

**MAY 2019 PROFESSIONAL EXAMINATIONS
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S GENERAL COMMENTS

One could describe the overall understanding of the examination questions by candidates as 50 percent fair and 50 percent poor. This may be due to poor preparation for the examination by candidates. However, as already indicated, there were a handful of good and excellent answers that were given by some candidates showing that they had prepared well for the paper and had good knowledge of the subject-matter

STANDARD OF THE PAPER

The standard and the choice of the questions were satisfactory. The coverage and weighting structure of the Public Sector Accounting and Finance Paper seemed to have been followed. The interpretation of a few of the questions however appeared problematic in the minds of many of the candidates. There were no minor errors connected with syntax and spelling. The Questions set were not sub-standard. However, many candidates struggled to understand their meaning. The weighting and marks allocation were commendable.

GENERAL PERFORMANCE OF CANDIDATES

Scripts that were marked and moderated indicated poor performance in many examination centres and average performance in a few others. However, there were some isolated good scripts that were marked throughout the country. This is not surprising because of the type of preparation for the examination in different centres. The performance of candidates may also be a function of good teaching. The nature of answers presented by candidates in the examination generally depended on various factors, such as skills and experience acquired in Public Sector Accounting and Finance by some practicing public sector accounting and finance staff and the knowledge other candidates had acquired during their studies and preparation for the paper.

STRENGTHS OF CANDIDATES

It is not easy to assess the strengths of the candidates. It is obvious that some of the candidates were well prepared for the examination and this was exhibited in the excellent answers to the questions. Others appeared to think that the examination could be glossed over and still pass. Such candidates failed woefully.

QUESTION ONE

- a) Accounting Concepts and Bases are broad basic assumptions, which underlie the preparation of the periodic financial statements of entities in the public sector. Unless stated, it would be assumed that they have been adhered to when preparing financial statements.

Required:

Explain **THREE (3)** key characteristics of each of the following Accounting Bases used in Public Sector Accounting:

- i) Commitment accounting
- ii) Accrual accounting
- iii) Cash accounting

(9 marks)

- b) One objective of Public Sector Accounting is accountability. Accountability requires that government justifies how public resources are raised and utilized by means of Financial Reporting. Financial Reporting helps to improve the performance of, and trust in, the public sector.

Required:

Explain **FOUR (4)** other objectives of Financial Reporting in public sector organisations.

(6 marks)

- c) There were several challenges in Public Financial Management in Ghana. As a result, the Ghana Integrated Financial Management Information System (GIFMIS) which has been touted as a flagship system for improved Public Financial Management (PFM) in Ghana was introduced.

Required:

Explain **FIVE (5)** key PFM challenges the GIFMIS seeks to address.

(5 marks)

(Total: 20 marks)

QUESTION TWO

- a) The backward development in the public sector has been attributed to weaknesses in the Internal Control Systems in the public sector. Proper systems for the effective control over the custody and management of assets in public institutions is critical for Public Sector Accounting.

Required:

Analyse **FOUR (4)** key control measures, required to be put in place to ensure effective management of Public Assets. **(6 marks)**

- b) Funds are released from the consolidated fund to the Ministries, Departments and Agencies (MDAs) for use only when appropriation bill has been passed into an appropriation act. However, when Appropriation Act is issued, there are certain procedures usually followed in making payments for Capital Expenditure.

Required:

Outline the procedures for payment of works procured by an MDA. **(4 marks)**

- c) Section 92 (1) of the Public Procurement Act, 2003 (Act 663) provides that any person who contravenes any provision of the Act commits an offence and where no penalty has been provided for the offence, the person is liable on summary conviction to a fine not exceeding 1000 penalty units or a term of imprisonment not exceeding five years or to both.

Required:

Explain **FOUR (4)** circumstances that may constitute an offence as provided by the Public Procurement Act 2003, (Act 663). **(6 marks)**

- d) You have recently been appointed as a District Chief Executive (DCE) of a particular district. It has come to your attention that the Internally Generated Funds (IGF) of the District Assembly is very low and you intend to address the problem for the assembly.

Required:

Identify **FOUR (4)** ways in which the IGF of the assembly can be improved.

(4 marks)

(Total: 20 marks)

QUESTION THREE

- a) The Ministry of Works and Housing prepares its budget using activity volume as a base for control purposes. The Ministry's normal level of activity is 70%. However in 2018, the Ministry had a peculiar challenge to the extent that they operated at 50% level of activity. Below is the budget for 2018.

