

**JULY 2024 PROFESSIONAL EXAMINATIONS
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

GENERAL COMMENTS

The quality of the test items contained in the question paper is of the highest standard, which is commendable. The questions accurately represent the weight allocation outlined in the syllabus and offer extensive coverage, nearly encompassing the entirety of the examination syllabus. The requirements of each question were explicitly outlined, with corresponding marks clearly indicated. The paper allows for 15 minutes of reading time prior to the start of the three-hour examination. Thus, the allotted time for the paper is suitable and aligns with the complexity of the questions.

However, the responses from the candidates were not encouraging, indicating poor preparation for the examination. The overall performance of candidates was below average, although there were some outliers who performed exceptionally well.

STANDARD OF THE QUESTIONS

Generally, the questions are of a very high standard, with wide coverage, clear requirements, consistency, and adequate allotted time. The paper consisted of five questions with sub-questions and sub-sub-questions, ensuring comprehensive coverage. The questions were reflective of the appropriate level of knowledge the syllabus focuses on. Interestingly, about 60% of the questions are familiar, suggesting that similar questions have been asked in past examination diets.

In terms of cognitive level, the questions aligned with Bloom's Taxonomy, specifically focusing on application and analysis, in line with the learning outcomes outlined in the syllabus. However, it is encouraged that examiners continually explore innovative approaches to crafting questions that are engaging and relevant to candidates' real-world experiences. Using straightforward language and expressions in constructing test items is recommended.

Examiners are also advised to minimise the excessive quoting of financial management laws in questions, as this could introduce unnecessary legal complexity. Instead, the focus should be on assessing candidates' general understanding and application of relevant public financial management legislation.

PERFORMANCE OF CANDIDATES

General Performance Analysis

Despite the familiarity rate and the clarity of the question, the overall performance of the candidates was not encouraging. However, some exceptional performance was attained by some candidates. The unsatisfactory performance may be attributable to poor preparation towards the examination. It begs explanation when some candidates scored very high marks and others were scoring below 10% in the examination. This underscores the notion that candidates who are well-prepared are more likely to

succeed in the Institute's examinations and that an ill-prepared candidate can never escape the gate-keeping mechanisms of the Institute.

GENERAL WEAKNESSES OF CANDIDATE

Several weaknesses among candidates have been consistently observed in their responses over time:

- **Inconsistency with Question Requirements:** Candidates often fail to provide responses that align with the specific requirements of the questions. While some responses may address the subject matter, they do not directly answer the question posed. However, in the current examination session, there has been a significant reduction in such cases, leading to improved performance among candidates.
- **Limited Coverage of Syllabus:** Some candidates exhibit a narrow focus on certain topics, such as the preparation of financial statements, neglecting other areas covered in the syllabus. Consequently, they may struggle to attempt all questions in the examination, reducing their chances of success. Notably, candidates who start well in the first few questions may experience a decline in performance as they progress through the paper.
- **Poor Time Management:** Several candidates struggle with time management during examinations, spending excessive time on certain questions, often those related to financial statement preparation. As a result, they may not complete the paper within the allocated time frame.
- **Disorganised Responses:** Some candidates fail to communicate their ideas effectively and organise their responses professionally. This includes mixing up sub-questions in their presentation, making it challenging for examiners to follow their responses. Candidates are reminded to adhere strictly to instructions provided in the answer booklets and present their responses in a clear and organised manner.
- **Lack of Knowledge:** There are instances where candidates appear to have little to no preparation for the examination, resulting in responses that demonstrate a complete lack of understanding of the subject matter. However, given the rigorous nature of the examination process conducted by ICAG, such candidates are unlikely to pass. Prospective candidates are advised to avoid entering the examination unprepared as it is unlikely to yield positive outcomes.
- **Scripts and question identifications:** The script are identified by index numbers but some candidate could not indicate their correct index numbers which makes it difficult for processing of examination outcomes. Again, some candidate mis-numbered or unnumbered their questions, which makes marking of the questions difficult

QUESTION ONE

- a) In the Public Sector, there are a number of approaches or techniques applied in keeping or processing financial statements. These techniques include *vote accounting* or *appropriation accounting*, *commitment accounting* and *fund accounting*.

