NOVEMBER 2021 PROFESSIONAL EXAMINATION
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

GENERAL COMMENTS

The overall standard of the paper was very good. The paper was well balanced and has achieved almost 100% coverage of the syllabus. This implies that candidates preparing to write the paper should avoid specialisation in topics but rather endeavour to cover all aspects of the syllabus. The performance of candidates in the paper has improved from 23.19% pass rate in May 2021 diet to 34.12%. Nevertheless, the performance is below expectation. The candidates are encouraged to use the Institute's study manual as a primary text for preparation for the examinations.

STANDARD OF THE PAPER

The paper contains five (5) questions with thirteen (13) sub-questions and eleven (11) sub-sub questions. The standard of the paper is comparable to the ones previously administered. The marks allocated are 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 of material errors. The questions were about 90% comprehension and application items, consistent with the learning outcomes set out in the examination syllabus.

PERFORMANCE OF CANDIDATES

The general performance of the candidates in the paper has improved but was below expectation. Approximately 34% of candidates passed the paper against 23% in the May 2021 diet and 20% in November 2020 diet. This may be attributable to the "meet the examiners' forums" organised by the Institute, where candidates and examiners interacted virtually. The sharing of information and observations with candidates might have helped the candidates in performing better. The Institute is commended for the initiative and it is encouraged to increase the frequency of the forum in subsequent examinations.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

The strengths of candidates were found in the preparation of financial statements (Question 2), PEFA methodology and financial statement analysis (Question 3a&b). Financial statement preparation continued to be the most popular question among the candidates. However, few candidates struggled with the structure of the financial statements. Such candidates are encouraged to patronise the Institute's Manual and Question bank on Public Sector Accounting and Finance for direction. For the PEFA, candidates demonstrated an in-depth understanding of the methodology. In relation to the financial statement analysis, most candidates could compute the required ratios very well and write a good report on the financial performance.

Lack of preparation is a pervasive weakness of candidates in the paper. The quality of some scripts showed that the candidates were ill-prepared for the examination. Some candidates were found to have specialised in a few topics of the syllabus and therefore performed very well in those few areas but failed to obtain the pass mark of 50%. Some candidates also failed to read the requirements of the questions well before answering and therefore deviated badly in their answers. For example, question one asked candidates to discuss the information needs of primary users of general-purpose financial statements, but some candidates went ahead to discuss the information need of users who do not fall into the primary category under the conceptual framework.

QUESTION ONE

a) Ghana is determined to implement an Accrual-based Accounting policy to enhance accountability and aid decision-making in the public sector.

Required:
Explain the policy implications on **FOUR (4)** measurement bases in public sector accounting as a result of the adoption and implementation of Accrual Based Accounting.
(10 marks)

b) General purpose financial reporting is concerned with the provision of information to users for accountability and decision-making purposes. It is said that financial reporting is not an end in itself but a means to an end. However, this does not mean that every public sector entity is a reporting entity.

Required:
In reference to the Conceptual Framework of General Purpose Financial Reporting:

i) Explain the information needs of **FIVE (5)** primary users of general purpose financial report. **(7 marks)**

ii) Discuss the statement "This does not mean that every public sector entity is a reporting entity". **(3 marks)**

(Total: 20 marks)

QUESTION TWO

Kologo Municipal Hospital is a Public Hospital established in the Upper East Region, which serves several communities. Its Trial Balance for the year ended 31 December 2020 is provided below.

	DR	**CR**
	GH¢'000	**GH¢'000**
Cash and Cash Equivalent	504,000	
Withholding Taxes		180,000
Outpatients		917,000
Inpatients		565,000
Drugs and Medications		657,000
Drugs Purchase	540,000	
Inventory of Drugs	110,000	
Other Service Income		215,790
UltraSound Revenue		232,000
Laboratory Service Fees		459,200
Travel and Transport	9,000	
Seminar and Conferences	80,000	
General Cleaning	62,400	
Consulting Specialist	25,000	
Clinical Consumables	12,000	
Contracted Service Expense	15,000	

Established Post Salaries	1,406,400	
Casual Labour	102,750	
Extra Duty Allowances	438,500	
Other Allowances	81,000	
Stationery Stock	18,000	
Purchases of Stationery	63,500	
GoG Subvention		1,505,000
Repairs and Maintenance	70,000	
Surgical Fees		120,000
Eye Care Fees		180,000
Rent		664,160
Provision for Undertakings (1/1/2020)		2,700
Laboratory Equipment	550,000	55,000
Building	1,215,000	60,750
Motor Vehicles	800,000	120,000
Software	10,000	4,000
Fixed Deposits	100,000	
NHIS Claims Receivables	900,000	
Loans and Advances	17,000	
Sundry Creditors		144,000
Ambulance Service Fees		152,000
Dental Fees		112,000
Mortuary Fees		25,000
Bank Loans		150,000
Interest	3,500	
Investment Income (Fixed Deposit)		10,000
Other Expenses	35,800	
Accumulated Surplus		668,250
Undertaking (Receivables)	30,000	
	7,198,850	**7,198,850**

Additional information

i) The hospital's policy is to apply the Accrual Bases of Accounting in preparing its Financial Statements in compliance with the Public Financial Management Act,2016(Act 921), Public Financial Management Regulation 2019 L.I 2378 and the International Public Sector Accounting Standards (IPSAS).

ii) The hospital purchased equipment at the cost of GH¢200,000 on 1 April 2020

iii) A new equipment valuing GH¢100,000 was donated to the hospital on 1 July 2020. The equipment was assessed to have a useful life of ten (10) years. This has not yet been accounted for in the Trial Balance.

iv) The Fixed Deposit attracts an interest of 15% per annum.

v) Inventory of drugs as at 31 December 2020 amounted to GH¢95,000,000 at cost and had a net realisable value of GH¢110,000,000 but its replacement cost is GH¢78,000,000. In addition, stationery stock as at 31 December 2020 cost GH¢28,000,000 and have a replacement cost of GH¢25,000,000 with an estimated net realisable value of GH¢35,000,000.

vi) Redundancy pay outstanding as at the end of the year amounted to GH¢25,950,000.

vii) Provision for undertaking is estimated at 10%.

viii) The hospital currently owes Healer Pharmaceuticals for Drugs amounting to GH¢1, 950,000 supplied to the hospital during the years 2020 and 2021 in respect of the following months.

