

**MARCH 2023 PROFESSIONAL EXAMINATIONS
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

GENERAL COMMENTS

The quality and standard of the questions are very good and the test items are consistent with the examination syllabus weights. The paper had a wide coverage of the syllabus. The responses elicited have improved over the previous year.

STANDARD OF THE PAPER

In line with the approved examination structure in the syllabus, the paper consists of five questions out of which the Candidates were required to attempt all questions. The questions were equally weighted. To have a wider coverage of the syllabus, each major question was structured into sub-questions and sub-sub questions. In all, the paper had five (5) major questions, thirteen (13) sub-questions and twelve (12) sub-sub-questions, providing approximately 100% syllabus coverage. The time allocated to the paper is commensurate with the task required. Concerning the level of knowledge tested in line with Bloom's Taxonomy (Armstrong, 2016), the test items fall within application and analysis, which is consistent with the learning outcomes set out in the syllabus. The standard of the paper is comparable to the previous years. Nevertheless, exam setters are encouraged to continuously explore innovative ways of making the questions more interesting and practical to resonate with the realities of the times.

PERFORMANCE OF CANDIDATES

There was an improvement in the overall performance of the candidates. The pass rate increased from 19.71% in the December 2022 diet to 24.08% in the March 2023 Diet.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Strengths of candidates

Generally, candidates demonstrated strengths in their responses in the following topics and aspects:

- Preparation and presentation of financial statement (Question two) is the most popular topic among candidates. Almost all candidates attempted it well, except for a few who could not classify the items per the current chart of accounts. Nevertheless, some candidates seem to spend a lot of time and effort on it at the cost of other equally important questions. Most often, those candidates are unable to attempt all questions due to time constraints.
- The candidates can discuss and analyse financial statements with ratios very well. Almost all of them attempted the question and did well.
- The question on the principles of PPP was very popular with the candidates.
- Most candidates demonstrated a good understanding of the functions of the procurement structures, specifically the functions of the head of the procurement entity and the entity tender committee.

Weaknesses of candidates

- Lack of understanding of the requirements of some of the questions, even though the questions were unambiguous. For example, candidates were asked to explain an assertion that "cash basis information can be derived from an accrual basis accounting" and unfortunately a lot of them were writing on the advantages of accrual basis over cash basis.
- Most candidates do not understand the recognition models of liability resulting from PPP. The question was poorly answered.
- It was surprising that most candidates did not answer the question on the roles of the Audit Service and the Internal Audit Agency. Knowledge of candidates in the area is very limited.
- Knowledge of candidates on the content of fiscal strategy documents is very poor. Most of the candidates could not provide any information contained in the document.
- The question on the legislative framework of budgeting in the public sector was poorly attempted by the candidates. Most of them could not name any law that provides for budgeting in the public sector.
- Limited coverage of the syllabus. The examination syllabus covers nine major topic areas, which are all examinable. However, for whatever reasons, some candidates have specialised in a few of these areas, including the preparation of the financial statement, and therefore were not able to attempt all the questions thereby minimising their chances of passing. Observably, such candidates start well in say the first two questions attempted and take a nose dive in the subsequent questions.
- Poor time management. It was noted that some candidates spent too much time allocated to certain questions, most often the preparation of the financial statement, and therefore were unable to complete the paper within the stipulated time.
- Poor organisation of responses. Some candidates failed to communicate their ideas and understanding effectively in their responses. Some also failed to organise the responses professionally. For example, some candidates mixed up the sub-questions in the presentation making it difficult for examiners to trace responses in the answer booklet. Candidates should follow strict instructions on the answer booklets and do the needful as required of prospective professional accountants.
- Complete lack of knowledge. Some of the candidates seem to gamble with the examination without any serious preparations. The responses of some Candidates showed that they have no knowledge of the subject at all but decided to sit for the paper.

QUESTION ONE

- a) In a recent meeting held to discuss the implementation of accrual basis of accounting in your entity, the principal spending officer was apprehensive about how the change from cash basis to accrual basis would impact on accountability for cash. The Director of Finance convinced him that accrual basis provides much superior cash information about the entity and therefore there is no need to be concerned about the transition from cash accounting to accrual accounting. He further stated that “cash basis information could be derived from accrual basis accounting”.

Required:

- i) Explain the assertion that “*cash basis information can be derived from accrual basis accounting*” as stated by the Director of Finance. **(4 marks)**
- ii) Discuss how accrual accounting provides superior cash information about an entity. **(6 marks)**

- b) In its quest of deepening public financial management in Ghana, the Government of the Republic, supported by the Development Partners, launched a reform project in the year 2003, called *Public Financial Management Reform Programme* (PUFMARP). This programme produced, among others, two important legislations to regulate internal and external audit practice in the public sector. These are Internal Audit Agency Act, 2003 (Act 658) and Audit Service Act, 2000 (Act 584) respectively.

