows: 40% in the month it was incurred and 60% one month in arrears.
- 7) Non-financial assets bought are paid for in **FOUR** equal instalments, starting from the month in which the asset was bought. Consumption of fixed capital is to be charged at 20% annually.
- 8) Other expenses are paid for as and when incurred.

Required:

- i) Prepare a cash forecast for the Hospital for the first quarter of 2017, showing the forecast for each month and that of the quarter as a whole. **(12 marks)**

- ii) On the basis of the cash forecast in (i) above, advise management on the financing options available to them for the 2017 fiscal year. **(4 marks)**
- b) Public sector entities are required to present financial reports in compliance with the International Public Sector Accounting Standards (IPSAS). However, Government Business Enterprises (GBE) are to present the financial reports using IFRS due to their peculiar characteristics that separate them from other public sector entities.

In determining whether an entity is GBE for financial report purposes, one must examine their nature and characteristic rather than the legal form. In the entity you work for, there is controversy among top management about whether to use IPSAS or IFRS.

Required:

Identify **FOUR** characteristics of GBEs in accordance with *IPSAS 1, Presentation of Financial Statements*. **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

The Trial Balance was extracted from the books of Bokom Municipal Assembly (BMA) as at 31st December 2015.

	Debit	Credit
	GH¢'000	GH¢'000
Property rate		450,000
Basic rates		200,000
Special rates		50,000
Lorry park fees		40,000
Marriage and divorce registration		10,000
Building permits		110,000
Penalties		80,000
Market toll		620,000
Share of District Assembly Common Fund		980,000
District Development Facility		350,000
Compensation for employees		1,000,000
Herbalist licenses		20,000
Hawkers licenses		15,000
Other licenses		12,000
Royalties		50,000
Share of stool land revenue		150,000
Market Store rent		70,000
Other rentals		40,000
Interest on investment		10,000
Gains from business		30,000
Established post	1,080,000	
Non established post	700,000	
Goods and services	950,000	
Interest expense	20,000	
Social benefits	180,000	
Other expenditure	260,000	
Bank and Cash	40,000	
Advances and loans	80,000	
Investment	100,000	
Property, Plant and equipment	1,200,000	
Sundry payables		60,000
Short term loans		120,000
Deposits		100,000
Accumulated Fund		43,000
	4,610,000	4,610,000

Additional information:

- i) Revenues are classified as follows: Rate, Land Revenue, Fees and Fines, Licenses, Rent income, investment income and Grants.
- ii) The expenditure classification should comply with the harmonised Chart of Accounts.
- iii) Consumption of fixed capital for the year is computed as GH¢260,000,000.

Required:

- a) Prepare:
- i) A Statement of Financial Performance for the year ended 31st December 2015; and
 - ii) A statement of Financial Position as at 31st December, 2015.
- (Please show all workings clearly). (16 marks)**
- b) Given the information available, explain **TWO** qualitative characteristics of a general purpose financial reports that the financial statement you have prepared in question (a) lacked. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Ghana Approval Authority (GAA) is a public sub-vented organisation established in 1995 as a standard approving authority for industrial, medical and food substances in Ghana. Dr. Kamkam was appointed as the Chief Executive Officer (CEO) four years ago and he reports to a seven-member Board of Directors. GAA derives its powers from an Act of Parliament that was passed over two decades ago. The CEO upon resumption of office found that the enabling enactment of the Authority is out of date and could not regulate the activities of the board effectively. He therefore introduced a lot of innovations and initiatives to run the Authority effectively and efficiently, however some of his initiatives were inconsistent with the provisions of the enabling enactment. His initiatives despite their inconsistency with the law produces great results for the Authority.

Dr. Kamkam has very good relationship with the Board of directors over the period resulting from fat allowances and kingly treatment he offers them, especially the board chairman who is a personal friend to him. This empowers him to make unilateral decisions knowing that the board is under his full control and dominance. The board meets fewer times than required by the enabling Act of the GAA. Furthermore, internal audit is not given the required attention by management and the audit committee has not been constituted in the last four years.

