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

GENERAL COMMENTS

The overall standard of the paper was very good and has over 90% coverage of the syllabus. Surprisingly the general performance of candidates in the paper was not encouraging. The pass rate is approximately 20%.

STANDARD OF THE PAPER

The paper contains five questions with eleven sub-questions and fifteen sub-sub questions. The standard of the paper is comparable to the ones previously administered. The marks allocated were consistent with the weights assigned in the syllabus. The marks were fairly allocated to each question, sub-questions and sub-sub questions. The questions were clear, unambiguous and free from material errors.

PERFORMANCE OF CANDIDATES

The general performance of the candidates in the paper was below expectation, however it was better than previous examinations' performance. 19.96% of candidates who sat for the examination were successful compared with 23.26% in the May 2020 examination. Performance has therefore declined by 14.19%. This may be attributable to poor preparation of candidates and failure to understand the questions well before attempting to provide answers.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

An analysis of performance of candidates suggest that most candidates are very comfortable with preparation and presentation of financial statements for the local government, however, classification of revenue sources presented some challenge to candidates. Candidates are advised to follow the classification of revenues for local government used in the Institute's Study Manual and Question Bank for Public Sector Accounting and Finance. Candidates also did well in questions relating to Public Expenditure and Financial Accountability (PEFA) framework, procurement, public private partnership and basis of accounting.

A general weakness of candidates is their failure to read and understand the requirement of the question before attempting to provide answers. As a result, many of them deviated completely from what is required by the question, hence their poor performance. For example. Question three a) i) asked candidates to explain the purpose of the PEFA framework and many ended up writing on the outcomes of an open and orderly public financial management system. Another example is question four a) ii) which simply required candidates to discuss the risk associated with public procurement in Ghanaian public sector. Many candidates rather produced the risk associated with public-private partnership. Massive deviation of candidate was witnessed in question two c) question five a) and d). This is an unfortunate weakness that candidates should endeavour to avoid.

Other weaknesses which could have contributed to the poor performance include poor preparation towards the examination, failure to communicate their thoughts and ideas effectively as prospective professionals to the appreciation of the examiners. Candidates are therefore encouraged to devote more time and resources to the professional studies and examinations. Candidates should also endeavour to read the questions thoroughly and critically to ensure that the right understanding is obtained before attempting to answer the question

QUESTION ONE

a) The Director of Finance and the Principal Spending Officer of a Public Sector Organization are in disagreement as to which basis of accounting will provide the most useful information to the users. The Principal Spending Officer strongly believes that whether an entity applies cash basis or accrual basis, the effect is the same. The Director of Finance disagrees with him totally, arguing that different accounting treatment applies to both and therefore affect the level of disclosure in the financial report. The Director of Finance proceeded to illustrate his point by drawing on the basis of accounting on these items in the financial statement:

i) Motor vehicle donated to the entity
ii) Revenue due but not received by the entity
iii) Furniture acquired in the current year
iv) Electricity consumed for the year but not paid to Electricity Company.

Required:
The Director of Finance has tasked you to present a brief paper on how the two accounting bases would be applied in the treatment of items i) to iv). **(8 marks)**

b) In line with **the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities issued by International Public Sector Accounting Standards Board (IPSASB)*** explain the difference, if any, between a ***General-Purpose Financial Report*** and a ***Special Purpose Financial Report***. **(3 marks)**

c) According to **the Conceptual Framework for General Purposed Financial Reports (GPFR),** the objective of a measurement in financial reporting in public sector entities is to select those measurement bases that most fairly reflect the **cost of services, operational capacity** and **financial capacity** of the entity in a manner that is useful for accountability and decision-making purpose.

Required:
Explain the under listed bases and discuss the extent to which each measurement reflect the cost of service, operational capacity and financial capacity of an entity.
i) Historical cost
ii) Market Value
iii) Replacement cost **(9 marks)**

(Total: 20 marks)

QUESTION TWO

The following details relates to Eminaa District Assembly for the year 2018.