Required:

Enumerate **THREE (3)** statutory roles each of *Internal Audit Agency* and *Ghana Audit Service*. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

The following Trial Balance is the financial details of Nsuta-Appiah Krom Municipal Assembly for the year ended 31 December, 2021.

	GH¢ '000	GH¢ '000
District Development Facility (DDF)		58,600
Special Sanitation Grant from Government		30,260
Share of Common fund		587,450
Property Rate (iii)		73,230
Funeral Rate		25,270
Non-Established Post	266,280	
Commission to Revenue Collectors	15,790	
Printing and Publication	66,110	
Utility Bills	20,040	
Conferences	14,580	
Donations		80,770
Contract Retention		13,970
Market Tolls		25,550
Court Fines		109,400
Marriage and Divorce Registration		43,840
Telecommunication Cost	18,830	
Repairs and Maintenance	9,720	
Town Hall Meetings	64,890	
Special Audit Fees	27,130	
Travel and Transport	54,670	
Revenue Receivable	208,570	
Established Post (iv)	315,090	
Assembly Members Allowance	79,000	
Consultancy Cost	4,750	
Hawkers License		37,150
Chop bar License		85,600
Market stalls Sent		31,590
Bungalow Rent		20,750
Advertisement and Promotions		11,500
Office Consumables (1/1/2021)	18,290	
Purchase of Office Consumable	47,580	
Withholding Tax		45,400
Interest on Loan/ Financial Assets (vii)	5,740	1,050
Other Expense (iv)	25,620	
Motor Vehicles (v)	61,180	18,220
Building and Structures (v)	119,200	7,450
Fixtures, Furniture and Fittings (v)	25,000	10,000
Work in Progress (vi)	20,520	
Loans and Advances to Staff (vii)	20,700	
Payables		96,760
Long Term Loans		75,330
Accumulated Fund		70,870
Cash and Cash Equivalents	50,730	
	1,560,010	1,560,010

Additional Information

- i) It is the policy of the Assembly to adopt Accrual Basis in preparing its Financial Statements in compliance with Public Financial Management Act, 2016 (Act 921), Public Financial Management Regulation 2019 L.I 2378 and the International Public Sector Accounting Standards (IPSAS) and Local Governance Act 2016, (Act 936).
- ii) Office consumables in respect of stationery and other items bought for GH¢1,800,000 remained unused during the year. The current replacement cost of the inventories is GH¢1,550,000. Meanwhile, the net realisable value of the inventories is estimated at GH¢1,400,000. No market exists for unused office consumables and other items.
- iii) Property Rates received in respect of 2022 financial year amounted to GH¢2,050,000.
- iv) Salaries outstanding during the year amounted to GH¢750,000 and other expenses amounting to GH¢1,105,000 paid in respect of 2022 financial year.
- v) Consumption of fixed assets is charged on straight line basis for the year as follows:

Asset	Useful life
Motor vehicles	10 years
Furniture, Fixtures & fittings	5 years
Building and Structures	50 years

- vi) Included in the Work in progress is an amount of GH¢2,000,000 relating to a Building which was completed, commissioned and put to use on 5 July 2021, after an additional amount of GH¢800,000 was spent to complete the pavement aspect of the building. This expenditure has not yet been paid.
- vii) Interest on Loans to staff is at the rate of 15% per annum and interest on long term Loans is at the rate of 10% per annum.

Required:

Prepare:

- a) A Statement of Financial Performance for Nsuta-Appiah Krom Municipal for the year ended 31 December 2021. **(9 marks)**
- b) A Statement of Financial Position for Nsuta-Appiah Krom Municipal as at 31 December, 2021. **(9 marks)**
- c) State **TWO (2)** Accounting Policies adopted and applied in preparing the financial statements. **(2 marks)**

(Total: 20 marks)

QUESTION THREE

- a) The Public Expenditure and Financial Accountability (PEFA) program was initiated in 2001 by seven international development partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom. PEFA began as a means to harmonise assessment of PFM across the partner organisations. It subsequently established a standard methodology for PFM diagnostic assessments, the PEFA framework. Since 2001, PEFA has become the acknowledged standard for PFM assessments

Required:

Describe the scope and goals of PEFA framework. (10 marks)

- b) The Financial Information below relates to Agogo Municipal Assembly.