Months/ years	**Amount Outstanding (GH¢)**
November 2020	820,000
December 2020	610,000
January 2021	520,000
Totals	**1,950,00**

ix) Consumption of Fixed Asset is charged on straight line basis with time apportionment in the year of acquisition

Asset	**Useful life**
Laboratory Equipment	20 years
Building	50years
Motor Vehicles	10 years
Software	5years

Required:

Prepare in compliance with the IPSAS and relevant legislations.

a) Statement of Financial Performance for the year ended 31 December 2020. **(8 marks)**

b) Statement of Financial Position as at 31 December 2020. (**8 marks)**

c) Notes to the Accounts. **(4 marks)**

(Total: 20 marks)

QUESTION THREE

a) One important pillar in Public Financial Management is accounting and financial reporting, according to the Public Expenditure and Financial Accountability (PEFA) Framework of 2016. The pillar has three indicators with ten dimensions scored using the Weakest Link Method (M1) and Average Method (M2).

The information below relates to the scoring of accounting and reporting pillar for Ghana in the 2019-2020 PEFA Report.

Pillar (P1-07) Accounting and Financial Reporting		
Indicators/dimensions	**Descriptions**	**Score**
Indicator 1 (P1-07.1)	**Financial data integrity**	**To be determined**
Dimensions (M2)	Bank account reconciliation	D
	Suspense accounts	D
	Advance accounts	A
	Financial data integrity process	C
Indicator 2	**In-year budget reports**	**To be determined**
Dimensions (M1)	Coverage and comparability of reports	B
	Timing of in-year budget reports	C
	Accuracy of in-budget reports	B
Indicator 3	**Annual financial reports**	**To be determined**
Dimensions (M1)	Completeness of annual financial report	C
	Submission of reports for external audit	B
	Accounting standards	D

Required:

i) Distinguish between the weakest link method and average method of scoring the performance indicators. **(3 marks)**

ii) Compute the score for each of the three indicators using the appropriate method of scoring and interpret your result. **(5 marks)**

iii) Suggest **TWO (2)** ways the government can improve its performance in indicator 3: Annual financial reports. **(2 marks)**

b) Presented below is the Statement of Financial Performance of Okagya Municipal Assembly for the year ended 31 December 2020.

	GH¢'million	**GH¢'million**	**GH¢'million**
	2020	2019	2020
	Actual	Actual	Budget
Revenues			
Decentralized Transfer	16,450	12,400	20,200
IGF	22,200	25,600	34,100
Donation and Grants	1,300	1,900	2,000
Total revenue	**39,950**	**39,900**	**56,300**

Expenditure			
Compensation for employees	29,800	24,300	25,900
Use of goods and services	10,300	9,860	18,000
Consumption of fixed Asset	240	220	-
Interest	19,660	14,550	16,780
Grants	510	430	1,920
Other expenses	1,600	1,430	2,450
Total Expenditure	**62,110**	**50,790**	**65,050**
Net Operation Result	**(22,160)**	**(10,890)**	**(8,750)**

Required:

i) Prepare Common Size Statement of Financial Performance for the year ended 31 December 2020. **(6 marks)**

ii) Based on the Common Size Statement of Financial Performance prepared in i) above, write a report analysing the financial performance of Okagya Municipal Assembly in line with the ***Recommended Practice Guide 2, Financial Statement Discussion and Analysis***. **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Rabina Construction Ltd purchased Tender Document from Adagya District Assembly to tender for contracts advertised by the assembly. However, in the process of preparing to submit the tender, Adagya District Assembly cancelled the procurement process before the deadline for submission of the tender. Rabina Construction, therefore, feels disappointed since it has incurred some cost in trying to respond to the tender and intends to take legal action against the assembly. Rabina Construction is therefore seeking your opinion on whether the assembly has the right to such action.

Required:

i) Determine whether Adagya District Assembly has the right to cancel the procurement process when it is still in progress? **(1 mark)**

ii) Explain **FOUR (4)** conditions under which such right could be exercised or otherwise. **(6 marks)**

b) Section 20(1), of the Public Procurement Act 2003, (Act 663) states that a Procurement entity shall establish in the manner set out in the First Schedule and in accordance with the categories set out in Schedule 1A, an Entity Tender Committee.

Required:

Explain **THREE (3)** Functions of an Entity Tender Committee. (**3 marks)**

c) Public Private Partnership (PPP) arrangements can take different forms ranging from simple models to complex models. PPP arrangements may differ from one jurisdiction and economy to another. There are, however typical types of PPP contracts that are common to all jurisdictions and economy.

Required:
Explain **FOUR (4)** typical types of PPP contracts. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Under the Public Financial Management Act 2016, (Act 921), Treasury Single Account (TSA) system is recommended for managing cash resources of the government. The implementation of the treasury single account system is reflected in the Ghana Integrated Financial Management Information Systems (GIFMIS).