	GH¢'000
Dividend Received	93,250
Central Government Salaries	12,000,000
Basic Rates	370,900
Districts Development Facility	15,000,600
Rent from Land and Building	6,120,800
Established Posts	1,140,700
Other Expenditure	600,000
Non-Established Posts	580,000
Allowances	390,470
Court Fees	240,000
Inventory and Consumables	800,000
Sanitation Fees	370,000
General Cleaning	350,000
Common Fund	2,930,000
Social Benefit	840,300
Equity Investment Acquired	420,000
Infrastructure, Plant and Equipment	980,000
Work-In-Progress	490,000
Loans Received	2,330,000
Interest Expense	200,000
Advances to Staff	660,000
Royalties	430,000
Consultancies cost	470,000
Training and Workshop cost	275,000
Transport and Travelling cost	620,000
Consumption of Fixed Assets	960,000
Special Services	820,000
Utilities	630,000
Market Tolls	870,000
Permit Fees	990,000
Fines and Penalties	330,000
Development Bonds Issued	1,300,000
Hostel License	630,920
Business Income	2,300,600
Chop Bar License	300,400
Proceeds from Sale of Equity	990,320
Accumulated Fund (1/1/2018)	370,600
Herbalist License	530,370
Cash and Cash Equivalent @ (1/1/2018)	12,300,240

Stool Land Revenue	600,000
Lorry Park Fees	720,400
Market Store Rent	300,750
Recoveries	194,000
Loan Repayment	143,000
Property Rate	820,900

Additional Information:

i) Eminaa District Assembly adopts accrual basis of accounting in the preparation of its financial statements.

ii) Established Post salaries outstanding as at 31/12/2018 was GH¢180,000,000.

iii) Inventory at 31/12/2018 was GH¢170,000,000.

Required:

Prepare for Eminaa District Assembly:

a) Statement of financial performance for the year ended 31/12/2018. **(7 marks)**

b) Statement of cash flow for the year ended 31/12/2018. **(8 marks)**

c) Subject to ***IPSAS 6: Consolidated and Separate Financial Statements***, a Controlling Entity that presents Consolidated Financial Statements shall disclose certain basic information.

Required:

Explain **FIVE (5)** basic information that an institution preparing Consolidated Financial Statements need to disclose. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) Public financial management is critical for the successful implementation of government policies and developmental goals. Public financial management is a linchpin that ties together available resources, delivery of services, and achievement of government policy objective. The need to assess the extent to which public financial management systems operate led to the development of Public Expenditure and Financial Accountability (PEFA) framework by coalition of seven international development partners. Since 2001, the PEFA framework has received recognition across the world.

Required:

i) Explain the purpose of the PEFA framework. **(3 marks)**

ii) Explain the key pillars of an open and orderly public financial management system under the PEFA framework. **(7 marks)**

b) Country A and Country B are Sub-Saharan African Countries which attained independence around the same period. Presented below are the financial statements of the two countries.

Statement of Financial Performance for the year ended December 31 2018

	Country A	Country B
	GH¢ million	GH¢ million
Revenues		
Domestic Tax	26,450	17,000
International trade tax	18,200	21,330
Non-tax revenue	7,500	12,800
Grants	1,300	1,100
Total revenue	**53,450**	**52,230**
Expenditure		
Compensation for employees	29,800	20,300
Use of goods and services	10,300	14,000
Consumption of fixed capital	240	280
Exchange difference	990	600
Interest	19,660	10,460
Subsidies	510	120
Other expenses	1,600	1,430
Total Expenditure	**63,100**	**47,190**
Net Operation Result	**(9,650)**	**5,040**

Other information:		
Population	20,000,000	15,000,000
Gross Domestic Product (GH¢)	145,000,000,000	110,000,000

Statement of Financial Position as at 31 December 2018

	Country A	Country B
	GH¢ million	GH¢ million
Non-Current Assets		
Property, plant and equipment	2,450	22,400
Equity investment	8,000	5,500
	10,450	27,900
Current Assets		
Receivables	6,700	8,400
Cash and cash equivalent	4,700	18,000
	11,400	26,400
Total Assets	**21,850**	**54,300**