Agogo Municipal Assembly		
Statement of Financial Performance for the year ended 31 December		
	2022	2021
	GH¢'000	GH¢'000
Revenues		
Decentralised Transfer	31,995	39,675
Internally Generated Revenue	27,150	27,750
Grants and Donations	<u>19,200</u>	<u>12,750</u>
Total revenue	<u>78,345</u>	<u>80,175</u>
Expenditure		
Compensation for Employees	30,450	44,700
Use of Goods and Services	21,000	15,450
Consumption of Fixed Capital	600	360
Social Benefits	900	2,250
Interest	15,690	29,490
Other Expenses	<u>2,145</u>	<u>2,400</u>
Total Expenditure	<u>70,785</u>	<u>94,650</u>
Net Operation Result	<u>7,560</u>	<u>(14,475)</u>

Agogo Municipal Assembly		
Statement of Financial Position as at 31 December		
	2022	2021
	GH¢'000	GH¢'000
Non-Current Assets		
Property, Plant and Equipment	33,600	3,675
Equity Investment	<u>8,250</u>	<u>12,000</u>
	<u>41,850</u>	<u>15,675</u>
Current Assets		
Receivables	12,600	10,050
Cash and Cash Equivalent	<u>27,000</u>	<u>7,050</u>
	<u>39,600</u>	<u>17,100</u>
Total Asset	<u>81,450</u>	<u>32,775</u>

Funds and Liabilities		
Accumulated Fund	7,200	(120,300)
Current Liabilities		
Payables	11,250	20,400
Short Term Loans	<u>3,000</u>	<u>15,000</u>
	<u>14,250</u>	<u>35,400</u>
Non-current Liabilities		
Loans	27,000	54,000
Other Long-Term Debt	<u>33,000</u>	<u>63,675</u>
	<u>60,000</u>	<u>117,675</u>
Total Fund and Liabilities	<u>81,450</u>	<u>32,775</u>

Additional Information

1) The Statistical and economic data of the two years for the Municipal is as follows:

	2022	2021
Population	180,000	175,000

2) Decentralised Transfer includes Common Fund from the Central Government of the respective years. Common Fund constitutes 60% of the Decentralised Transfer for 2022 and 50% of the Decentralised Transfer for 2021.

Required:

i) From the information provided, compute for the respective years:

- Common Fund per Capita
- IGF per Capita
- Compensation of Employees to Total Revenue
- Interest to IGF Ratio

(4 marks)

ii) Based on the results computed in i) above, discuss the performance of the Municipal Assembly.

(6 marks)

(Total: 20 marks)

QUESTION FOUR

- a) Section 20F (7) of the Procurement Act 2003, (Act 663) as amended with (Act 914), provides for the functions of an Entity Tender Review Committee.

Required:

- i) Outline **FOUR (4)** functions of an Entity Tender Review Committee. **(6 marks)**
ii) Discuss the basis and the procedure for a review of an Entity Tender Review Committee's decision. **(4 marks)**

- b) Explain the following principles of Public Private Partnership:

- i) Value for money
ii) Risk allocation
iii) Ability to pay
iv) Competition **(6 marks)**

- c) Explain the following models of recognition of liability under a service concessions arrangement under IPSAS 32: Service Concession-Grantor:

- i) Financial liability model
ii) Grant of right to operator model. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) Budgeting is an essential and mandatory financial management process in the public sector. It plays significant role in public financial governance.

Required:

- i) Discuss the legislative framework for public sector budgeting in Ghana. **(4 marks)**
ii) Explain **FOUR (4)** benefits of budgeting in the public sector. **(4 marks)**
- b) A principal spending officer is of the view that the organisation can always carry out unbudgeted activities, programmes and projects through the use of virement. He argues that virement is a smart way of going around the rigid rules that govern national budget implementation.

Required:

- i) Explain *virement* as a tool in public financial management. **(3 marks)**
ii) Discuss the prohibitions on the use of virement under the Public Financial Management Act, 2016 (Act 921). **(4 marks)**
- c) The Minister of Finance shall, not later than the end of May of each financial year, prepare and submit to Cabinet for approval, *a Fiscal Strategy Document*.

Required:

- Outline **FIVE (5)** issues that should be specified in the Fiscal Strategy Document. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a)

- i) The assertion “*cash basis information would be derived from accrual basis accounting*”.

Cash basis mean a basis of accounting where transactions and other events are recognised when they involve cash (only when cash and its equivalent is received or paid. Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid).

So, while cash basis recognises only cash receipts and cash payments, accrual basis recognizes cash and cash equivalents as well as all other transactions or events that have occurred within the reporting period. Thus, accrual basis can be said to contain information about the cash and cash equivalent of the entity. It is therefore right to state that cash basis is imbedded in accrual basis, hence the superiority of accrual basis.

(4 marks)

- ii) How accrual accounting provides superior cash information about an entity.

IPSAS 2: Cash Flow Statement indicates that an entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard, and shall present it

as an integral part of its financial statements for each period for which financial statements are presented.

Whilst cash basis generates statement of cash receipt and cash payments, accrual basis goes further to provide a cash flow statement that demonstrate accountability of cash resources of the entity. The cash information provided in the cash flow statement is superior to statement of cash receipt and payments because the former classified the cash flow information into three main heading: operating activities, investing activities and financing activities. Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity. Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Operating activities are the activities of the entity that are not investing or financing activities.