Required:

Describe these techniques as used in public sector accounting. **(10 marks)**

- b) To strengthen internal and external scrutiny for effective accountability in public financial management, the role of internal and external auditors is very important. In this regard, Internal Audit Agency Act 2003 (Act 658) and the Audit Service Act 2000 (Act 584) were passed to regulate and strengthen the practice of internal auditing and external auditing in the public sector of Ghana.

Required:

- i) Outline **FOUR (4)** functions of the Internal Audit Agency under the law. **(4 marks)**
ii) Discuss **FOUR (4)** responsibilities of the Audit Service under the Audit Service Act, 2000 (Act 584). **(6 marks)**

(Total: 20 marks)

QUESTION TWO

The following Trial Balance was extracted from the records of the Consolidated Fund for the year ended 31 December, 2022

	Debit	Credit
	GH¢'million	GH¢'million
Corporate taxes		32,000
Personal income tax		21,000
Taxes on general goods and services		40,200
Import duties		44,000
Export Duties		12,000
Capital gain and other taxes		6,000
Communication Service Tax		23,000
Royalties		4,600
Fees and Charges		18,800
Investment income		2,100
Grants	3,000	28,000
Established position salaries	63,000	
Casual labour	20,000	
Travel allowance	4,000	
Travel and transport	14,000	
Utilities	8,000	
Utility allowance	2,500	
Training, Seminar and Conferences	10,000	
Printing materials and stationery	1,000	
Car maintenance allowance	650	
Interest on Domestic Debt	26,000	
Interest on External Debt	37,000	
External debt		520,000
Domestic debt		440,000
Payables		129,000
Receivables	17,600	
Motor vehicles	320,000	120,000
Land and buildings	900,000	290,000
Furniture	250,000	42,000
Long term investment	160,000	
Cash and cash equivalent	50,000	
Subsidies	1,200	
Social benefits	2,800	
Other expenses	26,000	
Accumulated Fund	-	144,050
	<u>1,916,750</u>	<u>1,916,750</u>

Additional Information:

- 1) The financial statements are prepared in accordance with International Public Sector Accounting Standards, the Public Financial Management Act, 2016 (Act 921) and the Chart of Accounts of Government of Ghana.

- 2) Fifty percent (50%) of the grant received relates to a Social Safety Network Programme sponsored by donor partnership. The condition of the grant is to ensure full implementation of the programme. Even though the grant has been received by government, the programme is yet to be implemented fully. The transaction should be accounted for in line with **IPSAS 23: Revenue from non-exchange transaction (taxes and transfer)**.
- 3) An amount of GH¢6,000,000,000 is owed to employees of NABCO Programme and the amount remained unpaid at the end of the year.
- 4) A debt arrangement by the government has resulted in debt forgiveness for the country. The external creditors have written off 40% of the debt without conditions. The transaction is yet to be accounted for.

- 5) The following inventory exist at the end of the year.

Inventory Type	Cost GH¢'million	Net Realisable Value GH¢'million	Replacement Cost GH¢'million
Printing material (not for sale)	200	210	195
Office consumable (not for sale)	50	60	70

- 6) Consumption of fixed capital for the year are charged on straight line basis as follows:
- | Non-current assets | Estimated Useful Life |
|---------------------------|------------------------------|
| Motor vehicles | 5 years |
| Land and building | 20 years |
| Furniture | 4 years |
- 7) Due to the current economic condition, the long-term investment of government was impaired by 20%.

Required:

- a) Prepare in compliance with the International Public Sector Accounting Standards, the Public Financial Management Act 2016 and the Chart of Accounts of Government of Ghana:
- i) A Statement of Financial Performance of the Consolidated Fund for the year ended 31 December, 2022.
- ii) A Statement of Financial Position of the Consolidated Fund as at 31 December, 2022. **(17 marks)**
- b) Discuss **TWO (2)** advantages of classifying expenses by function in the preparation of statement of financial performance of an entity. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

- a) The Public Expenditure and Financial Accountability (PEFA) framework is a tool used to measure Public Financial Management (PFM) performance of countries across the globe.

Required:

- i) Explain the two alternative methods used in scoring the indicators under the PEFA performance assessment. **(4 marks)**
- ii) Discuss **FOUR (4)** limitations of the PEFA framework. **(6 marks)**
- b) The following financial information on the Consolidated Fund for the year 2023 has been generated from the GIFMIS platform and published by the Controller and Accountant General Department (CAGD).