	Level of activity		
	60%	70%	80%
Income:	GH¢	GH¢	GH¢
IGF	337,500	345,300	353,100
Expenses:			
Compensation of Employees	175,200	204,400	233,600
Goods and services	57,000	64,500	72,000
Interest	63,500	73,100	82,700
Assets	31,500	36,700	41,900
Other Expenditure	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>
	<u>(179,700)</u>	<u>(223,400)</u>	<u>(267,100)</u>

Actual Results for 2018	GH¢
IGF	350,920
Compensation of Employees	129,500
Goods and Service	73,400
Interest	92,000
Assets	31,100
Other Expenditure	172,300

Required:

- i) Prepare a *flexible budget* for 50% level of activity. **(7 marks)**
 ii) Prepare a *Variances Analysis Statement* for the operational year 2018. **(3 marks)**

- b) Budgeting is an important process by which government plans its programmes and activities for a given fiscal period. For a budget to be effective in the delivery of economic and social agenda of government, the budgeting process should be linked to the macroeconomic and fiscal policies of the country. No wonder the Public Financial Management Act, 2016 (Act 921) has made extensive provision on macroeconomic and fiscal policies to guide the government in its budget formulation and execution. The budgeting process is preceded by a fiscal policy planning to serve as a foundation for the realization of the inspiration of the budget. A national budget is a means to an end and not an end in itself, therefore it should be controlled and managed holistically to achieve the desired economic, fiscal and social outcomes. The Minister of Finance, the Principal Account Holders and Principal Spending Officers are actively involved in post budget management and control activities at various levels to ensure that the budget targets are achieved.

Required:

- i) Explain the *primary fiscal policy objective* of government and identify **THREE (3)** guiding principles in the formulation and implementation of a fiscal policy objective. **(3 marks)**

- ii) Explain **FOUR (4) *post budget management and control activities*** prescribed under the Public Financial Management Act, 2016 (Act 921). **(4 marks)**
- c) According to Section 20 of the Public Financial Management Act, 2016 (Act 921), the Minister of Finance shall subject to the approval of cabinet, issue guidelines for the preparation of the budget for each financial year and circulate copies of the guidelines to each Covered Entity not later than 30 June each year. Budget Guidelines play an important role in budget development.

Required:

State and Explain **THREE (3)** importance of *Budget Guidelines* in Public Sector Accounting and Finance. **(3 marks)**

(Total: 20 marks)

QUESTION FOUR

Below are the transactions of the consolidated fund for the year ended 31 December, 2018

	Dr GH¢	Cr GH¢
Taxes Paid by Individual		15,731,289
Taxes Paid by Companies		11,468,455
Other Direct taxes		6,765,102
Excises		9,433,578
Taxes on Goods and Services		8,021,037
Taxes on Exports		5,350,772
Program Grant		8,148,127
Project Grant		4,988,181
District Development		4,941,719
Property Income		8,758,558
Sales of Goods and Services		5,763,905
Fines, Penalties and Forfeiture		4,963,027
Established Position	12,138,953	
Non Established Position	729,399	
Allowances	2,192,931	
13% SSF		7,195
Utilities	1,125,614	
General Cleaning	392,137	
Rentals	18,706	
Travel and Transport	284,023	
Training, Seminar and Conference	72,618	
Consultancies	2,431,582	
Materials and Consumables	1,754,361	
Social Benefit	3,687,172	
Capitation Grant Subsidies	293,414	
Fertilizer Subsidy	292,134	
Schools Subsidy	99,381	
Utility Subsidy	831,291	
Other Expenditure	1,965,089	
Consumption of Plant and Equipment		10,005,389
GETFUND	587,683	
District Assembly Common Fund	989,171	
Trust Monies		10,200,478
Cash and Cash Equivalent	9,341,283	
Loans	2,313,142	
Equity Investment	4,921,314	
Advances	1,231,162	
Domestic Loans		13,203,380
External Loans		20,095,386
Accumulated Fund	6,321,433	
Building at Cost	10,231,421	
Transport Equipment at Cost	6,931,463	
Plant and Equipment at Cost	30,000,214	

Work in Progress	9,139,809	
Computer Software at Cost	37,528,678	
	147,845,578	147,845,578

Additional information:

- i) The Controller and Accountant General uses modified accrual accounting concept in the preparation of its accounts.
- ii) Established Post salaries of GH¢2,937,000 was outstanding as at 31/12/2018.
- iii) Interest on domestic and external loans are provided for at 20% and 15% respectively.
- iv) The Central Government depreciates assets on cost basis using the schedule below:

Class of assets	Number of years
Building	50
Plant, Machinery, Furniture and Fittings	20
Transport Equipment	7
Computer Software and License	5

v) **Provisions:**

Specific provision for bad debt is made for loans receivables and investments as and when their non-recoverability is determined and where a request is made for write off to parliament. This provision is set at 3% and 5% respectively.