The Authority outsourced most of its supporting services to the private sector. The CEO has ensured that all of these services are outsourced to companies owned by his close friends and relatives. In some cases, the services are outsourced to companies in which the board chairman has significant interest. Past records supports the action of the CEO that outsourcing to close associates produces better services than an “arm’s length” sourcing. The Authority is also not able to meet information disclosure requirements due to the policy of the CEO to operate on the blind side of the public in order to reduce visibility and nose-poking behaviours of the media.

Required:

- i) Explain **FOUR** symptoms of defective corporate governance that can be identified in GAA. **(6 marks)**
- ii) Identify **FOUR** responsibilities expected of the Board of Directors of GAA to promote good corporate governance. **(4 marks)**

- b) The Ministry of Education is currently considering public-private partnership as a means of improving educational infrastructure in the rural areas. The Ministry intends to use Public-Private Partnership to construct and manage modern libraries in rural areas to increase access to quality reading materials in a serene environment. The project would be fully financed by the private sector and will be built on lands secured by government from the chiefs of the communities.

The private sector requires government guarantee to borrow externally to execute the project. Currently, public library services are free, however the new project when executed through Public-Private Partnership would be on “user-pay” basis. The average fees payable per user is estimated at GH¢20 per week and it will be subject to an upward review from time to time. In order to stimulate private sector interest in the project, the Ministry intend to immune the private sector against risks associated with the project. Meanwhile, the Ministry would insist that local materials and skills are employed in the construction and management of the library project. The project is also environmentally friendly as there will be no or little destruction of the forest vegetation. The project when completed will be of great benefit to the country as a whole.

Required:

- i) Based on **FOUR** guiding principles of Public-Private Partnership under the national Public-Private Partnership policy, explain the feasibility or otherwise of the proposed library project by the Ministry of Education. **(6 marks)**
- ii) Explain **TWO** sources of risks associated with the library project that should be allocated between the public sector and the private sector in the Public-Private Partnership arrangement. **(4 marks)**

(Total: 20 marks)

MARKING SCHEME

QUESTION ONE

a)

i) **In the new public management strategy cognisance should be made of the following differences between the public sector and the private sector:**

- **Objectives are different.** Objective of public sector entities is to deliver public goods and services to all citizens in order to maximize welfare of the citizenry. However, the principal objective of the private sector entities is to make profit on the goods and services they produce and sold in the market.
- **Means of funding is different.** Public sector entities are financed largely from the public resources resulting from taxes, levies and other public moneys whereas private sector is financed through capital contribution of owners such as shares. Therefore, public entities are collectively owned by the citizens without equity interest but equity interest is the basis of private ownership.
- **Accountability structures are different.** Public sector entities are accountable to citizens through parliament but private entities are accountable to the shareholders through the board of directors.
- **The nature of goods and services they offer is different.** Public sector is engaged in the provision of public goods and services which are non-excludable and non-divisible. Private sector is involved in the provision of private goods that are rivalry, divisible and discriminatory. Thus, public sector operates in a monopolistic market while private sector operates in a competitive market.
- **The regulatory environment is different.** Public sector entities are established by a specific enactment of Parliament whereas private sector entities are governed by general commercial enactments and other industry specific enactments.

(Any 3 points for 3 marks)

ii) **Outsourcing** refers to the practice where a public sector entity contracts out some of its supporting or non-essential services to the private vendor to perform for an agreed consideration. In outsourcing arrangement, the risk is retained by the contracting entity, which is the public sector entity.

(2 marks)

Some argument for outsourcing are that:

- Outsourcing leads to improvement in the delivery of public services through the private sector due to assumed greater efficiency and effectiveness in private sector.
- Outsourcing will enable DMA to focus on its core functions and activities since the supporting services will be taken over by a private vendor.
- Outsourcing serves as a medium through which DMA could involve private sector in the delivery of public services.