Funds and Liabilities		
Accumulated Fund	(80,200)	4,800
Current Liabilities		
Payables	6,200	4,100
Trust monies	1,400	900
Domestic debt	16,000	4,500
	23,600	9,500
Non-current Liabilities		
Domestic debt	36,000	18,000
External debt	42,450	22,000
	78,450	40,000
Total Fund and Liabilities	**21,850**	**54,300**

Required:

a) From the information provided, compute for the two countries respectively:

i) Grant to Revenue ratio

ii) Wage Bill to Tax Revenue ratio

iii) Interest to Revenue ratio

iv) Capital Assets ratio

v) Debt to GDP ratio

vi) Capital expenditure per Capita **(4 marks)**

b) Based on the result in question (a), write a report discussing and analyzing the financial performance and financial position of the two countries. Include in your report the limitations of the analysis of the two countries. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Using public money to procure goods, works and services to provide public services is a frequent but complicated decisions of Head of Procurement entities. It is required that such decisions should go through due process to attain value for money for the public. The Public Procurement laws are embodiment of core principles that governs the entire process. Procurement entities are therefore entreated to promote and secure this core principles in the conduct of public procurements. Non-compliance to these principles embedded in the law increases the risk associated with public procurement.

Required:

i) Explain **SIX (6)** general principles of public procurement that an officer in charge of procurement of goods, services and works should consider in line with the Public Procurement Act 2016 (Amendment) Act 914. **(6 marks)**

ii) Discuss **FOUR (4)** risks associated public procurement in Ghanaian Public Sector. **(4 marks)**

b) **IPSAS 32: Service Concession Arrangements: Grantor**, establishes the accounting and reporting requirements for the grantor in a service concession arrangement. In these kinds of arrangements the grantor is a public sector entity. Service Concession arrangements in the public sector are characterized by binding arrangements that involve private sector participation in the development, financing, operation and/or maintenance of assets used to provide public services. IPSAS 32 intention is to create symmetry with **IFRIC 12: Service Concession Arrangements** on relevant accounting issues (that is, liabilities, revenue and expenses) from the grantor's point of view.

Required:

i) State and Explain **TWO (2)** conditions that a grantor can recognize Service Concession Asset. **(4 marks)**

ii) Explain any **THREE (3)** information that the grantor shall present and disclose in its Financial Statements. **(6 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Explain **FIVE (5)** segments of Ghana Integrated Financial Management Information System (GIFMIS) chart of Accounts. **(5 marks)**

b) In accordance with Section 4 (2) (d) of Public Financial Management Act 2016, (Act 921) the Minister of Finance Shall manage Government property, Financial assets, Government debts, Government guarantees and other contingent liability specified under Act 921. Paragraph 160 (2) of Public Financial Management Regulations, L.I 2378 of 2019 sets out measures the Finance Minister shall take upon recognizing that Government land or building is illegally occupied by an unauthorized person.

Required:

State and explain **THREE (3)** measures the Finance Minister shall take, upon recognizing that Government land or building of a covered entity is illegally occupied by an unauthorized person. **(6 marks)**

c) Revenues of Local Government Authorities are very often limited. There is therefore the need for the Assemblies to institute adequate internal control over their revenues to improve the financial health of the Assemblies.

Required:

State and explain **FOUR (4)** Internal Control systems that the Assemblies can put in place to effectively control their revenues. **(4 marks)**

d) Financial Reporting is not an end in itself. Its usefulness is by reference to the users of General-Purpose Financial Reports (GPFR), and their information needs. Until the information provided meets the information needs of the users, that information is worthless. Thus, accountants must be knowledgeable of the class of users of the information and the need for such information. The Conceptual Framework identifies the primary users whose information need should be paramount in the preparation of GPFR.

Required:
In line with the Conceptual Framework:
Discuss **FOUR (4)** matters that the information provided in a GPFR help primary users to assess an entity. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

i) **Motor vehicle donated to the entity**

Under cash basis no cash is received and therefore no recognition will be made in the Statement of cash receipt and cash payment for the period. No information to reflect the operational capacity of the entity (Motor vehicle will not be reflected in the financial information).