Required:

- a) Prepare Statement of Financial Performance of the Consolidated Fund for the year ended 31/12/2018 and **(10 marks)**
- b) Prepare Statement of Financial Position for the Consolidated Fund as at 31/12/2018. **(7 marks)**
(Show clearly all workings)
- c) State and explain **THREE (3)** Accounting Policies that usually accompany Consolidated Fund Financial Statements. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) In an effort to strengthen public financial accountability, the Public Financial Management (PFM) Act, 2016 (Act 921) has introduced Audit Committee in the covered entities as part of public financial governance infrastructure to replace the Audit Report Implementation Committee (ARIC). Many experts hold the view that ARIC did not perform well due to lack of independence and legal framework. To address these lapses, the PFM Act paid attention to the composition of the Audit Committee and empowers the Minister of Finance to issue regulations for the effective functioning of the committee. A good number of Audit Committees have since been inaugurated and operational.

Required:

- i) Describe the composition of the Audit Committee and explain how the structure of the committee could enhance the effectiveness of public financial governance. **(5 marks)**
- ii) Explain **THREE (3)** responsibilities of the Audit Committees as enshrined in the PFM Act and the related guidelines issued by the Minister of Finance. **(3 marks)**
- iii) Suggest **TWO (2)** ways by which the effectiveness of Audit Committee can be enhanced. **(2 marks)**
- b) The power sector has been experiencing enormous challenges in recent times in terms of finance and management. The multi-million-dollar investment of government in power distribution system seems not to achieve the desired results. In search of remedy, the government has implemented several reforms in the sector including corporatisation of the agency responsible for power distribution to give it a business nature to drive efficiency. Some years thereafter, the problem of financial constraints coupled with corporate governance issues have surface stronger than before. The government has been advised to consider using Public Private Partnership (PPP) as a vehicle to revamp the power sector. The Minister for Energy has been tasked to develop a PPP proposal which leverages on both private sector finances and management expertise to salvage the sinking power sector.

Required:

As an advisor to the Minister, present to the Minister **THREE (3)** PPP arrangements that can be used to achieve the objective of government, indicating clearly the effect of each of the proposal on *public monies, management and residual asset*. **(10 marks)**

(Total: 20 marks)

SOLUTIONS TO QUESTIONS

QUESTION ONE

a) **Key characteristics of each of the following bases of accounting for the public sector are:**

i) **Characteristics of Commitment Accounting**

- Commitment accounting is used solely in relation to expenditure; not revenue.
- It is an alternative accounting bases which is more theoretical; it is less widely adopted in practice compared with cash and accrual accounting.
- The entries are complicated when orders are cancelled or when there is amendment of the content or an order to illustrate how the entries are made to let us assume a manager orders 50 bags of cement is GHS8.80
- To avoid returning uncommitted resources back to government's general fund, rush orders for inappropriate jobs or services can be made to commit unused cash balances.

(3 points for 3 marks)

ii) **Characteristics of Accrual Accounting**

- It recognises the existence of the transaction in terms of service to be given or received but not the inflow and outflow of cash. It is a realistic and practical concept because it takes both cash and credit transactions into consideration; debtors and creditors are found in the accounting books because of the credit terms.
- There is distinction between capital expenditure and revenue expenditure. This allows for the matching of output activity and programme with cost incurred, thus performance measurement. The cost of fixed asset which is depreciated is what is expensed and not the total cost as applies under the cash accounting.
- This technique allows for the preparation of the final accounts in the form of preparation of the operating statement and balance sheet. There is full disclosure of the resources on the land and the actual use of the resources as well as outstanding liabilities.
- With accrual accounting receivables and payables are recognised
- Under accrual accounting, revenues are recognised when they are earned and expenditure recognised when they are incurred.

(3 points for 3 marks)

iii) **Characteristics of Cash Accounting**

- Cash inflow and cash outflow is the only basis for recording transactions in the books of account. The cash book is the main book of document thereafter posting is made to ledger.
- Credit transactions which result in debtors and creditors are not recorded, debtors and creditors accounts are therefore not kept.
- Both revenue and capital income and revenue and capital expenditure are treated in the books as revenue income or revenue expenditure. Fixed assets are not recognised under cash basis, they are written off in the year of purchase, so there is nothing like depreciation of asset.