Required:

i) Explain Treasury Single Account and discuss **FOUR (4)** benefits associated with such a system in Ghana. **(6 marks)**

ii) Explain how the use of GIFMIS has supported the following public financial management functions:

- Cash management. **(2 marks)**
- Budgeting and budgetary execution. **(2 marks)**

b) The Controller and Accountant General is a key public officer responsible for ensuring the custody, safety, and integrity of public funds. In addition, the Controller and Accountant General has a responsibility towards covered entities to ensure effective public financial management across the public sector.

Required:
Explain **FIVE (5)** specific responsibilities of the Controller and the Accountant General towards the covered entities under the Public Financial Management Act 2016 (Act 921). **(5 marks)**

c) Discuss how general purpose financial reporting supports accountability and decision making in the public sector. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) The measure bases of assets and liabilities have implication for the cost of service, operational capacity, financial capacity as well as qualitative characteristics of the financial information:

i) Historical Cost

Historical cost for an asset 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 cost is an entry, entity-specific value. Assets are initially reported at the cost incurred on their acquisition. Subsequent to initial recognition, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortisation for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives.

Historical Cost Model has the following implications for the cost of service, operation capacity, financial capacity and qualitative characteristics:

- As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition are significant.
- Historical cost information shows that the resources available for future services are at least as great as the amount at which they are stated. Increases in the value of an asset are not reflected under the historical cost model.
- Historical cost can provide information on the amount of assets that may be used as effective security for borrowings but does not provide this information when significantly different from current exit values.
- The historical cost usually enhances the qualitative characteristics of verifiability, understandability, timeliness, and faith representation but does not enhance comparability since it does not reflect price changes.

ii) Market Value

Market value for assets is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In principle, market values provide useful information because they fairly reflect the value of the asset to the entity. The extent to which market value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence.

Market value has the following implications for cost of service, operation capacity, financial capacity and qualitative characteristics:

- The use of market values permits a return on assets to be determined. However, public sector entities do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidised terms.

- An exit-based market value is significantly lower than historical cost, market value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity.
- financial capacity requires information on the amount that would be received on the sale of an asset, which is readily available under market value
- Values obtained from an open, active and orderly market will enhance relevance, faithful representation, understandability, comparability, timeliness and verifiability.

iii) Replacement Cost

Replacement cost is the most economical cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.

Replacement cost has the following implications for the cost of service, operation capacity, financial capacity and qualitative characteristics:

- It provides a relevant measure of the cost of the provision of services. The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use
- Replacement cost provides a useful measure of the resources available to provide services in future periods. It focuses on the current value of assets and their service potential to the entity.
- It does not provide information on the amounts that would be received on the sale of assets.
- It enhances relevance and comparability but falls short of representational faithfulness, timeliness, comparability and verifiability.

iv) Net Selling Price

Net selling price is the amount that the entity can obtain from the sale of the asset after deducting the costs of sale. Net selling price differs from market value in that it does not require an open, active and orderly market or the estimation of a price in such a market and that it includes the entity's costs of sale.

The net selling price has the following implications for the cost of service, operation capacity, financial capacity and qualitative characteristics:

- It is not appropriate to quantify the cost of the provision of services at net selling prices.
- Net selling price does not provide valuable information to an assessment of operating capacity.
- The measure is not relevant for assets that may yield more valuable service potential by continuing to use them to deliver services.
- Where net selling price is relevant, it will achieve the qualitative characteristics of faithful representation, verifiability, and timeliness.

v) Value in Use/Present value/economic value

Value in use is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

Value in use has the following implications for the cost of service, operation capacity, financial capacity and qualitative characteristics:

- Value in use is generally inappropriate for determining the cost of services in the public sector.
- Its usefulness to assessments of operational capacity and financial capacity is limited.
- It falls short of representational faithfulness, timeliness, comparability, understandability and verifiability of information.

vi) Cost of fulfilment

Cost of fulfilment is the entity's cost in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Where the cost of fulfilment depends on uncertain future events, all possible outcomes are considered in the estimated cost of fulfilment, which aims to reflect all those possible outcomes in an unbiased manner. The implication is that there should be probabilistic analysis of outcomes of future events to measure the reliable value of the cost of fulfilment.

vii) Cost of Release

Cost of release is the same as "net selling price" in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. It implies that the valuation of liability depends of the conditions of the creditor instead of the historical value of the transaction. Where transfer of liability is not practically possible, and cost of release will therefore be the amount that the creditor will accept in settlement of its claim.

viii) Assumption Price

Assumption price is similar to replacement cost for assets. Assumption price is the amount that the entity would rationally be willing to accept in exchange for assuming an existing liability. The implication is that non-exchange transactions will not provide evidence of assumption price.

Mark allocation

Explain measurement	= 4 @ 1 ½ marks each	= 6 marks
Implications	= 4 @ 1 marks each	= 4 marks
Total marks		= 10 marks

.

(Any 4 points @ 2.5 marks each = 10 marks)

b)

i) Information needs of primary users

- Citizens/Parliament

  Citizens require financial information for accountability and decision-making purposes. They required information that:
  - Assists them in assessing the accountability of government and public sector entities.
  - Help them determine the cost of public services and evaluate the long-term sustainability of public services.
  - Determine the compliance with the legally adopted budget.

- Taxpayers

  These are resource providers to the government who seek information about how well the tax monies have been used. Therefore, they are interested in the information for accountability purposes.

- Investors

  These are users who invest in government debt instruments and needs information about the financial position to assess the solvency and liquidity of the government or government entity. They want to know if government will be able to honour its obligation to them and also to evaluate the cost of bonds.

