

## SOLUTION PUBLIC SECTOR ACCOUNTING MAY 2010

### QUESTION 1

- (a) Accountability is discharged when government stores have been:
1. Consumed in the course of public business and records are available to show that the government stores have been used for the purpose for which the goods were required for.
  2. The stores are worn out in the normal course of public business and deletion from the accounts has been approved by the Minister and they have been disposed of in accordance with the Minister's direction and what has been prescribed for disposal of stores under the Public Procurement Act.
  3. The stores are lost, destroyed or rendered unserviceable other than by fair wear and tear, and if deletion from the accounts has been approved by parliament.
- (b)
1. Identify all activities that already generate revenue.
  2. Identify all activities that have the potential to generate revenue.
  3. Estimate the frequency of these activities and calculate the revenue arising from these activities.
  4. Produce a monthly forecast identifying when revenue flows are projected to take place.
- (c)
1. Take into consideration the government's macro-economic framework, government resources and priorities, and any ceilings approved by Cabinet.
  2. Prepare a strategic plan which shall include a definition of the department's mission, goals, objectives, outputs and activities.
  3. Cost and prioritises the activities of the department taking into consideration the resource ceiling.
  4. Prepare the budget statement in accordance with the FAR instructions.
  5. Prepare cash forecast identifying when expenditure outflow is projected to take place.
- (d) Challenges facing the DACF administration.
- Lack of transparency in determining what goes into the DACF.
  - Since the inception of the DACF, the Minister of Local Government has not issued guidelines to MMDAs on the utilization of the fund.
  - The constitutional obligation on Parliament to make provisions for the allocation of not less than 5% of total revenues of Ghana into the DACF seems unfulfilled.

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- The DACF has encountered what is called “statutory deductions” from the fund yearly. These deductions are used to fund bulk purchases and other programmes of Central Government.
- A portion of the DACF is used to fund some activities of the Regional Coordinating Councils who do not qualify under the constitution.
- After approval of budget by District Assemblies, the ministry authorizes deductions from their DACF allocations without notification whatsoever, thereby seriously undermining the development programmes of the MMDAs.
- Delays in the release of the DACF to the districts on time for the necessary developmental projects to be carried out.
- Misuse of the part of the allocation to the MPs for political gains instead of development projects.

(e) Public Accounts Committee

For completeness, Article 187 (6) of the Constitution enjoins Parliament first to debate the report of the Auditor-General, and second, to appoint where necessary, in the public interest, a committee to deal with any matters arising from its study of the report. Parliament therefore requires the Auditor-General to perform its oversight function over the executive use of public resources.

This committee in parliament examines the Auditor-General’s report together with the Public Accounts in detail and sort ‘grill’ departmental heads on financial authorization, compliance and avoidance of gross extravagance.

However, invariably, the committee does not seem to have power to surcharge or dismiss but it can question and reprimand and direct the implementation of recommendations by the Auditor-General; as such “tough skinned” public officials are not perturbed by their activities.

## QUESTION 2

Department of Parks and Gardens  
Balance Sheet as at 31<sup>st</sup> December 2009

	GH¢
Assets	
Current Assets	
Cash/Bank balance	<u>305,794</u>
<u>Represented by</u>	
Accumulated fund	<u>305,794</u>

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Department of Parks and Gardens  
Receipt and Payment Account for the year ended 31<sup>st</sup> December 2009

	GH¢
<b><u>RECEIPTS</u></b>	
GOG Funds	2,286,034
Development Partner Support	<u>286,560</u>
	<u>2,572,594</u>
<b><u>PAYMENTS</u></b>	
Personnel emoluments	258,024
Administrative expense	286,895
Service Activity expense	1,030,092
Investment Activity expense	262,095
Project (DF)	160,422
Development partner support	<u>329,538</u>
	<u>2,327,066</u>
Excess of Receipt over payment	<u>245,525</u>
<b><u>Accumulated Fund</u></b>	
Balance b/f	60,266
Surplus of receipt over expenditure	<u>245,528</u>
Balance b/d	<u>305,794</u>

### Workings

(1) GOG Funds (Revenue/Receipts)

	GH¢
Personnel emolument -	258,024
Administrative expenses -	286,905
Service activity expense -	1,479,004
Investment activity expense -	<u>262,101</u>
	<u>2,286,034</u>

(2) Development partner support 286,560

Expenditure

(1) Personnel Emolument -	GH¢258,024
(2) <u>Administrative Expense</u>	GH¢
Telecommunication	16,632
Postal charges	200
Office accommodation	17,006
Clearing materials	697
Servicing	18,580
Office supplies	11,683
Refreshment	14,050
Purchase of publication	7,650

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Vehicle maintenance	30,674
Fuel lubricant	37,577
Running cost of official vehicle	11,006
Travel allowance	10,581
Res. build repairs	6,096
General equipment repairs	15,531
Office build repairs	6,418
Car maintenance allowance	5,320

Medical expense	15,407
Other allowances	1,100
Insurance/compensation	12,559
Electrical repairs	260
Overtime allowance	5,029
Salary top-up	7,073
Commissioners allowance	33,276
Plant and machinery repairs	2,053
Fixture and filling maintenance	437
	<u>286,895</u>