- Cash accounting reports no surplus or deficit and no assets or liabilities. In the absence of these items found in the balance sheet, the cash accounting basis do not require the preparation of a balance sheet.

(3 points for 3 marks)

b) Objectives of Financial Reporting in Public Sector Organisations include:

- **Statutory/ Legal Requirement:** The conduct of financial business by public organizations is governed by laws, rules and regulations, example The 1992 Constitution, Financial Administration Act etc. This legal framework entreats officers to keep proper records of all transactions and produce them for inspection at the instance of the appropriate authorities, for example the Minister of Finance. This is to assure the public that they are complying with the law and meeting the objectives for which they were set up.
- **Compliance and Stewardship:** It is the objective of public sector accounting to provide the responsible authorities and users of such information with the assurance that there has been conformity with legal and other mandatory requirements in the organization's use of resources.
- **Viability:** Another objective of financial reporting of public sector organizations is to enable the authorities to monitor and evaluate the performance of such organizations, as well as to predict the economic conditions of such organizations. Similarly, it affords readers to judge whether the organization can continue to provide Goods & Services in the future (going concern).
- **Planning and Authorization Information:** Public sector accounting has the objective of providing financial information which serves as the basis for planning future policies and activities and to provide support.
- Full disclosure of the financial results of department and agency activities.
- Production of adequate financial information needed for department and agency management purposes.
- Effective control over and accountability for all funds, property, and other assets for which each department and agency is responsible.
- Reliable accounting reports to serve as the basis for preparation and support of department and agency budget required to control the execution of the budget and to provide financial information.
- Suitable integration of department and agency accounting with the central accounting and reporting operation of the Treasury Department.

(1.5 marks for each objective explained well = 6 marks)

c) Key PFM problems the GIFMIS seeks to address include the following:

- Lack of integration between budget preparation and execution systems
- Inadequate budgetary controls
- Lack of interface between various Public Financial Management (PFM) Systems across MDAs and MMDAs
- Undue delays in processing transactions due to cumbersome manual process
- Poor record keeping on public financial transactions
- Lack of reliable data for effective fiscal planning
- Weak accounting and fiscal reporting systems

- Lack of transparency in budget execution
- Delays in financial reporting

(1 mark for each point explained = 5 marks)

(Total: 20 marks)

QUESTION TWO

a) Control measures required to be put in place to ensure effective management of Public Assets

The following controls are necessary in effective management of public assets:

Fixed assets:

- i) **Proper use of the fixed assets**
Ensure that systems exist to prevent wrongful use of public assets by persons, authorised or not authorised. For example, institute tracking systems over vehicles and other assets. Physical restriction such as locks, security systems are also important to safeguard the uses of assets.
- ii) **Establishing Fixed asset coordinating unit**
To ensure effective management the principal spending officer should establish coordinating unit within the entity to take responsibility for fixed asset management
- iii) **Keep proper records on fixed assets**
The entity should keep and update fixed asset register to ensure accurate record on fixed assets for effective checks and decision making.

Investment of Excess Moneys

- i) Establish an investment policy for the entity in accordance with the PFM Act and the regulations to ensure that investment activities are discharged lawful and prudently.
- ii) Ensure accurate accounting and reporting of investments made from public moneys.

Advances and Loans

- i) Establish appropriate advance and loan schemes for approval of Minister of Finance and parliament, as the case may be.
- ii) Institute effective recovery systems for advances and loans made under the scheme.
- iii) Proper accounting and reporting practices are followed for advances and loans.

Cash management

- i) Put in place an effective cash planning and for casting system to ensure effective management of cash resources of the entity.
- ii) Ensure effective custody of the cash resources by ensuring that all cash are deposited gross in the designated bank accounts,
- iii) Ensure that banks accounts are opened for the entity under the approval of the controller and accountant general and this shall be part of the treasury single accounts system.
- iv) Regular bank reconciliation procedures should be laid down and followed.

(1 ½ marks each for any four points raised = 6 marks)

b) Procedure for payment of Capital Expenditure for MDAs

The general rule is that all covered entities shall use GIFMIS from the commencement of procurement process through to payment.

The procedures for payment of works procured by MDA include the following:

i) Inspection for the purpose of certification

As a condition for certification, the PSO shall inspect the physical output of the works and supplies in the field. This can be done before progress payment is made or when the work is fully completed.