- Donors and sponsors

  These are users who support the government freely with resources. They are interested in knowing whether the terms and conditions for the grant have been complied with and whether there is accountability in using the resources.

- Creditors and lenders

  They provide credit support to the government and may include bilateral and multilateral development partners. Their main concern is whether the government has complied with the debt covenants and therefore is interested in the government's financial position in terms of solvency and financial sustainability.

(5 points @ 1.4 marks each = 7 marks)

ii) The statement **"This does not mean that every public sector entity is a reporting entity"** generally borders on what constitutes reporting entity under the Conceptual framework. A public sector reporting entity is a government or other public sector organisation, program, or identifiable activity area. Not all public sector entities are required to prepare general purpose financial reports. Thus, a public sector entity that displays these characteristics is a reporting entity. Key characteristics of a public sector reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and

- There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes because of their nature and cost implication. **(3 marks maximum)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The question examined candidates on the measurement bases, the users of general-purpose financial reports and reporting entity in the public sector. Candidates' performance in question one was below expectation. They struggled with question a). However, performance in question b) was impressive. Some candidates failed to identify the primary users but rather listed users who are not regarded as primary users.

QUESTION TWO

a)

KOLOGO MUNICIPAL HOSPITAL
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31st DECEMBER, 2020

	NOTES	GH¢'000	GH¢'000
REVENUE			
Government Subvention		1,505,000	
Internally Generated Fund	2	4,314,150	
Donation		100	
Total Revenue			5,819,250
EXPENDITURE			
Compensation	3	2,054,600	
Goods and Services	4	889,330	
Interest		3,500	
Consumption of Fixed Asset	6	133,830[1]	
Other Expense	5	36,100	
Total Expenditure			(3,114,360)
Surplus			**2,704,890**

[1] If the consumption of equipment bought in Note (ii) is pro-rated, then the consumption value would have been GHc133,813.

Statement of Accumulated Fund for the year ended 31/12/2020

	GH¢'000
Balance b/f	668,250
Add Surplus	2,704,890[2]
Balance c/f	**3,373,140**

(8 marks evenly spread using ticks)

b)

KOLOGO MUNICIPAL HOSPITAL
STATEMENT OF FINANCIAL POSITION AS AT 31/12/2020

	NOTE	GH¢'000	GH¢'000
ASSETS			
Non-Current Asset			
Property Plant and Equipment	14	2,197,700	
Intangible Asset	6	4,000	
Financial Asset	7	117,000	2,318,720
Current Asset			
Cash and cash equivalent	8	503,800[3]	
Inventory	13	120,000	
Receivable	8	932,000	1,556,800
Total Assets			**3,874,520**
LIABILITY AND FUND			
Current Liability			
Payable	9	351,580	
Non-Current Liability			
Loans		150,000	501,580
Accumulated Fund			3,373,140
Total liabilities and fund			**3,874,520**

(8 marks evenly spread using ticks)

c) Notes to the Financial Statements
Relevant accounting policies applied to the preparation of the financial statements include the following:

- **Compliance with IPSAS and PFM Act.**

[2] Will vary based on the assumptions used in the determination of consumption relating to Note (ii) and (iii)

[3] Cash and cash equivalent balance will be GHc503,800 (504,000 – 200) if it is assumed that the equipment acquired in Note (ii) was paid for but not recorded. The obvious assumption is that the asset had been paid for but not captured on the asset schedule. So the cash and cash equivalent balance will not be affected.

The financial statements have been prepared in conformity with the Financial Management Act, 2016(Act 921), Public Financial Management Regulation 2019 L.I 2378 and the International Public Sector Accounting Standards (IPSAS).

- **Basis of accounting.**
  The financial statements have been prepared on an accrual basis where transactions and events are recognised as and when they occur.
- **Cost measurement.**
  Assets are measured on a historical cost basis except for motor vehicle donated to the assembly, which was measured and recognised at fair value.
- **Consumption of fixed assets.**
  Consumption of fixed assets are charges using a straight-line basis. The estimated useful life of the assets are as follows:

Asset	**Useful life**
Laboratory Equipment	20 years
Building	50years
Motor Vehicles	10 years
Software	5years

- **Valuation of inventory.**
  Inventory of office consumables was valued at lower of cost and current replacement cost in compliance with IPSAS 12: inventory

(Any 4 points @ 1 mark each = 4marks)

NOTES

2. IGF	**GH¢000**
Outpatients	785,000
Impatient	565,000
Drugs and medication	657,000
Other service revenue	215,790
Ultra sound	232,600
Lab service fees	459,000
Surgical fees	120,000
OPD	132,000
Eye care fees	180,000
Ambulance services	152,000
Rent	664,160
Dental fees	112,000
Mortuary	25,000
Investment income	15,000
	4,314,150

3. Compensation	**GH¢000**
Est. post	1,406,400
Casual labour	102,750

6. Financial Asset	**GH¢000**
Fixed Deposit	100,000
Loans and Advances	17,000
	117,000

7. Payables	**GH¢000**
Redundancy payable	25,950
Drugs Owing	1,450
Sundry Creditors	144,000
Equipment payable	200
Withholding Taxes	180,000
	351,580

8. Receivables	**GH¢000**
Interest receivables	5,000
NHIS receivable	900,000
Undertaking (30,000-3,000)	27,000
	932,000

9. Cash and Cash Equivalent	**GH¢'000**
Balance b/f	504,000

Extra duty allowance	438,500
Other allowance	81,000
Redundancy payable	25,950
	2,054,600