**Central Government
Financial Performance Statement for the year ended 31 December, 2023**

	2023		2022
	Budget GH¢' million	Actual GH¢' million	Actual GH¢' million
REVENUE			
Direct Tax	29,933	27,710	24,339
Indirect Tax	26,572	31,012	25,936
Non-tax	14,507	9,499	6,071
Grants	<u>1,465</u>	<u>2,455</u>	<u>3,560</u>
	<u>72,477</u>	<u>70,676</u>	<u>59,906</u>
EXPENDITURE			
Compensation of Employees	31,001	35,862	31,899
Goods and Services	30,425	13,749	15,560
Interest	35,864	33,996	24,961
Government Subsidies	667	1,379	1,450
Exchange Difference	-	12,011	9,432
Social Benefits	1,965	126	1,207
Other Expenses	2,476	3,542	4,534
Foreign Financed Investments	-	1,931	5,942
Consumption of Fixed Assets	<u>-</u>	<u>2,359</u>	<u>1,381</u>
	<u>102,398</u>	<u>104,955</u>	<u>96,366</u>
DEFICIT	(29,921)	(34,279)	(36,460)

Required:

- i) Prepare a Budget Performance Statement for the year 2023. **(5 marks)**
- ii) As the head of the National Accounts Directorate of the CAGD, prepare a report for discussion at an upcoming PFM forum analysing the actual performance of Central Government for 2022 and 2023 financial years on the following areas: *Indirect Tax Revenue, Non-Tax Revenue, Goods & Services* and *Deficit Balance* **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) You are the Deputy Head of Finance of a Regional Health Directorate (category D entity) under the Ghana Health Service. The Head of Finance requested you to represent him at the Entity Tender Committee meeting of your organisation. At the meeting, members present were unclear about the position of the procurement law on the following issues:
- i) The membership composition of Regional Health Directorate Entity Tender Committee. **(3 marks)**
 - ii) The approving authorities of the various procurement thresholds for Ministries, Departments and Agencies. **(2 marks)**
 - iii) Conditions under which a Procurement entity shall not make a claim to the amount of a tender security and shall promptly return or procure the return of the tender security document. **(4 marks)**

Required:

Present a memo to the Chairman of the entity tender committee on the issues stated above as per the provisions under the Public Procurement (Amendment) Act, 2016 (Act 914).

(Note: 1 mark for structure of the memo)

- b) Community Water and Sanitation Agency under The Ministry of Sanitation and Water Resources is currently considering Public Private Partnership (PPP) as a means of improving water and sanitation situation in rural areas. The Agency intends to use Public Private Partnership to construct and manage water supply in rural areas to increase access to quality drinking water. The project will be fully financed by the private sector and will be constructed on lands secured by Government from the chiefs of the community.

The private sector requires government guarantee to borrow externally to execute the projects. Currently, water supply in rural areas are free to the communities, however the new project when executed through PPP will be on user-pay basis. The average fee payable per user will depend on the user consumption per period and this will be subjected to upward review from time to time. In order to stimulate the private sector interest in the project, the Agency intends to exempt the private sector against the risk associated with the project. Meanwhile, the Agency will insist that local materials and skills are employed in the construction and management of the project. The project when completed will be of great benefit to the country as a whole.

Required:

Explain the feasibility or otherwise of the proposed water project using **FOUR (4)** guiding principles of PPP. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) National budgeting involves series of processes and activities, of which budget authorisation and budget approval are critical.

Required:

- i) Explain the difference between budget authorisation and budget approval in the national budgeting process of Ghana. **(3 marks)**

- ii) Describe the major activities involved in:

- Budget authorisation
- Budget approval **(6 marks)**

- b) In designing internal control over revenues, one must consider the broader elements of internal control as provided by the COSO framework of integrated internal control.

Required:

Explain the implications of the following elements for revenue control policy:

- i) Control environment
- ii) Risk assessment
- iii) Information and communication **(6 marks)**

- c) The Director of Finance of Wakye District Assembly, failed to submit financial statements as mandated by the Public Financial Management Act 2016, Act 921. In defence of his inaction, he argued that *“there is nothing there to report upon and, in anyway, the Assembly is not a reporting entity”*.