The PSO may authorise an officer with adequate expertise to carry out the inspection on his behalf.

ii) Certification of completion of works or supply of goods and services

Upon the completion of works or supply of goods and services, the Principal Spending Officer (PSO) prepares a certificate statement in respect of the work and stores received and this statement shall include:

- The quantity and particulars of the works and supply
- The method and result of the inspection,
- Any evidence supporting the results.
- the necessary remedial actions where the PSO identifies that the work or supply is inconstant with contracts or specification such as partial rejection, full rejection and others actions.

iii) Record invoices and supporting document

When certificate is issued, the PSO records the details of the invoices in the GIFMIS and upload the certification statement and other supporting documents onto the GIFMIS.

iv) Record of approval of payment voucher

A payment by a covered entity shall be accompanied with a payment voucher authorised by the head of accounts and approved by the PSO on the GIFMIS.

Here the head of accounts and the PSO should ensure

- the validity, accuracy and legality of the claims for payments.
- the commitment has been approved through the Purchase Order or Expense Order generated under the GIFMIS.
- An invoice, certificate statement and completed set of supporting documents are recorded in the GIFMIS.

v) Payment

When a payment voucher is approved, the Controller and Accountant General shall release the cash to the covered entities using the GIFMIS.

All payments for expenditure of covered entities shall be made through GIFMIS system using the following methods:

- Electronic fund transfer (EFT) for third party transactions
- System cheques or electronic means for withdrawal of money for internal payments of allowance.
- Physical cash disbursement only from imprest and payment of allowances to ultimate individual beneficiaries.

(4 points for 4 marks)

c) The following constitute offences under the Public Procurement Act 2003 (Act 663) Act:

(a) entering or attempting to enter into a collusive agreement, whether enforceable or not, with any other supplier or contractor where the prices quoted in their respective tenders, proposals or quotations are or would be higher than would have been the case had there not been collusion between the persons concerned;

(b) directly or indirectly influencing in any manner or attempting to influence in any manner the procurement process to obtain an unfair advantage in the award of a procurement contract;

(c) altering any procurement document with intent to influence the outcome of a tender proceeding and this includes but is not limited to

(i) forged arithmetical correction;

(ii) insertion of documents such as bid security or tax clearance certificate which were not submitted at bid opening; and

(d) request for clarification in a manner not permitted under this Act.

(4 points @ 1.5 marks each= 6 marks)

d) Ways by which the Internally Generated Fund (IGF) Of Local Governments can be improved are:

- Recruitment of quality and competent revenue staffs
- Outsourcing of revenue collections to competent commission collectors
- Setting of revenue targets for revenue collectors
- Proper supervision of revenue staffs to prevent revenue leakages of records
- Rotation of revenue staff to prevent collusion
- Accurate data collection to ascertain improved revenue forecast
- Education, sensitisation and demonstration to general public that revenue collected will be used for the benefit of the community
- Periodic valuation and revaluation of taxable properties to ensure proper property rate collection
- Motivation of revenue staff including periodic awards to induce productivity
- Improving the monitoring of revenue collection.
- Introduction of electronic payment system

(1 mark for each point explained = 4 marks)

(Total: 20 marks)

QUESTION THREE

i) Budget for 50% Level of Activity

		GH¢
IGF =	(50/70 X 345,300)	246,643
Compensation =	(50/70 X 204,400)	(146,000)
Goods and Services =	(50/70 X 64,500)	(46,071)
Interest =	(50/70 X 73,100)	(52,214)
Assets =		(36,700)
Other Expenditure =		(190,000)
		<u>(218,342)</u>

(Marks evenly spread to reflect the number of ticks = 7 marks)

ii) Variance Computation

Budget Item	Budget	Activity	Variance
IGF	246,643	350,920	104,277
Compensation	146,000	129,500	16,500
Goods and Services	46,071	73,400	(27,329)
Interest	52,214	92,000	(39,786)
Assets	36,700	31,100	5,600
Other Expenditure	<u>190,000</u>	<u>172,300</u>	<u>17,700</u>
	<u>(224,342)</u>	<u>(147,380)</u>	<u>43,962</u>

(Marks evenly spread to reflect the number of ticks= 3 marks)

b)

i) **Government Fiscal Policy is the term used for government's policy of taxation. The primary fiscal policy objective of government is to ensure macroeconomic stability within the macroeconomic and fiscal framework of the country.**

Under the PFM Act 2016, the following principles guide the formulation of fiscal policy objective.