4. Goods and Services	GH¢000
Drugs available for sale(**N11**)	555,000
Stat. Stock avail. for use **(N12)**	56,500
Travel and Transport	9,000
Seminar and conferences	80,000
General cleaning	62,400
Consulting specialist	25,000
Clinical consumable	12,000
Contracted service expense	15,000
Repairs and maintenance	70,000
Drugs payable	1,430
	886,330

5. Other Expense	**GH¢000**
Per trial balance	35,800
Provision for Bad Debt (**W4**)	300
	36,100

Equipment	(200)
	503,800

10. Investment Income	**GH¢'000**
Per trial balance	10,000
Interest receivable	5000
Interest Due	**15,000**

11. Stock of Drugs	**GH¢'000**
Opening stock of drugs	110,000
Drugs purchasing	540,000
Closing stock	(95,000)
Drugs available for sale	**555,000**

12. Stationary Stock	**GH¢'000**
Opening stock of stationary	18,000
Purchase of stationary	63,500
Closing stock	(25,000)
Stat. stock available for use	**56,500**

13. Total Closing Stock	
For Drugs	95,000
For Stationery	25,000
	120,000

14. Consumption of Fixed Asset

	Equipment 20years (¢000)	**Building 50years (¢000)**	**Motor vehicle 10years (¢000)**	**Software 5years (¢000)**	**Totals (¢000)**
Cost	550,000	1,215,000	800,000	10,000	2,575,000
Addition	300	-------	-------	------	300
	550,300	1,215,000	800,000	10,000	2,575,300
Deprecation					
Accum Depn	(55,000)	(60,750)	(120,000)	(4,000)	(239,750)
Charge for the yr.(*W2*)	(27,530)	(24,300)	(80,000)	(2,000)	(133,830)
	(82,530)	(85,050)	(200,000)	(6,000)	(373,580)
Net Book Value	**467,770**	**1,129,950**	**600,000**	**4,000**	**2,201,720**

WORKINGS

1. Addition: Equipment	**GH¢'000**
Donation	100
Acquired	200

3. Property Plant and Equip.	**GH¢'000**
Laboratory Equipment	467,770
Building	1,129,950

	300

2. Depreciation of Equipment	**GH¢'000**
Old Equip (550,000/20)	27,500
Addition (300/10)	30[4]
	27,530

Motor vehicle	600,000
	2,187,720

4. Provision for Bad Debt	**GH¢'000**
As per question	2,700
Increase in Provision	300
Provision(10%x30,00)	**3,000**

(4 marks evenly spread using ticks)

(Total: 20 marks)

NB: There may be some differences in figures because the questions give room for different assumptions, especially under note Additional information Note (ii), (iii) and (iv)

EXAMINER'S COMMENTS

Question two gauges candidates' knowledge in the preparation of financial statements of a municipal hospital in accordance with the International Public Sector Accounting Standards and relevant public financial management laws. The trial balance was fairly populated with very familiar accounts items.

This question remained the most popular question for candidates. The performance in the question was very good. However, some candidates failed to include relevant accounting policies in the notes to the accounts, thereby missing significant marks. Few other candidates were not conversant with the Harmonized Chart of Accounts of Ghana and therefore could not present the financial statements in the acceptable format and structure.

[4] Alternative is to pro-rate the depreciation of the equipment bought in April (see Note iii) and that will give consumption value of GHc27,513.

QUESTION THREE

a)

i) The distinction between Weakest Link Method and Average Method

Weakest link method: M1 (WL). This method is used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. In other words, this method is applied where there is a "weakest link" in the connected dimensions of the indicator.

Averaging method: M2 (AV). The aggregate indicator score awarded using this method is based on an approximate average of the scores for the individual dimensions of an indicator. Use of this method is prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator.

The difference is that whilst M1 is applied to connected dimensions, M2 is applied to dimensions independent of each other. **(3 marks)**

ii) Computation and Interpretation of Result

Indicator 1 is Financial data integrity which is measured by four dimensions using the Average method (M2). In PEFA methodology, A = 4; B=3; C=2; and D= 1. Thus, the score of the indicator will be C derived as follow: (1+1+4+2)/4 = 8/4 = 2, equivalent to C. This means that the integrity of the financial data of Ghana is average, indicating an average performance of public financial management in terms of financial data integrity.

Indicator 2 is in-year budget report which is measured by three dimensions using the Weakest Link Method (M1). Under this method, the poor performance on one dimension is likely to undermine the good performance in others, and therefore the score for the indicator should be the score on the lowest dimension, a plus is added if any of the dimensions scored higher. In the case, the performance of the indicator is C+, since C is the lowest scored dimension but other dimensions performed better so "+" is added. This is an average performance of in-year budget report.

Indicator 3 is an annual financial report with three dimensions measured using the M1. The lowest score is D. This means that public financial management performs poorly in terms of annual financial reporting.

(5 marks)

iii) Suggestion for improvement on indicator 3.

- Government should immediately implement the International Public Sector Accounting Standards (IPSAS) to improve the score in that dimension, which is the weakest link.
- The government should also ensure that effective systems are put in place to ensure the quality of financial reports, such as implementing the Ghana Integrated financial management information system.

- Pressure should be mounted on covered entities to submit their financial statements for audit within the 2 months given by the Public Financial Management Act 2016.
- Heads of institutions who failed to submit an account for audit on time should be severely sanctioned.