(3)	<u>Service Activity</u>	GH¢
	Commissioners allowance	39,345
	Hire of venue	50,070
	Hotel accommodation	11,200
	Recruitment expenses	900
	Refreshment	2,345
	Workshops/meeting expenses	581,345
	Staff development	12,360
	Training materials	380
	Local consultancy fees	162,515
	Stationery	36,342
	Contract printing	29,730
	Contract photocopying	559
	Purchase of publication	257
	Local travel COA	13,304
	Fuel/lubricant	71,266
	Foreign travel expenses	12,638
	Other expenses	5,446
		<u>1,030,092</u>

(4)	<u>Investment Activity</u>	
	Plant and equipment	13,964
	Motor vehicles	197,267
	Furniture and fittings	8,310
	Rehabilitation of vehicle	20,076
	Computers and accessories	13,141
	Other assets	9,337
		<u>262,095</u>

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### QUESTION 3

(a) (i) Conditions for the use of Single Source Procurement

1. If goods, works or services are available only from a limited number of suppliers or contractors.
2. If the time and cost required to examine and evaluate a large number of tenders is disproportionate to the value of the goods, works or services to be procured.
3. Only source available to do specific work, including patented processes, specialized talents not available elsewhere, etc.

(ii) Conditions for the use of Two-Stage Tendering

1. Where it is not feasible for the procurement entity to formulate detailed specifications for the goods or works or, in the case of services, to identify their characteristics.
2. Where the procurement entity seeks to enter into a contract for research, experiment, study or development, except where the contract includes the production of goods in sufficient quantities to establish their commercial viability or to recover research and development costs.

(b) Contingency Fund

It is a fund established by the government for an urgent or unforeseen need for expenditure for which no other provision exists to meet the need.

The government is constitutionally provided with a means of financing unforeseen contingencies without recourse to parliament. Article 177 of the 1992 constitution states that funds will be voted by parliament into public funds which will be used for unforeseen events, security hazards, floods and other calamities, which had not been budgeted for in the budget estimate. This is known as the .....

This fund was established in the 1961 constitution under the first republic. This fund is under the express authority of the President exercised through a committee of parliament.

- (c)
1. Small stocks are required at the MDA levels and overall capital tied up is reduced. A number of departmental stores inevitably lead to higher stock holding cost.
  2. Specialized and expert staff can be concentrated in one department.
  3. Stocks may be checked with greater care.
  4. Better supervision and control is ensured.
  5. Clerical costs are reduced because of centralization of stores records.

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6. Bulk buying is facilitated as purchase requisitions are made out by the concerns as a unit and not on a departmental basis.
  7. It results in fewer obsolete articles.
- (d) Causes of failure to meet revenue targets
1. Corruption on the part of the staff of the revenue collecting Agencies.
  2. Improper records keeping by the Tax Payers
  3. Lack of motivation
  4. Revenue collection agencies not integrated
  5. difficulty in locating Tax Payers in the informal sector
  6. Lack of logistics for tax collection
  7. Lack of training or revenue collecting officers.

### QUESTION 4

(a) *Objectives of a Budgetary Control System*

1. Authorisation

A budget may act as a formal authorisation to a manager to spend a given amount on specified activities. If this is applied to an operating budget, however, it must be appreciated that over-strict enforcement would not be in the best interest of the business.

2. Forecasting

Forecasting refers to the prediction of events over which little or no control is exercised. Some parts of all budgets are, therefore, based on forecast. Budget figures may also be used by one part of an organization to forecast the likely impact on its of the activities of other parts.

3. Planning

Planning is an attempt to shape the future by a conscious attempt to affect those factors, which are open to influence and control.

4. Control

A budget enhances management's ability of manage "by exception". Management attention is drawn to areas, which do not meet budget.

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### 5. Communications and Co-ordination

Budgets communicate plans to managers responsible for carrying them out. They also ensure co-ordination between managers of sub-units so that each is aware of the others' requirements.

### 6. Motivation

Budgets are often intended to motivate managers to work to a target (ie in line with organizational objectives).

### 7. Evaluation

The performance of managers and organizational units is often evaluated by reference to budgetary standard (which may be the only quantitative reference points available). The way in which performance is evaluated will influence how a manager behaves in the future.

## (b) ***The Budget Cycle***

A budget begins with agency requests sent to higher levels of the government administration. These requests often include justification and timelines for spending based on economic demographic forecast.

The Government Agency's preparation and executive compilation may begin several months before the spending year begins. The Budget cycle comprises a range of products and processes which feed into and flow from the Budget. The Central Government budget cycle starts around May/June each year.