(6 marks)

- b) **Statutory role of Internal Audit Agency**

The Agency shall set standards and procedures for the conduct of internal audit activities in the MDAs and MMDAs. The Agency shall ensure that:

- Financial, managerial and operating information reported internally and externally is accurate, reliable and timely.

- The financial activities of MDAs and MMDAs are in compliance with laws, policies, plans, standards and procedures.
- Promote economy, efficiency and effectiveness in the administration of government programmes and operations.
- Prepare plans to be approved by the Board for the development and maintenance of an efficient internal audit for the MDAs and MMDAs.
- Facilitate the prevention and detection of fraud.
- Provide a means for keeping the MDAs and MMDAs fully and currently informed about problems and deficiencies related to the administration of their programmes and operations and the necessity for appropriate corrective action.
- It monitors, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs.

Statutory role of Audit Service

The mandate for public sector audit is vested exclusively in the Auditor-General and Article 187 of the Constitution provides the mandate of the Auditor General (in that matter the Audit Service) as follows:

- The public accounts of Ghana and of all public offices, including the courts, the central and local government administrations, of the Universities and public institutions of like nature, of any public corporation or other body or organization established by an Act of Parliament shall be audited and reported on by the Auditor-General.
- The Auditor-General or any person authorised or appointed for the purpose of the audit by the Auditor-General shall have access to all books, records returns and other documents relating or relevant to those accounts.
- All the public accounts of Ghana and of all other persons or authorities referred to in clause (2) of article 187 shall be kept in such form as the Auditor-General shall approve.
- In the performance of his functions under this Constitution or any other law the Auditor-General shall not be subject to the direction or control of any other person or authority;
- He may disallow any item of expenditure which is contrary to law and surcharge: (i) the amount of any expenditure disallowed upon the person responsible for incurring or authorising the expenditure; or (ii) any sum which has not been duly brought into account, upon the person by whom the sum ought to have been brought into account; or (iii) the amount of any loss or deficiency, upon any person by whose negligence or misconduct the loss or deficiency has been incurred.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question tested the knowledge of the candidates on Basis of Accounting used in the public sector. It examined the relationship between cash accounting and accrual accounting in practice. The quality of the question is very high and it falls within the application level of knowledge. The question is also within the ambit of the syllabus.

QUESTION TWO

a)

Nsuta-Appiah Krom Municipal Assembly Statement of Financial Performance for the Year Ended 31/12/2021.

	Note	GH¢'000	GH¢'000
<u>REVENUE:</u>			
Decentralised Transfer	2	676,310	
Internally Generated Fund (IGF)	3	464,935	
Donation, Gifts and Grants		<u>80,770</u>	
Total			1,222,015
<u>EXPENDITURE:</u>			
Compensation of Employees	4	582,120	
Use of goods and services	5	439,830	
Interest	6	7,533	
Consumption of Fixed Assets	7	13,530	
Other Expenses	6	<u>24,515</u>	
Total			(1,067,528)
Surplus			<u>154,487</u>

Statement of Accumulated Fund

	GH¢'000
Per trial balance	70,870
Add Surplus	<u>154,487</u>
Bal b/d	<u>225,357</u>

(9 marks evenly spread using ticks)

b)

Nsuta-Appiah Krom Municipal Assembly Statement Of Financial Position As At 31/12/2021

<u>NON-CURRENT ASSETS:</u>	Note	GH¢'000	GH¢'000
Property, Plant and Equipment	7	158,980	
Financial Assets		20,700	
Work in Progress	9	<u>18,520</u>	198,200
<u>CURRENT ASSETS:</u>			
Cash and Cash Equivalent		50,730	
Receivables	10	211,730	
Inventory	5	<u>1,550</u>	<u>264,010</u>
Total Assets			<u>462,210</u>
<u>LIABILITIES AND FUND:</u>			
Current Liabilities:			
Payable	11	161,523	
Non-Current Liabilities:			
Long term Loans		<u>75,330</u>	

Total Liabilities	236,853
Accumulated Fund	<u>225,357</u>
Total Liabilities and Fund	<u>462,210</u>

(9 marks evenly spread using ticks)

c) Accounting Policies

- General Statement. The Assembly prepares its financial statements in compliance with Public Financial Management Act 2016(Act 921) and its Regulation 2019, LI2378, International Public Sector Accounting Standard (IPSAS) and Local Government Act 2016 (Act,936)
- The Assembly uses Accrual Accounting Basis in the preparation of its Financial Statements
- The Assembly fees recoverable is stated at those amount only reflecting good receivables
- The Assembly uses Straight Line basis in computing its consumption of Fixed Assets, where cost of the Fixed Assets are spread against its useful life. The basic Capita Assets and their Useful Life is provided below.