- sufficient revenue mobilisation to finance Government programmes;
- maintenance of prudent and sustainable levels of public debt;
- ensuring that the fiscal balance is maintained at a sustainable level over the medium term;
- management of fiscal risks in a prudent manner; and achieving efficiency, effectiveness and value for money in expenditure

(3 mark)

ii) Post budget management activities include

- Mid-year review
- Budget performance report
- Supplementary budget
- Virement
- Reallocation of funds
- Cash forecasting

(1 mark each for any four explained=4 marks)

- c) **Budget Guidelines** seek to provide clear instructions about the processes and procedures MDAs and MMDAs should use to prepare their budget proposals and budget estimates.

Below are the importance of Budget Guidelines in Public Sector Accounting and Finance

- control of aggregate expenditure to ensure affordability; that is, consistency with the macroeconomic constraints;
- effective means for achieving a resource allocation that reflects expenditure policy priorities;
- efficient delivery of public services (productive efficiency); and
- minimization of the financial costs of budgetary management (i.e., efficient budget execution and cash and debt management practices).

(Any 3 points for 3 marks)

(Total: 20 marks)

QUESTION FOUR

Consolidated Fund Financial Statement

Workings:

W1 Direct Taxes	GH¢
Taxes paid by Individual	15,731,289
Taxes paid by Companies	11,468,455
Other Direct Taxes	<u>6,765,102</u>
	<u>33,964,846</u>
W2 indirect Taxes	GH¢
Excises	9,433,578
Taxes on export	5,350,772
Taxes on Goods and Services	<u>8,021,037</u>
	<u>22,805,387</u>
W3 Grants	GH¢
Program Grant	8,148,127
Project Grant	4,988,181
District Development Facility	<u>4,941,719</u>
	<u>18,078,027</u>
W4 Non-Tax Revenue	GH¢
Property Income	8,758,558
Sale of Goods and Services	5,763,905
Fines, Penalties and Forfeiture	<u>4,963,027</u>
	<u>19,485,490</u>
W5 Compensation of Employees	GH¢
Established Position	12,138,953
Non-Established Position	729,399
Allowances	2,192,931
Add Established Post Accrued	<u>2,937,000</u>
	<u>17,998,283</u>
W6 Goods and Services	GH¢
Utilities	1,125,614
General Cleaning	392,137
Rentals	18,706
Travel and Transport	284,023
Training, Seminar and Conference	72,618
Consultancies	2,431,582
Material and Consumables	<u>1,754,361</u>
	<u>6,079,041</u>

W7 Subsidies	GH¢
Capitation Grant Subsidies	293,414
Fertilizer Subsidies	292,134
School Subsidies	99,381
Utility subsidies	<u>831,291</u>
	<u>1,516,220</u>

W8 Statutory Payment	GH¢
GETFUND	587,683
District Assembly Common Fund	<u>989,171</u>
	<u>1,576,854</u>

W9 Interest on Debt	GH¢
Domestic Debt (20/100 X 13,203,380)	2,640,676
External Debt (0.15 X 20,095,386)	<u>3,014,308</u>
	<u>5,654,984</u>

W10 Provision for Bad Debt	GH¢
Loans (0.03 X 2,313,142)	69,394
Investment (0.05 X 4,921,314)	<u>246,066</u>
	<u>315,460</u>

W11 Computation of Consumption of Assets

	Building GH¢	plant and machinery GH¢	transport Equipment GH¢	software GH¢
Cost	10,231,421	30,000,214	6,931,463	37,528,678
Useful life	50years	20years	7years	5years
Depreciation	204,628	1,500,011	990,209	7,505,736

Summary

Consumption of Assets

Infrastructure, plant and Equipment	GH¢	GH¢
Building	204,628	
Plant and Equipment	1,500,011	
Transport and Equipment	<u>990,209</u>	
		2,694,848
Software		<u>7,505,736</u>
Total consumption of Asset for the year		<u>10,200,584</u>

W12: Infrastructure Plant and Equipment

Cost		GH¢
Consumption Charged for the year	2,694,848	
Previous year Consumption charged	<u>10,005,389</u>	
		12,700,237
Bal c/d		<u>34,462,861</u>

W13 Software	GH¢
Cost	37,528,678
Consumption charged for the year	<u>7,505,736</u>
Bal c/d	<u>30,022,942</u>
W14 Investment	GH¢
Cost	4,921,314
Provision	<u>(246,066)</u>
Bal c/d	<u>4,675,248</u>
W15 Loans	GH¢
Cost	2,313,142
Less provision	<u>(69,394)</u>
Bal c/d	<u>2,243,748</u>
W16 Payables	GH¢
Accrued Established Post salaries	2,937,000
Interest on debt (W9)	5,654,984
13% SSF	<u>7,195</u>
Bal c/d	<u>8,599,179</u>