- Outsourcing will help DMA to serve cost as it is often cheaper to outsource a service than to provide it internally

(Any 2 points for 2 marks)

iii) Factors that the management of DMA should consider in making the decision to outsource some of its functions.

- Legal requirement and government policy. DMA must consider the enabling law and government policy carefully to determine whether outsourcing is permitted.
- Cost savings. DMA will evaluate the decision to outsource in terms of cost by comparing the cost of internal provision of the service to the cost of outsourcing. Most often, outsourcing is supported in terms of cost advantage.
- Internal capabilities. The internal expertise and capabilities of DMA should be considered to determine whether the existing capabilities are adequate to perform the service internally. For example, it will be unacceptable for an organisation with very strong human resource function to outsource recruitment and related function.
- Availability of vendors. The availability and willingness of private vendors to execute the function is an important determinant of successful outsourcing.
- Avoidance of conflict of interest. The management should ensure that all issues of conflict of interest is considered in the award of outsourcing contract.

(Any 3 points for 3 marks)

b)

i) There are differences in accrual accounting and cash accounting and some of the differences are that:

- In accrual accounting comprehensive set of financial statement are prepared to measure financial performance, position and cash condition of the entity. However, cash accounting reports mainly on cash condition of the entity by emplacing receipt and payment information.
- Under accrual accounting, non-financial assets are capitalised and depreciated over their useful life span but under cash accounting cost of non-financial assets are written off in the year of acquisition or construction, hence no depreciation is charged.
- Under cash accounting all obligations of government are disclosure on the statement of financial position but in the cash accounting system such information is not disclosed on the financial statement until they are paid.
- Under accrual accounting allowances are permitted for receivables but no such allowances are accounted for under cash accounting.
- Under accrual accounting revenues are reported when they are earned and expenditures when incurred but under cash accounting revenues are recognised only when received and expenditures when actually paid for.

(Any 3 points for 3 marks)

ii) **Justifications for adopting accrual accounting are that:**

- It provides superior measure of performance in terms of cost of service, efficiency and effectiveness in service delivery.
- It promotes accountability and transparency in public financial management through increasing disclosure of all assets and liabilities.
- It provides comprehensive financial information that support decision making and control.
- It ensures general improvement in the quality of financial reporting in the public sector.

(Any 3 points for 3 marks)

iii) Commitment accounting is a technique of accounting in which expenditures are recorded when decision is made by management to spend on an activity or item. It is a process by which appropriations are encumbered against future expenditure decisions of management. **(1 mark)**

Commitment accounting strengthens public financial management in the following ways:

- It ensures that departments do not over spend their appropriation without further authorisations.
- It also ensures that spending is done within the ambit of a vote hence misapplication funds may be reduced or curtailed.
- It promotes effective planning of expenditure within the available resources and ensure that disbursements are synchronised with commitment.

(3 points for 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This was generally fairly well answered by most candidates. Some candidates however performed very poorly in answering the question, showing that they were ill-prepared for the examination.

QUESTION TWO

a)

i) **Payment of public moneys from the Consolidated Fund should be authorised by one of the following:**

- **An appropriation Act passed by Parliament.** When a budget is laid before Parliament is approved by passing an Appropriation Act and any expenditure covered by the Appropriation Act is properly authorised for payment out of the Consolidated Fund.

- **Supplementary estimate approved by a resolution of Parliament.** Whenever a new estimate is brought to Parliament for approval, it constitutes a supplementary estimate and when approved by Parliament through a resolution, it serves as authority for spending from the Consolidated Fund.
- **Request of expenditure in advance of appropriation approved by resolution of Parliament.** In a year where the budget will not take effect from 1st January, the President may request Parliament to approve spending prior to the approval of the budget for the first quarter of the year. Such vote on account or provisional votes constitute authority to withdraw money from the Consolidated Fund.