Contrary, under the accrual basis of accounting the policy will be to recognize the donation in kind as revenue for the reporting period and disclose the vehicle at its market value. In addition, the cost of service will reflect the use of the vehicle (depreciation) within the reporting period and reporting the operational capacity at carrying amount.

ii) **Revenue earned but not received by the entity**

Under cash basis, there will be no disclosed of the revenue in the statement of cash receipt and cash payment since such revenues were not received. However, information on the revenue receivable may be disclosed in the notes to the accounts. No allowance will be made for uncollectible revenues.

Under accrual basis, the accounting policy will be to recognize the revenue yet to be received as revenue for the period and treat the revenue receivable in the statement of financial position as asset. In addition, appropriate allowance will be made for uncollectible revenues to reflect the cost of service. No disclosure is required under

iii) **Furniture acquired in the current year**

Cash basis accounting policy is to charge the whole amount of the furniture to cost of service (payments) for the year without disclosing the value of the asset in the operational capacity. Consequently, no depreciation policy is required.

Under accrual basis, the furniture will be capitalized and depreciated over its useful life so as to fairly reflect the cost of service of the entity. The depreciation policy will be disclosed in the notes to the accounts, a part of accounting policies.

iv) **Electricity consumed for the year but not paid to PDS**

Electricity unpaid at the end of the year will not be included in the statement of cash receipt and cash payments for the period. No liability will be reflected in the financing capacity of the entity. Notwithstanding, the liability resulting from the electricity may be reported in the notes of accounts if it is material.

However, under the accrual accounting policy, the electricity expense will be reflected in the cost of service and the financial capacity will also indicate the liability. No disclosure is required in the notes of accounts

(8 marks)

b) GPFR are financial reports prepared primarily to respond to the information of users who do not possess the authority to require a public entity to disclose the information they need for accountability and decision-making purposes. GPFR must be prepared in compliance with the IPSAS. On the other hand SPFR are those reports prepared to respond to the information requirements of the users that have authority to require the preparation of financial reports that disclose the information they need for their particular purpose. SPFR are prepared in compliance with the requirement of the user and need not to comply with IPSAS.

(3 marks)

c)

i) **Historical cost**

Historical cost is the consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development. Historical fairly reflects the:

- Cost of service by providing information on the amount of the resources expended to acquire or develop assets consumed in the provision of services.
- Operational capacity through information on the resources available to provide services in future periods based on their acquisition cost.
- Financial capacity by providing information on the amount of assets that may be used as effective security against borrowing.

ii) **Market Value**

Market value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Vehicle is traded in the open, active and orderly markets so obtaining the market value is practicable. Market value fairly reflects the:

- Cost of service by allocating the cost of assets to reflect their consumption in the current reporting period based on current market values of the vehicles.
- Operational capacity by providing information on the market value of assets held to provide services in the future periods.
- Financial capacity by providing information on the amount that would be received on the sale of the assets.

iii) **Replacement cost**

Replacement cost is the measurement basis that fairly reflect the cost of service, operational capacity and financial capacity of the library books. Replacement cost is the most economic cost required for the entity to replace the service potential of an asset at the reporting date. The use of replacement cost fairly reflects the:

- Cost of service to be equivalent to the amount of sacrifice of service potential incurred by that use.
- Operational capacity by the resources available to provide services in future periods, a sit focused on the current value of the assets and its service potential to the entity.

- Financial capacity is not reflected by replacement cost basis as it does not provide information on the amounts that would be received on sale of asset.

(Award 1 marks each to bases explained. Award 2 marks each for how a basis reflects the objectives of measurement = (1* 3) + (2*3) = 9 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question is made up of three (3) sub-questions. The performance in this question was fairly good. Question a) asked the candidate to demonstrate how cash basis and accrual basis of accounting differ in the treatment of four given transactions or events. The question was well answered by many candidates. Question b) required the candidates explain the differences between general purpose and special purpose financial reports under the conceptual framework for general purpose financial report by public sector entities. The question was well attempted by candidates. The last part of the question seeks candidates understanding of measurement basis of assets in the public sector. Most candidates were able to explain the measurement basis requested but failed to link them to the criteria of objective measurement of assets.