Asset	Useful life
Motor vehicles	10 years
Furniture, Fixtures & fittings	5 years
Building and Structures	50 years

- Valuation of Stock is in line with the IPSAS 12, the Assembly values office Consumable at lower of cost and its replacement amount because it is held for consumption.

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

Workings:

2. Decentralised Transfer	GHC'000	11. Payables	GHC'000
DDF	58,600	Per trial balance	96,760
Sanitation	30,260	Salaries Outstanding	750
Share of Common Fund	<u>587,450</u>	Withholding Taxes	45,400
	<u>676,310</u>	Property rate	2,050
		Interest	1,793
		Contract Retention	13,970
3. Internally Generated Fund		Cost to complete building	800
Property Rate	73,230		<u>161,523</u>
Property Rate advance	(2,050)	5. Use of Goods and Services	
Funeral Rate	25,270	Office Consumables (1/1/21)	18,290
Market tolls	25,550	Add purchase	47,580
Court Fines	109,400	Less closing stock	<u>(1,550)</u>
Marriage and Divorce reg.	43,840	Office consumables consumed	64,320
Hawkers License	37,150	Telecommunication	18,830
Chop bar license	85,600	Repairs and Maintenance	9,720
Market stalls rent	31,590		
Bungalow rent	20,750		

Advertisement and Promotion	11,500	Town hall meeting	64,890
Interest Per trial balance	1,050	Special Audit Fees	27,130
Interest Receivable	<u>2,055</u>	Travel and Transport	54,670
	<u>464,935</u>	Assembly men allowance	79,000
4. Employees' Compensation		Consultancy	4,750
Non- Establish Post	266,280	Commission to revenue collectors	15,790
Establish Post	315,090	Printing and Publication	66,110
Add Salaries Outstanding	<u>750</u>	Utility bill	20,040
	<u>582,120</u>	Conferences	<u>14,580</u>
6. Interest		8. Other Expenses	<u>439,830</u>
Per Trial balance	5,740	Per trial balance	25,620
Interest Payables	<u>1,793</u>	Less advance payment	<u>(1,105)</u>
	<u>7,533</u>		<u>24,515</u>
10. Receivables		9. Work in Progress	
Per Trial Balance	208,570	Per trial balance	20,520
Interest	2,055	Less completed portion	<u>(2,000)</u>
Other expenses paid in advance	<u>1,105</u>		
	<u>211,730</u>		<u>18,520</u>

7. CONSUMPTION OF FIXED ASSETS				
	Motor Vehicle GH¢'000	Fixtures, Furniture & Fittings GH¢'000	Building & Structures GH¢'000	Total GH¢'000
Cost	61,180	25,000	119,200	
Less:				
Acc. Depn	(18,220)	(10,000)	(7,450)	
Current charged	<u>(6,118)</u>	<u>(5,000)</u>	<u>(2,412)*</u>	<u>(13,530)</u>
NBV	<u>36,842</u>	<u>10,000</u>	<u>112,138</u>	<u>158,980</u>

The figure is determined as follows =2,384 + 28

(Total: 20 marks)

EXAMINER'S COMMENTS

Question two was on the preparation and presentation of financial statements for a Municipal Assembly. The standard of the question is very good and the marks assigned to the task are consistent with the syllabus weight. It tested Candidates' knowledge in applying accrual concepts, including revenue received in advance, accrued expenses, inventory and depreciation. The examiners are encouraged to test students on how to disclose budget information in the financial statement under IPSAS 24, as this is unique to the public sector. This will enable candidates to develop

a holistic understanding of financial reporting in the public sector, where budgeting is a legal requirement.

QUESTION THREE

a) The PEFA Framework (Scope)

The PEFA framework is a methodology for assessing and reporting on the strengths and weaknesses of public financial management (PFM) performance. It identifies 94 characteristics (dimensions) across 31 key components of PFM (indicators) in 7 broad areas of activity (pillars).

The outcome of the performance assessment, the PEFA report, provides the basis for dialogue on PFM reform strategies and priorities. The methodology can be replicated in successive assessments, giving a summary of changes over time as well as providing a pool of information that contributes more broadly to research and analysis of PFM

PEFA Goals

- The goals of the PEFA Program are to strengthen capacities to assess the status of country PFM systems and develop a practical sequence of reform and capacity development actions, in a manner that:
- Encourages country ownership.
- Reduces the transaction costs to countries.
- Enhances donor harmonization.
- Allows monitoring of progress of country PFM performance over time.
- Better addresses developmental and fiduciary concerns.
- Leads to improved impact of reform.