(Any 3 points for 6 marks)

ii) Examples of statutory payment

- Interest payment and repayment of debt
- Pension payments
- Statutory transfer to District Assembly Common Fund,
- Statutory transfer to Ghana Education Trust Fund,
- Statutory transfer to National Health Insurance Scheme,
- Statutory transfer to Ghana Infrastructure investment fund etc.

(Any 4 points for 4 marks)

b)

i) I disagree with the assertion that every procurement entity has the liberty to choose the method of procurement it wishes on the grounds that:

- The procurement law has mandated five methods of procurement to be used by procurement entities in the procurement of goods, services and works. The methods include competitive tendering, two stage tendering, restricted tendering, single sourcing and request for quotations.
- The procurement law also recommended the use of competitive tendering in all public procurement unless otherwise.
- Where competitive tendering is not feasible, then the entity should make a choice of the other methods based on certain conditions provided for in the law.

I therefore disagree with the assertion of the head of procurement entity that every procurement entity has the liberty to choose the method of procurement it wishes. The choice of method should meet the conditions indicated by the procurement law.

(3 points for 6 marks)

ii) Conditions under which the use of Single sourcing will not be appropriate include:

- Where there exist many suppliers or contractors that could provide goods, services and works.
- Where enough time exist to carry out the procurement, then urgency could not be used as a reason.
- Where the procurement would not compromise national security.

(Any 2 points for 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2(a) was fairly well answered, but question 2(b) was not well understood by many candidates. It would seem that the candidates who performed poorly in answering question 2(b) did not understand the question properly.

QUESTION THREE

a) KTM Regional Hospital

Cash Forecast for the First Quarter, 2017

	January GH¢'000	February GH¢'000	March GH¢'000	Total GH¢'000
Receipt/inflows:				
Cash IGR	600	640	680	1,920
NHIS collection	1,440	1,500	1,800	4,740
Corporate bill collection	500	600	640	1,740
Subvention		5,000	5,000	10,000
Donations	500		360	860
	3,040	7,740	8,480	19,260
Payments/outflows				
Non-Established post	600	700	800	2,100
Goods and services (working 1)	860	808	828	2,496
Non-financial assets (working 2)	550	650	650	1,850
Other expenses	130	150	290	570
	2,140	2,308	2,568	7,016
Balance brought forward	- 500	400	5,832	- 500
Surplus/ (Deficit)	900	5,432	5,912	12,244
Balance carried down	400	5,832	11,744	11,744

Workings

1. Goods and services

	Oct	Nov	Dec	Jan	Feb	March
	<u>700</u>	<u>740</u>	<u>900</u>	<u>800</u>	<u>820</u>	<u>840</u>
40% in the month	280	296	360	320	328	336
60% next month		420	444	540	480	492
	<u>280</u>	<u>716</u>	<u>804</u>	<u>860</u>	<u>808</u>	<u>828</u>

2. Non financial asset	<u>1,200</u>		<u>1,000</u>		<u>1,600</u>	
Payment GH1,200	300	300	300	300		
Payment GH1,000			250	250	250	250
Pyament GHc1,600					400	400
	300	300	550	550	650	650

5 ticks Format of cash forecast
 45 ticks for content
 50 ticks @0.24 marks=12 marks

i) Advise management of the Hospital based on the result

- Management of the hospital need to seek additional finances in January or review its payment plan in January to address the cash deficit that is revealed in the cash forecast.
- Cash surplus forecast for February and March could be invested in short term securities.

(Any 2 points for 4 marks)

c) IPSAS 1, Presentation of Financial Statements, defines a Government Business Enterprise as an entity with all the following characteristics:

- Is an entity with the power to contract in its own name.
- Has been assigned the financial and operational authority to carry on a business.
- Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery.
- Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length), and
- Is controlled by a public sector entity.

(Any 4 points for 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 3(a) was very badly answered. Indeed only a handful of candidates answered the question well. Question 3(b) answers were fair, though not too satisfactory. This is due to the fact that there was less clarity in the preamble to the question.