QUESTION TWO

a)

ELMINA DISTRICT ASSEMBLY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	**GH¢'000**
Revenue		
Decentralised Transfer	2	30,530,600
Internally generated Fund	3	14,888,920
		45,419,520
Expenditure		
Compensation of employees	3	2,291,170
Goods and services		3520000
Consumption of fixed capital		960,000
Interest		200,000
Social Benefits		840,300
Other expenditure		600,000
Total expenditure		**8,411,470**
Net operating result-surplus		**37,008,050**

Marks are evenly spread using ticks **(7 marks)**

b)

ELMINA DISTRICT ASSEMBLY
STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2018

		GH¢'000	GH¢'000
Cash Flow from Operating Activites			
Inflows			
Decentralised transfer		30,530,600	
Internally generated fund		14,888,920	
			45,419,520
Outflow			
Compensation of employees	3	2,111,170	
Goods and services		3690000	
Interest		200000	
Social Benefits		840300	
Other expenditure		600000	
			7,441,470
Net cash flow from operating activites			37,978,050
Net Cashflow From Investing Activities			
Equity investment acquired		(420,000)	
Infrastructure, plant and equipment		(980,000)	
Work-in-progress		(490,000)	
Advanced to staff		(660,000)	
Sale of equity		990,320	
Recoveries		194,000	
Net Cashflow From Investing Activities			(1,365,680)
Cash flow from Financing Activities			
Development bonds issued		1,300,000	
Loans received		2,330,000	
Loan payment		(143,000)	
Net Cash Flow from financing activities			3,487,000
Net increase in Cash and Cash equivalent			**40,099,370**
Cash and cash equivalent 1/1/2018			12,300,240
Cash and cash equivalent 31/12/2018			**52,399,610**

Marks evenly spread using ticks **(8 marks)**

Notes:

Note 1: Accounting Policies (not required in the requirement)

Note 2: Decentralised transfer	GHc'000
GOG salaries	12,000,000
DDF	15,000,600
Common fund	2,930,000
Stool land	600,000
	30,530,600

Note 3: Internally Generated Fund	
Basic rate	370,900
Rent	6,120,800
Court fees	240,000
Royalties	430,000
Market tolls	870,000
Market Store Rent	300,750
Permit	990,000
Fines and penalties	330,000
Hostel license	630,920
Business income	2,300,600
Chop Bar License	300,400
Dividend received	93,250
Herbalist	530, 370
Property Rate	820,900
Sanitation fees	370,000
Lorry park fees	720,400
	14,888,920
Note 4: Compensation of employees	
Established post (1,140,700+180,000)	1,320,700
Non-established	580,000
Allowances	390,470
	2,291,170
Note 5: Goods and services	
Inventory and consumable (800,000-170,000)	630,000
General cleaning	350,000
Consultancies cost	470,000
Training and workshop	275,000
Transport and travelling cost	620,000
Special services	820,000
Utilities	630,000
	3,520,000

c) The following disclosures shall be made in consolidated financial statements:

- A list of significant controlled entities;
- The fact that a controlled entity is not consolidated in accordance with *paragraph 21*;
- Summarized financial information of controlled entities, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues, and surplus or deficit;
- The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists;
- The reasons why the ownership interest of more than 50% of the voting or potential voting power of an investee does not constitute control;
- The reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the controlling entity, and the reason for using a different reporting date or period; and
- The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends, or similar distributions, or to repay loans or advances.

(1 mark for each 5 point explained = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was on preparation and presentation of financial statements of a District Assembly in accordance with IPSAS and relevant laws. Question a) and b) required candidates to prepare a statement of financial position and statement of cash flow for the Assembly. These questions were well answered by most students. However, question c), which asked candidates to explain basic information to be disclosed in consolidated financial statement, was misunderstood by most candidates who thought that the question was about notes to be disclosed in the financial statements in general. Performance in that question was very poor. It is suggested that examiners should endeavour to include the requirements of IPSAS 24 in questions that require the preparation of financial statement for public sector entities.