(10 marks)

b)

i) Computations of ratios (*all in GH¢ 000*)

	2022	2021
Common Fund per Capita =	$\frac{60\% * \text{GH¢ } 31,995}{180 \text{ people}}$	$\frac{50\% * \text{GH¢ } 39,675}{175 \text{ people}}$
$\frac{\text{Common Fund}}{\text{Population}}$	=106.65/person	= 113/person
IGF per Capita = $\frac{\text{IGF}}{\text{Population}}$	$\frac{\text{GH¢ } 27,150}{180 \text{ people}}$	$\frac{\text{GH¢ } 27,750}{175 \text{ people}}$
	=150.83/person	= 158.57/person

Compensation of employees to Total Revenue =	$\frac{\text{GH}\text{c } 30,450 * 100}{\text{GH}\text{c } 78,345}$	$\frac{\text{GH}\text{c } 44,700 * 100}{\text{GH}\text{c } 80,175}$
$\frac{\text{Compensation}}{\text{Total Revenue}} * 100$	=38.87%	=55.75%
Interest to IGF Ratio =	$\frac{\text{GH}\text{c } 15,690 * 100}{\text{GH}\text{c } 27,150}$	$\frac{\text{GH}\text{c } 29,490 * 100}{\text{GH}\text{c } 27,750}$
$\frac{\text{Interest}}{\text{IGF}} * 100$	=57.79%	=106.27%

SUMMARY OF RATIOS

RATIO	2022	2021
Common fund per Capita	106.65/person	113/person
IGF per Capita	150.63/person	158.57/person
Compensation of employees to Total Revenue	38.87%	55.75%
Interest to IGF Ratio	57.79%	106.27%

(1 mark for each ratio = 4 marks)

ii) Report

Financial Statement Analysis and Discussion for the Period 2021 -2022

Introduction

In this report, the Financial Statement of the District Assembly is analyzed and discussed. The analysis is based on the result of some financial ratios computed using 2021 and 2022 financial report as shown above. The theme of the analysis is Financial Performance.

Analysis and Discussion

The Financial Performance of the Assembly was assessed under 2021 and 2022 using total revenues and expenditure ratios. The average revenue mobilisation capacity of the Assembly reduced between 2021 to 2022 as shown by IGF per capita which reduced from GH¢ 158.57 per person in 2021 to GH¢ 150.63 per person. Common Fund per capita also reduced from GH¢ 113 per person to GH¢ 106.65 per person.

In the case of Revenue that comes from the Central Government (Decentralised Transfer) in relation to Total Revenue from 2021 to 2022 from 49.49% to 40.84%. This could be as a result of the financial difficulty the Central Government is experiencing in 2022, on the part of Central Government it has almost maintained the Common Fund it has been releasing to the Assembly in terms of total revenue. This is evidenced from 2021 when Common Fund to Total Revenue stood at 24.74% and 2022 at 24.50%.

The assembly on the average experienced low revenue generation from 2021 to 2022 on the part of expenditure, the assembly was able to control some expenditure and had it reduced. In 2021, Compensation to Total revenue used to be 55.75% meaning that the Assembly used 55.75% of total revenue to pay workers' salaries, but this was reduced to 38.87% in 2022.

Interest to IGF is very high, it used to be 106.27% of total IGF but this is managed to reduced it to 57.79%, this has seen much improvement.

However, the Assembly's Performance in managing Good and Services as expenditure has not been effective in 2021, Goods and Services Expenditure to IGF was 55.43% meaning that the Assembly used 55.43% of her IGF to settle only Goods and Services Expenditure. This deteriorated in 2022 since Goods and Services Expenditure to IGF ratio was 77.39%

Conclusion

In conclusion, the Financial Performance of the Assembly deserve much attention since the Assembly has shown much weakness in the revenue mobilisation it has to improve and also it should devise measures to control its expenditure.

(1 mark each for introduction and conclusions. 1 mark for each ratio = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question had two sub-sections. The first sub-section, a), examined candidates on the scope and goals of the PEFA framework. The question was very clear and direct. Its quality is acceptable. The sub-section b) tested candidates on the discussion and analysis of the financial statement of public sector entities. They were required to compute given ratios from the financial statements of a Municipal Assembly and discuss the performance of the assembly based on the results. The question was very practical and insightful.

QUESTION FOUR

a)

i) An entity tender review committee shall perform the following functions:

- Review the activities at each step of the procurement cycle leading to the selection of the lowest evaluated bid or best offer by the procurement entity in relation to the particular procurement under consideration, in order to ensure compliance with this Act, its operating instructions and guidelines.
- Give concurrent approval or otherwise to enable the procurement entity continue with the procurement process.
- Participate in public procurement for a.
- Review decisions of heads of entities in respect of a complaint.

(4 points @ 1.5 marks each = 6 marks)

ii) Review of an entity tender review committee decisions

A procurement entity or tenderer aggrieved by the decision of a tender review committee may apply to the Board for the review of the decision of that tender review committee.