QUESTION FOUR

(a)

Workings	GH¢'million
1. Rates	
Basic rate	200
Property rate	450
Special rates	<u>50</u>
	700
2. Land revenue	
Royalties	50
Share of stool land	<u>150</u>
	200
3. Fees and fines	
Lorry park	40
Marriage and divorce	10
Building permit	110
Court fines	80
market toll	<u>620</u>
	860
4. Licenses	
Herbalist	20
Hawkers	15
Other	<u>12</u>
	47
5. Rent income	
Market stores	70
Other rentals	<u>40</u>
	110
6. Investment income	
Interest	10
Business gains	<u>30</u>
	40
7. Grants (external)	
Share of DACF	980
DDF	350
Compensation from government	<u>1000</u>
	2330
8. Compensation for employees	
Established post	1080
Non-established post	<u>700</u>
	1780

Statement of Financial Performance for the year ended 31st December 2015

	GH¢'million	GH¢'million
Revenues		
Rates (w1)		700
Land revenues (w2)		200
Fees and Fines (w3)		860
Licenses (w4)		47
Rent (w5)		110
Investment (w6)		40
Grants (w7)		2,330
Total revenue		<u>4,287</u>
Expenditures		
Compensation (w8)	1,780	
Goods and services	950	
Consumption of fixed capital	260	
Interest	20	
Social benefits	180	
Other expenditure	260	3,450
SURPLUS		<u><u>837</u></u>

Statement of Financial Position as at 31st December 2015

	GH¢'million
Assets	
Property, plant and equipment (1,200-260)	940
Investment	100
Advances and loans	80
Bank and cash	40
	<u>1,160</u>
Liabilities and Fund	
Sundry payables	60
Short term loans	120
Deposit	100
Accumulated fund (837+ 43)	880
	<u>1,160</u>

Marks allocation.

Aspects to be awarded	Ticks / marks
Statement of financial performance	15
Statement of financial position	9
Working	24
Total ticks	48
Score per tick	0.3
Total score	16 marks (approx.)

b)

The two qualitative characteristic that the financial statement may lacks are:

- **Comparability** since no comparable results were provided in the financial statement. The usefulness would have been enhanced if the budget information was presented alongside the respective actual or previous year's corresponding figures used.
- **Timeliness** is also absent since the financial statement relates to 2014 while the accounts are prepared in 2016. The time affect the value of information and the laws of Ghana requires that the accounts should be prepared and submitted not later than six months into 2015.
- **Understandability.** For the financial statement to be understandable it should contain notes including the disclosure of accounting policies. However, the financial statement prepared does not contain any notes or disclosure in accounting policies therefore it lacks understandability.

Aspects to be awarded	Score
Comparability and timeliness mentioned (2 @ 1 mark each)	2
Justification (2 @1 mark each)	2
Total	4 marks

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 4(a) and 4 (b) were fairly well understood and answered except a few candidates who did not perform well.

QUESTION FIVE

a)

i) **Symptoms of poor corporate governance practices observed in GAA include:**

- **Rule of law.** Corporate governance is based on rule of law. The law establishing GAA should be respected at all times. The CEO has undermined the law establishing the authority and decided to run the authority in his own way. This claim that good outcome is achieved through his innovation and initiatives does not weaken the argument that the existing law must be observed.
- **Ineffective board.** Effective boards are critical in corporate governance. However, the board of GAA seem to be ineffective. Firstly, the board fails to meet regularly

and secondly, the independence of the board is also under threat as the CEO seems to control and dominate the board. This renders the board weak and ineffective.

- **Conflict of interest.** Avoidance of conflict of interest is very important in good corporate governance. There is clear evidence of conflict of interest in GAA. The vendors of outsourced services are close friends and relatives of the CEO which places him in a conflict of interest situation. Further, some of the services were outsourced to companies in which the chairman of the board has significant interest.
- **Lack of internal and external scrutiny.** Good corporate governance allows for scrutiny and review of its activities to achieve value for money. However, internal audit function in GAA is neglected and audit committee is completely absent resulting in weak scrutiny and review of the entity's operations.
- **Lack of transparency.** Accountability and transparency are very important principles of corporate governance. However, GAA fails to provide much public information on the operation of the Authority with the excuse that it wants to operate on the blind side of the public and the media. GAA is a public entity and therefore public accountability and transparency is required.