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

b) i)

Okagya Municipal Assembly
Common Size Statement of Financial Performance of the Consolidated Fund for the year ended 31 December,2020

	2020 Actual %	2019 Actual %	2020 Budget %
Revenues			
Decentralised Transfer	41.18	31.08	35.88
IGF	55.57	64.16	60.57
Donation and Grants	3.25	4.76	3.55
Total revenue	100.00	100.00	100.00
Expenditure			
Compensation for employees	74.59	60.90	46.00
Use of goods and services	25.78	24.71	31.97
Consumption of fixed Asset	0.60	0.55	0.00
Interest	49.21	36.47	29.80
Grants	1.28	1.08	3.41
Other expenses	4.01	3.58	4.35
Total Expenditure	(155.47)	(127.29)	(115.54)
Net Operation Result	**(55.47)**	**(27.29)**	**(15.54)**

(6 marks evenly spread using ticks)

ii)

Okagya Municipal Assembly

From:
To:
Date:
Subject: Okagya Municipal Assembly Statement of Financial Performance Analysis.
Introduction:

Following the computation above, the following analysis can be drawn. IGF prove to be major sources of revenue for the assembly.

Financial statement analyses
The proportion of IGF in relation to the total revenue of the assembly was 55.57%. However, this represents a decline of performance compared to the year 2019 which recorded 64.16% in relation to total revenue and against the budget for 2020 (60.57). It also shows a decline of performance. This could mean a reduction in the impact of revenue education compared to the previous years.

Decentralised transfer also appears to be the second highest source of the Assembly revenue after IGF. In 2020, Decentralised revenue contributed over 40% in relation to total revenue. This compares favourably against the Actual for 2019 is 31.08% and even the budget for 2020 (35.88%). This could be a result of the assembly's improvement in their performance assessment conducted by the Central Government, which encourages the Central Government to give them much Grants in the year 2020.

Donation and Grants proves over the years to be a weak Source of the assembly's revenue. In 2020 Donation and Grants contributed 3.25% of total revenue. This performance is better than budget for 2020 of 31.97% but poorly with that of Actual for 2019 of 24.71%. This could be a result of the assembly's lack of conscious effort to reduce this cost.

Interest in the Assembly Loans has continued to increase over the years. In 2020 it represented 49.21% of total revenue, but this position is worse as compared to the Budget of 2020 of 29.80% and even Actual for 2019 of 36.47%. This could be as a result of the assembly contracting Loans.

On the whole total expenditure of the assembly is higher than the revenue compares poorly with Actual for 2019 of 4.76% and even budget for 2020 of 3.55% to total revenue of the assembly. This could result from a reduction in the collaborations with the industries.

Compensation for employees all over the years continue to form a greater proportion of total revenue, and in 2020 it represents 70.59% of total revenue that year. This figure appeared higher than the budget for 2020 of 46% of total compensation needs investigation as it appears too high from the budget is reasonable.

Use of Goods and Services also constitution greater proportion Government revenue. In 2020 was 25.78% but this was from 2019 to 2020. Total Expenditure 2020 represented 155.47% of total revenue and 127.29% of total revenue for 2019. This resulted in losses of 55.47% of 2020 and 27.29% 0f total revenue.

Conclusion

The assembly needs to improve the Revenue education at the assembly to increase IGF, improve their performance to increase their Decentralised Transfer and control their expenditure, especially Interest on Loans and use of Goods and Services.

(Award 1 mark each for introduction and conclusions. 0.75 mark for any point raised to the maximum of 3 points = 4marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question three was in two parts. It examined candidates on the PEFA methodology and the analysis and discussion of financial statement in the public sector. The question on PEFA methodology was concise and unambiguous. However, the requirement i) of the section was limiting. The question provided two years financial statements (2020 and 2019) with the current budget, but the requirement only asked the candidate to prepare a common size financial statement for only the financial year ended 31 December 2020. This strained the level of analysis the candidate could perform.

All candidates fairly attempted the question. Performance in question a) was very good, as most candidates were familiar with the PEFA methodology. Few candidates, however, could not perform the PEFA scoring due to a lack of knowledge or inaccurate understanding of the principles. The candidates also performed very well in preparing the common size statement and the discussions.

QUESTION FOUR

a)

i) Yes, Adagya District Assembly has the right to cancel the Procurement Proceedings in accordance with section 12(28 a) of the Public Procurement (Amendment) Act, 2016 (Act 914). **(1 mark)**

ii) Conditions for Cancellation of Procurement Proceedings are;
A Procurement Entity may, for specific and fully justified reasons, cancel Procurement Proceedings before the expiry of the deadline for the submission of tenders, where;

- the entity discovers an imperfection in the wording of the request for submission of tenders, which could mislead tenderers;
- the procurement entity decides to carry out the work subject of the tender by itself; there is a cut in the budget intended for performing the contract;
- no bid has been submitted;
- exceptional circumstances or a force majeure render normal performance of the contract impossible;
- the economic or technical data of the exceptional Circumstances or a forced project has fundamentally changed

(Any 4 points @ 1.5 marks each = 6 marks)

b) The Entity Tender Committee shall;

- Ensure that procedures prescribed in this Act have been followed at every stage of the procurement activity.
- Work within the threshold limits specified in the Second Schedule and the method thresholds specified in the Fifth Schedule.
- Exercise sound judgment in making procurement decisions.
- Approved cost of items in the plan and ensure they fit into the budget amount
- Review and refer to the central tender review committee for concurrent approval, procurement above the entity tender committee's threshold that has been duly
- Processed by the procurement unit, and
- Evaluated by the appropriate evaluation panel constituted by the head of entity.
- Ensure that stores and equipment are disposed off in accordance with Public Procurement Act.2003, Act 663 and Public Procurement (Amendment) Act,2016, Act 914

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

c) Types of public, private partnership arrangements
Generally, PPP arrangements can take different forms ranging from simple models as in a management or operation and maintenance contract to complex ones like joint ventures, even though what constitutes PPP transaction may differ among jurisdictions and economic actors, the following are typical types of PPP contracts:

Operate and maintain (O&M)
Under this arrangement, the operator is engaged by the contracting entity (or grantor) to offer a specific service or task such as debt collection, facility

management, and an agreed fee or commission. Management contracts often involve the private operator being paid a fixed fee by the awarding authority for performing specific tasks. The remuneration does not depend on the collection of tariffs, and the private operate does not typically take on the risk of asset condition. This arrangement has the following features:

- The facility is owned entirely by the contracting entity or grantor;
- The contracting entity bears all capital requirement of running the facility

- The risk of asset condition rests entirely with the grantor
- Duration of the contract ranges between 1 year to almost 5 years.
- Residual asset remains that of the grantor.