The Board shall take appropriate action and determine the grievance in accordance with section 80(3) or as it considers appropriate.

A tenderer or procurement entity that is dissatisfied with a decision of the Board may seek redress in court.

(4 marks)

b) Explanations:

i) Value for money

Value for money is paramount and PPPs should give greater value for money than the best realistic public sector project designed to achieve similar service outputs. Achieving value for money is a key requirement of government at all stages of a project's development and procurement and is a combination of the service outcome to be delivered by the private sector, together with the degree of risk transfer and financial implications for government. Value for money is the driver for adopting the PPP approach, rather than capital scarcity or the balance sheet treatment.

ii) Risk allocation

An efficient risk allocation is vital in determining whether value for money can be achieved in PPP projects. Government's principle with regards to risk allocation shall be used to optimize, rather than maximize, the transfer of project risks to the private party. Risks will therefore be allocated to the party best able to control and manage them in such a manner that value for money is maximized. The allocation of risk will therefore determine the chosen method of private sector involvement and allocation of responsibilities, which shall take into account the protection of the public interest.

iii) Ability to Pay

End user ability to pay shall be a key consideration for all PPP projects. The PPP option must demonstrate long-term affordability to the public and overall Government budgetary sustainability, forward commitments in relation to public expenditure and the potential for returns on private sector investment, given other priorities and commitments. Contracting entities shall consider end-user affordability as one of the key considerations in making decisions related to the feasibility of PPP Projects.

iv) Competition

As much as feasible all PPP projects should be subjected to a competitive process so as to obtain value for money and efficiency. Unless otherwise justified under relevant regulations, procurement methods for PPP shall at all times be based on a competitive selective criterion and where the Minister decides to institute a policy to allow Unsolicited Proposals, the Minister may only do so after making Regulations for Unsolicited Proposals, which must be consistent with the principles of PPP.

(1.5 marks each = 6 marks)

c) IPSAS 32: Service Concessions-Grantor

i) Financial Liability Model (FLM)

The financial liability model of recognition is applied where the grantor has an **unconditional obligation to pay cash or another financial asset** to the operator for the construction, development, acquisition, or upgrade of a service concession asset. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

- Specified or determinable amounts; or
- The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts, even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements

ii) Grant of Right to Operator Model (GROM)

Under GROM, the grantor accounts for the liability recognized in accordance with the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator. This model is applicable where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset. For example, an operator constructs a road and instead of receiving payment from government, the government gives the right to the operator to toll the road for 25 years and keep all or portion of the proceeds as recoupment.

(2 marks each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question is in three sub-sections. Sub-section a) examined the candidates on the functions of the Entity Tender Committee and the review procedures. The standard and quality of the question were appropriate, however, the examiner could have avoided the specific citing of the section and sub-sections of the law. This tends to confuse those candidates who have not memorised the sections of the law. The examiners are advised to craft ways of testing candidates' practical knowledge of the laws without the excessive quotation of details. The sub-section b) required candidates to explain some principles of Public Private Partnership (PPP). The question was clear, simple and direct. The standard is appropriate for the level of examinations. The last sub-section focused on accounting for PPP, testing candidates on the application of models for recognising liability resulting from a PPP arrangement. The standard of the question was very good.

QUESTION FIVE

a)

i) **National budgeting as a mandatory practice.**

National budgeting is a requirement of the 1992 Constitution, the Public Financial Management Act 2016, Act 921 and the Public Financial Management Regulations 2019, L.I.2378 as well entity specific enabling enactments. The Constitution, for example, imposes the responsibility of the President of the Republic to cause to be made estimates of revenues and expenditure of the country and lay it before Parliament within one month to the end of the current financial year. Similar provisions are found in PFM Act 2016. This leaves no discretion in public financial management for budgeting. It is further stated that no withdrawal can be made from the public funds without the approval of Parliament in the form of Appropriation Act, Supplementary budget approved or approval of expenditure in advance of appropriation. This shows clearly that national budgeting is a mandatory practice that every government must go through.

(4 marks)

ii) **Benefits of Budgeting**

Set priority in the Resource: The budgeting process assists government to consider national priority and effectively allocate the scarce public resources to activities and programmes throughout the public sector.

Effective planning and control: Budgeting helps government to plan and control effectively the activities and programmes of the government and the public sector as a whole. Without budgeting, there will be a lacuna between government plans and actions.

Effective coordinating of government activities: Budgeting process assist government to co-ordinate activities and programmes undertaken by the several public sector entities in order to achieve national goal congruence. It brings

together the separate subsystems of the public sector to enable them work together towards the achievement of the objectives of the government as a whole.

Communication tool: Budgeting serves as a means of communicating government plans and programme to the public administrators, employees and the public in general. The intention of government backed by legislative approval are best communicated through the budget.