(Any 4 points for 6 marks)

ii) **The responsibilities of board of directors of public sector entity like GAA are**

- Keep themselves abreast with the organization's business.
- Exercise fiduciary duty of care not to put themselves in a position where there is a potential conflict between their own personal interest and their duty to the organization.
- Ensure critical review of all proposals and other issues placed before the Board/Council.
- Prepare for Board/Council meetings, study working papers and be prepared to ask pertinent questions at meetings.
- Periodically update themselves on corporate governance
- Have the general knowledge, skills and experience that may reasonably be expected of a Board/Council member carrying out the specific duties in relation to the organization.
- Undertake to act for the organization in a relationship of trust and confidence.
- Ensure that, decisions are made methodically and promptly and that the reasons for such decisions are recorded and when necessary, seek expert advice

(Any 4 points for 4 marks)

b)

i) **Feasibility of Library PPP project in light of the PPP guiding principles.**

- **Value for money.** It states that the project should be cheaper when executed by PPP than when executed from the public entity. In this case, the private will provide all the financing for the project and therefore Ministry would not spend any money on the project. Thus value for money is ensured in the proposal.

- **Risk allocation.** The risk associated with PPP project should be shared by the public entity and the private entity, or best the public entity should transfer the risk to the private sector. In the case, the Ministry proposes to immune the private sector of risk associated with the project and this is contrary to the guiding principles. The risk identified should be share or transferred to the private sector.
- **Ability to pay.** Affordability of the service is paramount in PPP considerations. Existing Library services are free throughout the country and introducing PPP will mean paying GH¢20 per week per user. This is likely to make the services unaffordable. On count of ability to pay the project is likely to fall flat.
- **Local content and technology transfer.** The project proposes the use of local materials and skills which met the requirement of the PPP guiding policy.
- **Environment, climate and social safeguards.** The project is environmentally friendly and therefore the project meets this requirement of the guiding policy.
- **Safeguard of public interest and consumer rights.** The project seeks to benefit the entire customers.

(Any 4 points for 6 marks)

ii) **Risk associated with the library project**

- **Financial risk** is associated with the project because the private sector proposes to borrow externally with the support of government guarantee. This may give rise to exchange rate risk, default risk and interest rate risk and all these risk should be appropriate allocated in the PPP contract, if the project is to be embarked upon.
- **Demand risk.** The risk that the project will be executive and the patronage will be lower than anticipated leading to revenue fall to the private sector. Allocation of demand risk is necessary.
- **Availability risk** is risk associated with the inability of the private sector to deliver the project at the agreed time.
- **Construction risk** is the risk associated with strikes, physical collapse of structure, accident on the project etc.

(Any 2 points for 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 5 was among the questions that was poorly answered by the candidates. The result is obvious. It is due to the fact that candidates were not expecting corporate governance issues in Public Sector Accounting & Finance.

CONCLUSION

It is difficult to provide a complete assessment of areas where most candidates were ill-prepared for the examination. However, one can also explain that candidates sitting for Public Sector Accounting and Finance have a peculiar handicap – that is, the absence of a comprehensive manual that covers all topical areas of the syllabus. Without a comprehensive manual issued by the Institute of Chartered Accountants, Ghana, there is the tendency for candidates and examiners as well to drift in setting

up questions as happened in this particular examination and for the candidates to also veer from the topics in the syllabus. A comprehensive manual will provide authoritative solutions and a good reference point to specific questions in the learning phase of the candidates. It will also help candidates to avoid anomalies, errors, deviations and inconsistencies that undermine the value of the answers they provide in the Public Sector Accounting and Finance Examination.