QUESTION THREE

a)

i) The Public Expenditure and Financial Accountability (PEFA) framework provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time.

The PEFA framework is useful in the following ways:

- PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes.
- PEFA provides a framework for assessment of transparency and accountability in terms of access to information, reporting and audit, and dialogue on PFM policies and actions.
- Governments use PEFA to obtain a snapshot of their own PFM performance. PEFA offers a common basis for examining PFM performance across national and subnational governments.
- PEFA scores and reports allow all users, such as civil societies and international organisations, of the information to gain a quick overview of the strengths and weaknesses of a country's PFM system.

1 mark for purpose of PEFA and 1 mark each for any 2 usefulness discussed. (1+1*2) = (3 marks)

ii) Key pillars of an open and orderly public financial management system under the PEFA framework:

Budget reliability

The government budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures with the original budget.

Transparency of public finances

Information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

Management of assets and liabilities

Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Policy-based fiscal strategy and budgeting

The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Predictability and control in budget execution

The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Accounting and reporting

Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

External scrutiny and audit

Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

(7 marks)

b) Computation of Ratios

		A	B
i)	Grants to total revenue ratio (%)	2.43	2.11
ii)	Wage Bill to Tax Revenue ratio (%)	66.74	52.96
iii)	Interest to revenue ratio (%)	36.78	20.03
iv)	Debt to GDP ratio (%)	65.13	404.55

(8 ticks @ 0.5 marks = 4 marks)

Report on the Financial Performance and Position of Country A and Country B

Introduction

In this report, the financial performance and financial position of the two countries has been examined using some ratios. The aim of the report is to perform a comparative analysis of the two countries to direct the economic debates of the think tank of the Civil Society.

Discussions and Analysis

Both countries receive less than 3% of their revenue from grants, indicating that both countries may be winning themselves from aid as much as possible.

Country B manages its expenditure better than Country A. The wage bill to tax revenue is 53% for country B and 67% in Country A, indicating that B manages its wage bill better than country A. This is evident in the fact that country A generates more tax revenue than country B.

In addition 20% of the revenue of County B is spent on interest expenses whilst A applies 37%. This is an indication that in relative terms, country B spends less of its revenue on paying interest.

In relation to financial position, the Debt to GDP of country A is 65% whereas country B is as high as 405%, revealing that A manages its debt far better than B. For country B, its debt is over 4 times its GDP indicating a complete crisis situation.

Limitations

The analysis above should be appreciated in the face of these limitations:

- The basis of accounting used by the two countries may differ as this information is not given in the financial reports.
- The stage of development of the two countries may also be difference and this may affect their financial performance and conditions
- The type of governance system runs by the two countries may not be the same. The governance variables may affect the financial conduct of the countries.

Conclusion

The analysis reveals that country B is outperforming country A in all counts, country A required to examines its expenditure management policies and debt management policies as most of the problem comes from these ends.

(6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question tested Candidates on public expenditure and financial accountability (PEFA) framework for assessing public financial management (PFM) systems and discussion of financial statement. Question a) i) examined the purpose of PEFA framework, but unfortunately many candidates wrote on outcomes of public financial management. Performance was not encouraging in this question. Question a) ii) tested candidates on the pillars of PEFA, which most Candidates answered very well. Question b) was on analysis and discussion of financial statements. This question was averagely answered. However, some candidates failed to cover the limitation of the analysis in their reports.

QUESTION FOUR

a) i)

- **Competition**
  Opening up procurement opportunity to all potential supplies and contracts bring forth to competition and creating value for money. Thus, competitive tendering should be the first option in procurement decisions
- **Accountability**
  The procurement entity as well as the head of the procurement is answerable to the public for their procurement decisions. The head of procurement has the responsibilities to give explanations for their actions and inactions.
- **Transparency**
  The entire procurement processes should be transparency, from the invitation, opening of tenders, evaluations and selection of the supplier or contract should be done in the open.