Motivation by targets: Budget is full of targets that serve as a tool for motivation to managers and employees at all level of administration of the public sector. Budgets come with targets and key performance indicators that motivate the managers and employees to achieve these results. For example, revenue target of GHc50 billion in the budget would drive the effort of the Ghana Revenue Authority (GRA) throughout the budget period.

Monitor, evaluate and control performance: Budgeting system will only be complete if it facilitates monitoring, evaluating and controlling performance of programme, projects and activities carried out by the public sector entities based on the standards set in the budget.

Public accountability: Budgeting helps government to demonstrate accountability for the resources entrusted to it the citizens and court the trust of the citizens. The budget also allows the citizens the opportunity of assess government accountability so demonstrated.

Fiscal discipline: The budget acts as a check on government actions by exposing fiscal indiscipline through budget outturns.

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

b)

i) **Virement as a tool in public financial management.**

Virement refers to the reallocation of funds within the budget from one budget line to another budget line. It is the rearrangement of the budget provisions for subheads, items or sub-items or sub-sub-items within the ambit of a single head. Virement ensures that savings under one classification may be utilised to provide for extra expenditure under another without affecting the total funds to be disbursed from the head. The Minister may, on the request of a Principal Spending Officer, execute a virement in respect of an amount of money allocated to the covered entity of that Principal Spending Officer.

(3 marks)

ii) **Prohibition on the use of virement**

- Virement is not allowed if it will result in a future liability for the covered entity or government.
- A virement of funds allocated for wages and salaries in an expenditure vote shall not be made unless the virement is in respect of wages and salaries within that expenditure vote.

- A virement that involves a change in the spending plans approved for the current financial year is prohibited unless a prior written approval from the Minister received.
- A virement shall not be made from a capital expenditure to a recurrent expenditure;
- A virement shall not be made in respect of appropriated amounts between covered entities without the approval of Parliament in a supplementary estimate.
- Virement of money budgeted for utilities is prohibited.
- Virement is not allowed for new activities not captured in the budget.

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

c) Content of Fiscal Strategy Document

The Fiscal Strategy Document shall specify:

- The Medium-Term Fiscal Framework of the Government with measurable fiscal objectives and targets to guide short and medium term fiscal planning for the ensuing three to five year period, consistent with the fiscal principles and fiscal policy objectives of Government.
- An updated and comprehensive medium-term macroeconomic and fiscal forecast covering current developments and multiple year projections
- The MTEF of the Government with a resource envelope and overall expenditure ceiling.
- A statement of policy measures the Government shall implement in order to stay within the confines of the fiscal policy objectives.
- A comprehensive and quantified fiscal risk statement for the public sector showing the impact of alternative macroeconomic assumptions on the forecast fiscal balances, and quantified risks of guarantees, contingent liabilities and public private partnerships.
- The Medium-Term Debt Management Strategy including debt sustainability analysis and sensitivity analysis of macro-fiscal risk scenarios.
- A progress report on the implementation of the Fiscal Strategy Document for the previous financial year.
- The alignment of statutory and other earmarked funds to national macro-fiscal goals and targets.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was structured into three sub-sections. The first part focused on public sector budgeting in Ghana, testing candidates of the legislative framework and benefits of budgeting. The question was appropriate for the level of examination. The second part examined candidates on the importance of virement in public financial management and the prohibitions for its use. It was a very good question, which is appropriate for the level of examination. The final sub-section required the candidates to demonstrate knowledge of the content of a fiscal strategy document. The question is appropriate for the level of examination.

CONCLUSION

The quality of the questions administered was very high, and the time allocated to questions was explicit and appropriate. There was an increase in the performance of the candidates. The major weaknesses of the candidates are poor preparation for the examination and the inability to limit their responses to the requirement of the questions.

RECOMMENDATIONS

The following recommendations are made:

- Candidates should devote ample time to prepare for the examination. They are encouraged to patronise the tuition services of Partners in Learning (PIL) and also use the ICAG Study Text and Question Banks on the subject as the main reading material. A candidate should spend at least 6 hours a week on the subject, aside from attendance of lectures. These will equip the candidates well with the requisite knowledge and increase their chances of passing the paper.
- Candidates should also avoid the temptation of concentration on topic areas. Candidates are encouraged to have a fair knowledge of all topics in the syllabus, as they are equally examinable.
- Time management is key to passing the examination. Candidates are encouraged to allocate time to every question based on the mark or weight of the question. For example, a 10-mark question requires 18 minutes of response time. Most often, candidates spend too much time on financial reporting questions at the expense of other equally important questions.
- Those exempted from all subjects in level two except this paper should resist the temptation of under-rating it. The paper requires current knowledge and practical appreciation of public sector financial management issues. They are encouraged to prepare well irrespective of their previous background knowledge.