Risk and responsibility for delivery of the service largely remains with the public sector entity. These arrangements can be similar to those referred to as "outsourcing" or "contracting-out." These arrangements may or may not involve the use of infrastructure or public facilities. An example in Ghana is the arrangement between the Government of Ghana and Aqua Vitens Rand Limited in 2006. The latter is engaged to operate the urban water systems (Ghana Water Company) for five years for a determined fee.

Build-own operate (BOO)

BOO is a public-private partnership (PPP) project model in which a private operator builds, owns and operates some facility with support and degree of encouragement from the government through interventions. Although the government doesn't provide direct funding in this model, it may offer other financial incentives such as tax-exempt status. The developer owns and operates the facility independently.

An example in Ghana is the one district one factory (1D1F) programme of government where the government supports private operators to establish factories in each district, own them and operate them to create jobs for the people.

Build-operate transfer (BOT)

In BOT, the operator finances and acquires the asset to provide public service and operates it for an agreed duration to recoup its investment and transfers ownership to the contracting entity. The features of BOT are:

- The operator invests its capital to build the asset
- Risk associated with the condition of the asset is shared between the contracting entity and the operator
- It takes a longer duration of between 25-30 years for recoupment of investment
- Residual interest is transferred to the contracting entity upon the expiration of the agreement.

A BOT variation is build-own-lease-transfer (BOLT), where the private operate is allowed to lease instead of operating it personally for the agreed period and transfer residual assets to the government.

An example of BOT is the contract between the University of Ghana and private hostel developers such as Evandy hostel, Teacher Fund and so on which permits the private operators to build hostels on the university land for the students, take the hostel facility user fees for 25 to 30 years and finally transfer the residual assets to the university.

Build-transfer and operate (BOT)
This is similar to BOT expect that the transfer of assets precedes the operation of the facility. This arrangement in common in road contraction and security installation. For example, the government enters into a contract with the private operator to construct a dual carriage asphalt road from Accra to Ho at their cost and toll the road for 30 years at an approved fee. However, the operators will hand over the road to government and the government in turn grant them the right to toll the road to recoup their moneys.

Rehabilitate, operate and transfer (ROT)
Rehabilitate, operate, and transfer (ROT) is a contractual arrangement whereby an existing facility of the contracting entity is handed over to the private sector to refurbish, operate and maintain for a franchise period, at the expiry of which the residual facility is returned to the government. ROT allows the private operator to refurbish, operate and maintain an existing facility. In this arrangement, the following features can be identified:

- Ownership is in the contracting entity
- Capital invested by an operator
- Risk rest with the grantor and /or operator
- Duration of the agreement is between 25-30 years
- Residual interest in the asset is for the grantor

Other variants of Rot include Rehabilitate own and operate (ROO) and Lease Renovate Operate and Transfer (LROT). Example of ROT is the Pwalugu Tomato Factory revamp contract where a private sector operator is contracted to rehabilitate the factory, operate and transfer the residual asset to the government at the expiration of the contract term.

Design-Build (DB)
In design-build arrangements, the private sector entity is responsible for designing and building the infrastructure or public facility in accordance with the public sector entity's requirements. In these arrangements, the private sector entity usually assumes the construction risk. After construction is completed, the public sector entity is responsible for operating and maintaining the infrastructure, leaving the private sector entity with little or no further project risk.

A variation of DB is the Design-Build and Operate (DBO) arrangement, where the designing and building of the facility is done based on a turn-key basis. After the completion of the facility, it is transferred to the public sector but the private sector will operate the facility for a specific period of time. The DBO is a form of BOT.

Other forms of DB are Design-Build-Finance-Operate (DBFO) or Design-Build-Finance-Maintain (DBFM), Design-Build-Maintain (DBM).

Service Concession

In a concession agreement, the public sector entity transfers the right to provide public service through the use of an asset to the private party. In service concession, the asset may be either provided by the grantor, operator or both. The operator in turn, assumes an obligation to provide such services, normally in accordance with performance requirements set by the entity.

Compared to service or management contracts, concession agreements have a much longer-term, often so that operator can earn an acceptable rate of return on its investment. Secondly, the operator is not allowed under a management contract to invest its capital into the operation of the entity, but under service concession, the agreement requires the operator to inject a certain amount periodically into the entity. PDS- ECG deal is a good example.

Some common features of service concession arrangements are:

- The grantor is a public sector entity.
- The grantor transfer responsibility for the delivery of public service to a private sector entity
- The operator is responsible for at least some of the infrastructure and related service management and does not merely act as an agent on behalf of the grantor.
- The contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.
- The operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration irrespective of which party initially financed it.

(Any 4 points @ 2.5 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question four examined candidates on procurement and public- private partnership. In this question, candidates' appreciation of public procurement and public-private partnership is commendable.