- **Fairness/non-discrimination**
  All potential suppliers and contractors should be treated fairly, ensuring that only price and quality are discriminatory factors. Gender, party affiliation, ethnicity, religion should not be used to discriminate against suppliers.
- **Economy**
  Procurement should aim at reducing the cost of the process as well as the cost of the procurement itself.
- **Efficiency**
  The process must ensure efficiency in procurement. The objective of the procurement should be achieved efficiently.
- **Environmental sustainability**
  The environmental implications should be factored into procurement decisions.
- **Social impact**
  The social implications of the procurement decisions should be given due attention. For example, buying from China may be economical but may increase unemployment in Ghana.

(1 marks each for 6 principles explained = 6 marks)

ii) Procurement has attracted attention in the public financial management literature due to the inherent risk in the process. Some risks associated with procurement in the public sector, Ghana specific, are:

- High propensity to over value procurement contracts and supplies.
  In the public sector, it is not uncommon to find the buyer negotiating for high prices of goods and services for their personal gain.
- High possibility of procuring inferior goods and services.
  It a common practice in which goods and services that could not be sold in the open market find their way into the public sector for personal gain and lack of competence in procurement. For example, public sector entity procurements a plant which never works well from the first day of installation.
- Susceptibility to conflict of interest situation
  Head of entity and other officers responsible for public procurement may give contracts and supplies to their own private companies or affiliates. This is a recipe for corruption in public procurement.
- Fake procurement of goods and services
  Paying for goods and services that has never been procurement and the perpetrators share the proceeds.
- Discrimination of supplier
  Contracts are given not on merit but other considerations that breeds unfairness and discrimination.

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

b)

i) **TWO (2)** condition can a grantor can recognize Service Concession Asset.

- The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:
- The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.

(2 marks for 1 point each = 4marks)

ii) **THREE (3)** information that the Grantor shall present and disclose in it Financial Statement.

The grantor shall present information in accordance with IPSAS 1.

- A description of the arrangement;
- Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);
- The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:
- Rights to use specified assets;
- Rights to expect the operator to provide specified services in relation to the service concession arrangement;
- Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
- Rights to receive specified assets at the end of the service concession arrangement;
- Renewal and termination options;
- Other rights and obligations (e.g., major overhaul of service concession assets); and
- Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and
- Changes in the arrangement occurring during the reporting period. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements

(2 marks for 1 point each = 6marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was of two sub-questions examining public procurement and public - private partnership. Both were well answered by candidates except that most candidates misunderstood question a) ii) to mean risk associate with public-public partnership instead of public procurement

QUESTION FIVE

a) FIVE (5) segments of Ghana Integrated Financial Management Information System (GIFMIS) chat of Accounts are:

- Institution: an institution as defined in the GFS 2001 Manual "is an economic entity that is capable, in its own right, of owing assets, incurring liabilities and engaging in economic activities and in transactions with other entities. In Ghana, only the Government of Ghana will qualify as an Institutional Unit.
- Funding: the funding classification Provides means of tracking revenue and sources of funding for expenditures. These are the Fund Types and Fund Sources established by law.
- Functions of Government: in this segment the classification of Outlays by Function of Government is defined using definitions in the GFS 2001 manual. The functional classification of Government is to provide strategic overview of the allocation of budget resources between different sectors of the economy. The code is made up of a major, minor and detailed function.
- Organization: In this segment the organizational structure of the MDA/MMDA is defined with the objective of budget and cost allocation at defined and recognized cost centers or units. Its represents ministries, MMDAs, Agencies of Governments and the Departments, Divisions and Sections/Units under them.
- Program, Sub Program, Projects and Activities: this segment is used to identify Government programs and provides the strategic objectives of the MDA/MMDA which defines the outcomes Sub programs are outputs or services that Government entities provide for citizens. They are what should be produced to achieve the strategic objectives. The project's segments record individual projects where there may be an activity which would have a one to many relationship to projects. It enables transactions to be aggregated and reported as project. The use of this code is mandatory for all developmental projects. The activity segment defines all actions that need to be carried out to achieve an output.
- Location: This segment will record each geographical location, e.g. where work is performed or transactions occur. This is determined by using the Regions, Districts and various subdivisions of Metropolitan, Municipal and District areas.
- Two Spare segments: There are two segments with 6 characters each provided for future business operations. They may be dependent or independent of each other.
- Natural Accounts: This segment is used to define account classes - Revenue, Expenditure, Assets and Liabilities. The natural account segment as produced in the trial balance is an essential component of the Chart of Accounts.