*Stages - Issue of Budget Circulars to all MDA's*

1. Carrying out public expenditure survey.
2. Head of Budget development unit (BDU) of the MOFEP compiles, reviews and updates the list of MDA beneficiaries.
3. Holding cross Sectoral meetings and policy hearings.
4. Determination of sectoral ceilings.
5. Workshop involving all MDAs to review GPRS, other medium term documents for the nation.
6. National Policy review workshop and intra sectoral meetings report submitted to the MOFEP.
7. MOFEP sets MDA ceilings and sends to Cabinet for review and approval.
8. After the approval of the ceilings, MOFEP shall issue Budget guidelines pertaining to the budget calendar.
9. Tax Revenue Estimates with the Revenue collecting Agencies.

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10. MDA Budget Committee will submit MDA budget proposal for defence.
11. After MDA defence MOFEP shall put together the entire national budget for Cabinet approval.
12. After cabinet review and final approval issue to MOFEP.
13. A date is fixed for the budget to be tabled before parliament by the Finance Minister.
14. After Finance Minister's presentation parliament will debate the budget.
15. After the debate, then Parliament will approve the budget.

### QUESTION 5

(a) ***Causes of Deficit Financing***

- 1) ***During a Period of Depression:*** Deficit financing assume greater importance when there is the need to recover after a major depression or to reduce the severity of the business cycle. This happens when there is the realization that private sector activities as well as traditional monetary policies prove inadequate in restoring economic stability. When economic activities are declining or stagnant deficit financing may replace deficiency in aggregate demand by injecting funds and providing the necessary stimulant for reducing under utilization of resources and increase the deployment of labour and capital through additional spending to finance the budget deficit.
- 2) ***During Wars:*** Governments try to raise additional resources to finance tribal conflicts during tribal wars. This may however have negative effects on inflation etc.
- 3) ***During a Process of Economic Development:*** Usually in developing countries deficit financing is applied to cater for the meager voluntary investment in order to progress rapid development to do away with the vicious circle of poverty (low savings, low investment, low income, etc).
- 4) ***Ineffective Financial Management:*** since budgetary projects in developing countries are not reliable, management also tend to be ineffective and this leads to demand for loans, grants and aid to finance ineffective programmes.
- 5) ***Weak Expenditure Control and Monitoring:*** The annual accounts are usually in arrears in such a way that year by year comparison is difficult. Besides the unpredictable economic and social environment, government may incur expenditure outside the budget which necessitates the inflow of budget expenditure in excess of expected revenue.
- 6) ***Low Revenue Mobilization:*** The revenue or tax net does not encapsulate all taxable enterprise and individuals. Revenue from taxes therefore tends to be less than what is needed for payments of goods and services and other government current financial obligations.

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7) **Political Pressure:** Politicians make electioneering promises which have not been budgeted for. When political pressure becomes unbearable, there are attempts to implement policies (not budgeted for) in order to earn political integrity. These create extra burden needing extra funds to finance outside the budget.

8) Lack of synchronization the revenue and expansion.

(b) (i) **Public Expenditure Survey**

It is a concept that has often preceded the preparation of Government budget. It is country wide approach of looking at the effect of past expenditures. It is normally carried out by a committee set up by the Minister of Finance. It is the annual review of public expenditure plans undertaken by Central Government and examining the impact of the various expenses on the nation.

This originated from Committee Report in U.K. in 1961 that for efficient use of government resources, public expenditure survey should be carried out to assess the impact and benefit of the government expenditure (PESC). It is a survey carried out as a means to improve public expenditure control and benefit to the state.

(ii) **Incremental Budgeting (IB)**

The term incremental budgeting is usually used to describe the traditional approach of setting a budget which is based on the current year's results plus an extra amount for estimated growth or anticipated rate of inflation in the coming year.

It is recognized that it is an inefficient form of budgeting, because it encourages slack and wasteful spending also creeps into budgets. From budget preparation point of view it is fairly easy for Accountants or Administrators. This traditional approach to budgeting encourages work to be done on activity level and assessment of operational activities for the coming year. Because of the inefficiencies associated with incremental budgeting, zero base budgeting was therefore designed to get rid of this type of budgeting.

This traditional incremental budgeting will be sufficient only if current operations are as effective, efficient and economical as they can be without any alternative courses of action available to the organization.

The planning process should take account of alternative options and look for ways of improving performance.

In this approach, policy makers with a given situation (eg last year) as a base and make only marginal revision or adjustments for the current year. Management considers limited increases rather than focusing on major pragmatic concerns. Similarly the lecture focuses on individual expenditure rather than "the big picture". In this approach managers do not consider whether a particular item is still necessary. There is no prioritization. Once an item appears on the budget its inclusion in future budgets are taken for granted.

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### **(iii) *Appropriation Bill***

Article 179 (2) of the 1992 Constitution provides that the estimates of the expenditure of all Public Offices and Corporations with the exception of those set up as commercial ventures shall be classified under Programmes and Activities and be included in an Appropriation Bill.

The Bill is to be prepared annually and laid before Parliament at least one month before the end of the financial year subsequent to which the estimates relate. An Appropriation Bill provides for the issue from the Consolidated Fund or any other fund of the sums of money required to meet the expenditure. It is a means of seeking Parliamentary approval for the funding of Public Programmes and Activities. Once a Bill is approved by parliament, it becomes an Appropriation Act which then sets the limit of the amounts to be disbursed from the consolidated fund.