QUESTION FIVE

a)

i) Explain Treasury Single Account

A Treasury Single Account serves as a unified structure of Government accounts to give a consolidated view of government cash resources. All Government cash including moneys received by covered entities shall be deposited and from which all expenditure of government and covered entities shall be made. Treasury single account is a system of managing central government bank accounts, including all central agencies. The primary objective of a Treasury Single Account is to ensure effective aggregate control over government cash balances. **(2 marks)**

Benefits of Treasury Single Account

The following are some of the benefits associated with the use of the TSA system.

- **TSA allows complete and timely information on government cash resources.** Where advanced payment and settlement systems and an Integrated Financial Management Information System (IFMIS) with adequate interfaces with the banking system exist, this information will be available in real-time. As a minimum, complete updated balances should be available daily.
- **Improves appropriation control.** TSA provides the Minister of Finance with sufficient control over budget allocations and strengthens the authority of the budget appropriation. When separate bank accounts are maintained, the result is often a fragmented system, where funds provided for budgetary appropriations are augmented by additional cash resources that become available through various creative, often extra-budgetary, measures.
- **Improves operational control during budget execution.** When the treasury has full information about cash resources, it can plan and implement budget execution efficiently, transparent, and reliable. The existence of uncertainty regarding whether the treasury will have sufficient funds to finance programmed expenditures may lead to sub-optimal behavior by budget entities, such as exaggerating their estimates for cash needs or channeling expenditures through off-budget arrangements
- **Promotes efficient cash management.** TSA facilitates regular monitoring of government cash balances. It also enables higher quality cash out-turn analysis to be undertaken.
- **Reduces bank fees and transaction costs.** Reducing the number of bank accounts results in a lower administrative cost for the government for maintaining these accounts, including the cost associated with bank reconciliation and reduced banking fees.
- **Facilitates efficient payment mechanisms.** A TSA ensures that there is no ambiguity regarding the volume or the location of the government funds and makes it possible to monitor payment mechanisms precisely. It can result in substantially lower transaction costs because of economies of scale in processing payments.
- **Improves bank reconciliation and quality of fiscal data.** A TSA allows for effective reconciliation between the government accounting systems and cash flow statements from the banking system. This reduces the risk of errors in

reconciliation processes and improves the timeliness and quality of the fiscal accounts.

- **Lowers liquidity reserve needs**. A TSA reduces the volatility of cash flows through the treasury, thus allowing it to maintain a lower cash reserve/buffer to meet unexpected fiscal volatility.

(Any 4 points @ 1 mark each 4 = 4 marks)

ii) GIFMIS in PFM

Cash management

GIFMIS has improved cash management in the public sector in respect of:

- **Making Payment.** The GIFMIS has provided much more secure means of payment, ensuring accountability in public financial management. It has introduced the electronic fund transfer system which support direct transfer of funds to third party bank accounts. The GIFMIS also allows for the use of system cheques in payment.
- **Bank reconciliation.** Bank reconciliation is made much more accurate and easier under the GIFMIS. This allows entities to reconcile their bank balances with speed.
- **Cash forecasting.** GIFMIS also supports cash forecasting and projections in the public sector. This ensures speed and accuracy in cash forecasting and modelling.
- **Treasury single account.** It provides a unified structure of Government accounts to give a consolidated view of government cash resources. This enhances cash management in the public sector.

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

Budgeting and budget execution

GIFMIS Budget Modules support budgeting preparation and execution, and they include:

- Hyperion Planning Plus – For Strategic Planning aspect of the Budget preparation process as well as analysis of the budget, e.g. Sensitivity and what if analysis.
- Hyperion Public Sector Planning and Budgeting – for Costing.
- Hyperion Project Financial Planning – for Project management, including contract management.
- Election Budget Execution Processes, e.g. warrants and P2P

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

b) The followings are the specific responsibilities of CAG towards covered entities:

- Issue general instructions to a Principal Spending Officer in accordance with this Act and the Regulations;
- Develop efficient accounting systems for a covered entity;
- Approve accounting instructions of a covered entity;
- Authorise the opening of an account for a covered entity;
- In consultation with the Auditor-General, specify for a covered entity, the accounting standards, policies, and the classification system to be applied in public accounting to ensure that a proper system of accounting operates;
- Provide accounting officers to covered entities; and
- Be responsible for the classification and management of value books.

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

c) Objective of financial reporting
The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and decision-making purposes.

Accountability
The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. In most cases, these services are provided due to a non-exchange transaction and in a non-competitive environment. Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of *accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations*.

Decision making
Financial information also support decision making of the users, who requires information as input for making decisions. The information will also be useful for decision making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.
Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
The question tested candidates on Ghana Integrated Financial Management Information System (GIFMIS), the role of Controller and Accountant General, and general-purpose financial reports' accountability value. Most candidates demonstrated a good understanding of the GIFMIS, including the single treasury account.

CONCLUSION

The general performance of candidates in the examination was better than previous examination outcomes. It is established that lack of preparation towards the examination due to work and family pressures is a major factor accounting for the poor performance of candidates.

In addition, candidates do not take their time to understand the question's requirements before responding to it, which has caused deviation of candidates 'responses.

RECOMMENDATIONS

- Candidates must devote enough time to their studies despite their busy schedules. It is recommended that at least six hours of study a week should be adequate for each course you intend to sit for.
- Candidates should also seek good tuition from recognised Partners in Learning of the Institute to ensure that the knowledge acquired is relevant and current.
- Candidates should also read on examination techniques and take advantage of examination fora organised by the Institute to guide the candidates.
- 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.
- Candidates are encouraged to participate in exam-related forums, like meeting the examiner forum, organised by the Institute to guide candidates.