(1 mark for each point explained = 5marks)

b) **THREE (3)** measures the Finance Minister shall take, upon recognizing that Government land or building of a covered entity is illegally occupied by an authorized person.

The minister shall at least one of the following measures:

- Eject the person concerned from the land and building;
- Request a law of enforcement officer to remove that person from the land or building;

- Order that person to pay rent that the person should have paid for use of the land or building; and
- Refer the case to the Attorney-General for advice.

(2 marks for each point made = 6marks)

c) FOUR (4) Internal Control systems that the Assemblies can put in place to ensure effectively control their revenues are:

- Delayed or unbanked collection
  Ensure that all revenues are banked immediately. One measure to achieve this is through arrangement with banks to facilitate direct deposit by the payers into the bank account of the Assembly.
- Failure to assess and collect revenue
  All revenue payers should be identified and levied appropriately. Revenue collectors should be trained and motivated to perform their duties efficiently. Electronic means should be used to effect revenue collection.
- Inappropriate use of value books
  Security and custody of the value books should be ensured.
  Ensure that only approved values books acquired from Controller and Accountant General is used. The head of finance should ensure property custody of stock of value books and this value books should be issued out to only responsible staff. Proper records should be maintained for issue of value books.
- Poor recording keeping
  Responsible officer should be appointed for record keeping over revenue. The cash receipt book or transcript should be updated regularly. Implementing approved accounting software be effective measure to improve record keeping process.

(1 mark for each point explained =4 marks)

d) Information in the GPFR should aid primary users in assessing:

- The performance of the entity during the reporting period in terms of meeting its operational and financial objectives;
- The liquidity and solvency (ability to meet current and long-term obligations) of the entity.
- The sustainability of the entity's service delivery and other operations over the long term and changes therein as a result of the activities of the entity during the reporting period in terms of financial capacity and operational capacity.
- The capacity of the entity to adapt to changing circumstances such as change in demographic or economic condition that are likely to impact the nature or composition of the activities it undertakes and the services it provides.

(1.25 mark for each point explained = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was made up of four sub-sections. Question a) examined the segments of Ghana Integrated Financial Management System (GIFMIS) chart of accounts, but most candidates misunderstood the question to mean classification of expenditures of government under the GIFMIS chart of accounts. Performance was very poor in this question. Question b) was not well answered by candidates even though the question seems to be a very practical one. Question c) was on internal control over revenues and it was fairly answered by candidates. Question d) asked candidates to discuss matters that should be provided in the general-purpose financial reports to help primary users to assess an entity. Unfortunately, some candidates were explaining the information needs of the primary users. This resulted in poor performance of candidates in this question.

CONCLUSION AND RECOMMENDATIONS

The general performance of candidates in the examination was not encouraging for some reasons. Paramount is the inability of candidates to read and understand the requirements of the questions before attempting it. Candidates should be taken through examination techniques so as to curb the situation of massive deviation in the examinations. Poor preparation remains a major challenge of candidates sitting this paper. The last minutes preparation really does not help. Candidates are encouraged to prioritize their studies by devoting ample time and resources to the studies. Further, candidates and prospective candidates are advised to use the Institute's Study Manual and Question Bank in Public Sector Accounting and Finance- Paper 2.5 for their preparation since it has been prepared strictly in accordance with the syllabus. Other textbooks may also be of help. Partners in Learning (PILs) should also endeavor to provide quality tuition to the student so as to improve the pass rate of the course.