REPUBLIC OF GHANA
CONSOLIDATED FUND STATEMENT OF FINANCIAL PERFORMANCE FOR
THE YEAR ENDED 31/12/2018

		GH¢	GH¢
Direct Taxes	W1		33,964,846
Indirect Taxes	W2		22,805,387
Grants	W3		18,078,027
Non-Taxable Revenue	W4		<u>19,485,490</u>
TOTAL REVENUE			94,333,750
LESS EXPENDITURE			
Compensation to Employees	W5	17,998,283	
Goods and Services	W6	6,079,041	
Subsidies	W7	1,516,220	
Social Benefit		3,687,172	
Statutory Payment	W8	1,576,854	
Interest Expenditure	W9	5,654,984	
Provision for bad debt	W10	315,460	
Consumption of fixed assets	W11	10,200,584	
Other Expenditure		1,965,089	
TOTAL EXPENDITURE			<u>(48,993,687)</u>
SURPLUS			<u>45,340,063</u>

STATEMENT OF ACCUMULATED FUND

	GH¢
Bal b/f	(6,321,433)
Add Surplus	<u>45,340,063</u>
Bal c/d	<u>39,018,630</u>

(10 marks evenly spread using ticks)

ii) REPUBLIC OF GHANA CONSOLIDATED FUND STATEMENT OF THE FINANCIAL POSITION AS AT 31/12/2018

	GH¢	GH¢
Current Assets		
Cash and Cash Equivalent	9,341,283	
Receivables short term	1,231,162	
		10,572,445
Non-Current Assets		
Infrastructure plant and Equipment	W12 34,462,861	
Software	W13 30,022,942	
Equity Investment	W14 4,675,248	
Long term Receivables (loans)	W15 2,243,748	
Work In Progress	9,139,809	
		<u>80,544,608</u>
TOTAL ASSETS		<u>91,117,053</u>
LESS LIABILITIES		
Current Liabilities		
Payables	W16 8,599,179	
Deposit and Trust Monies	10,200,478	
		18,799,657
Long Term Liabilities		
External Debt	20,095,386	
Domestic Debt	13,203,380	
		33,298,766
		<u>52,098,423</u>
NET ASSETS		<u>39,018,630</u>
Financed by:		
Accumulated Fund		<u>39,018,630</u>

(7 marks evenly spread using ticks)

c) Accounting Policies

- Basis of accounts
- Revenue recognition
- Provision for bad debt
- Expenditure
- Transactions denominated in foreign currencies
- Consumption of fixed assets

(Any three of these or any other valid point could be discussed for one mark= 3 marks)

(Total: 20 marks)

QUESTION FIVE

a) **Describe the composition of the Audit Committee and explain how the structure of the committee could enhance the effectiveness of the committee.**

i) **Describe the composition of the AC.**

The Audit Committee is made of five members as follows:

- Three of the members nominated by the Institute of Chartered Accountants, Ghana and the Internal Audit Agency. These members should be independent of the operation of the covered entity.
- Two members nominated by the Principal Account Holder of the covered entity. These should exclude Principal Account Holder, Deputy Minister and the Principal Spending Officers.
- Chairman of the committee shall be selected among the three independent members. The Principal Spending Officer or Principal Account Holder in consultation with the AC shall appoint a person to provide secretariat support to the committee.
- The Principal Account Holder shall appoint all the members and the Chairman.

(Any 3 points for 3 marks)

How the structure of the committee could enhance the effectiveness of the committee.

The structure of AC may improve effectiveness in the following ways:

- Independent of majority of members, including Chairman will enhance the work of the committee by minimizing opportunity of influence and likely victimization of out spoken members. This affords the committee free hands to operate.
- Finance expertise on the Committee is also enhanced as majority of members are from accounting, finance and audit backgrounds. This enhances individual effectiveness on the Committee.

(1 mark each for two = 2 marks)

ii) **Explain three responsibilities of the Audit Committees as enshrined in the PFM Act and the guidelines issued by the Minister of Finance.**

Statutory responsibilities

- The Audit Committee shall ensure that the head of a covered entity pursues the implementation of recommendation(s) contained in internal audit reports, Parliament's decisions on the Auditor-General's report, Auditor-General's Management Letter, and report of an internal monitoring unit in the covered entity particularly, in relation to financial matters raised.
- The Audit Committee shall ensure that the head of a covered prepares an annual statement showing the status of implementation of recommendations contained in internal audit reports, Parliament's decisions on the Auditor-General's report, Auditor-General's Management letter, report of internal monitoring unit in the covered entity particularly, in relation to financial matters raised; and any other related directives of Parliament.

Advisory role and responsibilities

- Providing advice on sound, transparent and reliable financial management practices,
- Ensuring the risk management process is comprehensive and effective.
- Helping achieve organization-wide strong and effective internal controls in the covered entity.
- Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflicts of interest, and investigations of misconduct and fraud.
- Reviewing current and pending corporate governance related litigation or regulatory proceedings to which the covered entity is a party.
- Ensuring the internal auditors' access to the Audit Committee, encouraging communication beyond scheduled Committee meetings.
- Reviewing internal audit plans, internal audit charters, risk (including fiscal risk) assessment reports.
- Ensuring the development, approval and update of the code of conduct. The Committee should also ensure that all employees receive the code of conduct, understand it, and obtain appropriate training regarding it.
- Follow up on significant issues, investigations, and disciplinary actions.
- Collaborating with the Internal Audit Agency to initiate investigation into matters involving fraud or misuse of public funds by the Principal Spending Officer.
- Reviewing audit reports for assurance on efficiency, effectiveness and economy in the administration of programmes and operations of the covered entity.

(1 mark each for three =3 marks)

iii) The effectiveness of AC can be enhanced by:

- Offering training for members to equip them with the current knowledge on the working of AC. This will enhance members' effectiveness.
- Regular review and monitoring of the AC should be carried out by the ICAG and Internal Audit Agency. This will ensure assessment of the AC and those not performing will be worked upon.
- Collaboration with other institutions of accountability such as the Public Accounts Committee and Auditor General to promote effective financial governance.

(1 mark each for any two = 2 marks)

b) There are many types of PPP arrangements available, however in this instance the power company is already in operation and government want PPP to improve their operations. In this case all arrangements that required building and design of private sector will not be appropriate. Corporatization will also not be appropriate because it had been used in the past and did not work out well, as per the case. Therefore, government is left with these options, including:

- **Operate and maintain/maintain and operates arrangement**

Under this arrangement, the government contract the private firm (operator) to take over the management of public asset, operate it and maintain it from the revenues generated from its operations. The operator is not required under the contract to make any investment into the operations of the entity expert for their

expertise. The operator enjoys fees as a reward without any right over the residual asset.

Implication for public monies

Under this arrangement, government is expected to use its resources to construct or acquire the assets thereby involves huge outlay from the public funds. It will therefore not be appropriate where there are inadequate public funds for the project.

Implication for Management

The management is carried out solely by the operator and this enables government to leverage on management expertise of the private operator to enhance delivery of public service.

Implication for Residual asset

The residual asset remains that of government and the ownership right of the government is unaffected by this arrangement. The residual risk is a major constrain of this arrangement.

- **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 operate. The operator is allowed to recoup its investment over a specified contract period and return the residual asset to the grantor (government).

Implication for public monies

The government cease to pump public monies into the power distribution company from the commencement of the agreement. Operator is required under contract to make the necessary investment into the company to upgrade its distribution capacity. Thus is alleviate pressure from the public funds as the private operator take over the investment.

Implication for management

Management of the power distributor is ceded to the private operator who brings its expertise on board to enhance power distribution. Government is therefore relief of the burden of managing the entity for the contract period.

Implication for residual asset

The ownership of the power distributor remains government from the commencement of the contract to the end of the contract. The residual asset is therefore transferred to the government at the end of the contract. There is high residual risk in this arrangement.

- **Divestiture/ partial transfer**

This involves partial transfer of part of the ownership of the power distributor to the private operator, who then becomes a shareholder of the company. In most of these cases, government gives majority control to the private operator and then maintains the minority interest of say 40-49%.

Implication for public monies

At the commencement, the proceeds from the sale boost the public funds but subsequent investment may be required from government as a shareholder.

Implication for management

The private operator has controlling interest in the company and takes major decisions of the company. Government as a non-controlling interest has the opportunity to influence the decision of the board to protect public interest.

Implication for Residual Asset

The asset becomes a joint asset of both government and the operator and in case of liquidation, the residual assets will be distributed based on the shareholdings. Residual risk is fairly shared in this arrangement.

Identification of issues in the case	= 1 mark
1 ½ mark each for 3 arrangement explained	= 4.5 marks
(½ mark each for any 9 implications)	= 4.5 marks
	(10 marks)

(Total: 20 marks)