Required:

Evaluate the assertion of the Director of Finance in light of the Conceptual Framework of General-Purpose Financial Reporting in the public sector. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a) **Vote Accounting**

It is also known as appropriation accounting. This is a form of accounting system for the Public Sector in which the financial records are based on budgetary estimate approved by Parliament. The vote or appropriation accounting system present report based on the concept of appropriation where funds are voted or appropriated by legislature for various organizations. Under this system, records are kept for receipts and payments in accordance with the vote or appropriations approved by Parliament. Where a reporting entity spend less than has been voted for in the budget year, the balance is surrendered by paying it back to chest. It is generally unlawful for the reporting entity to spend in excess of the amount appropriated unless there is an approved supplementary appropriation. But if the entity spends more than has been voted for in the budget, generally the estimate for the next period is reduced by the amount. However, if an item of expense with a given line estimate is underspent; surplus can be transferred to supplement an overspent item within the same line estimate. The process of transferring funds within a line item is termed virement.

The practice of vote or appropriation accounting is supported by International Public Sector Accounting Standards (IPSAS). IPSAS 24: *Presentation of Budget Information in Financial Statements* provides guidance on the disclosure of budget information in financial statements prepared and presented by public sector entities. **(4 marks maximum)**

Commitment accounting

This is the accounting technique that attempts to recognise and report expenses once an expenditure decision is made. In other words, as soon as a decision is made for the acquisition of a service or an item, cash is set aside to meet such cost and such committed expense is included in the reports. As soon as a commitment is made or an obligation is established or entered into, relevant entries are made in the books of accounts. Financial transactions are therefore recorded as soon as commitments are made. A transaction is recognised once the policy decision is made for the acquisition of the service.

A practical situation is when orders are made for some acquisitions. Once the purchase order is made, entries are expected to be made to reserve funds for the items. Though no legal obligation has arisen at this stage, hence no liability, an encumbrance entry is made, reserving the necessary amount of money for the settlement of the order when delivery is made. When the order is met, the encumbrance entries are reversed and actual double entries made for the receipt of the good or services, with payment made immediately or later subject to raising the necessary documentation.

A major feature, which is an advantage, is that it enables budgetary control and efficient treasury management since with this approach uncommitted budget funds are clearly highlighted, enabling budget managers or vote controllers to effectively plan other commitments and disbursements.

A major problem is that it can often encourage end- of -year rush spending as uncommitted resources are often expected to lapse. Rush orders for inappropriate services can be made for the purpose of committing unused cash balances, just to make sure that funds are used. **(3 marks maximum)**

Fund accounting

Fund accounting is the approach or technique of accounting which reports in terms of funds rather than in terms of organization. In this sense, a fund is a reporting entity and the financial reports generated are in respect of the fund. A fund is defined as a self-balancing unit in respect of which separate reports are generated. For each fund, separate books are kept, separate bank accounts are maintained and separate financial statements are generated. Generally, funds are not comingled. The 1992 constitution of Ghana creates the consolidated fund, the contingency fund and authorizes parliament to have the liberty to create other funds through acts of parliament or legislative instruments. A number of funds have been created by parliament: The Ghana Education Trust fund (GETFund), The District Assemblies Common Fund (DACF), Road Fund, Petroleum Holding Fund, Heritage Fund, Stabilization Fund, Ghana Infrastructure Investment Fund (GIIF), Sinking Fund, The National Health Insurance Scheme Levy etc.

(3 marks maximum)

b)

i) The Internal Audit Agency is required by law to:

- Co-ordinate internal audit among MDAs and MMDAs
- Facilitate internal audit among MDAs and MMDAs
- Provide quality assurance services for internal audit activities within MDAs and MMDAs
- Set standards and procedures for the conduct of internal audit activities in MDAs and MMDAs
- Ensure that accurate, reliable, and timely financial, managerial and operating information is reported internally and externally;
- Ensure that the financial activities of MDAs and MMDAs follow laws, policies, plans and standards;
- Ensure that national resources are safeguarded;
- Ensure that national resources are used economically, effectively and efficiently;
- Ensure that plans, goals and objectives of MDAs and MMDAs are achieved.

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

ii) Audit Service is responsible for:

- Auditing all public accounts of Ghana
- Auditing of foreign exchange transactions
- Auditing of statutory corporations

- Performing special investigations and audits
- Submitting, through Auditor General, audited report to Parliament six months after the end of the year. **(Any 4 points @ 1.5 marks each = 6 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was fairly answered by candidates. Some candidates demonstrated an impressive appreciation of the techniques and showed mastery in their responses. However, other candidates found it difficult to explain the techniques professionally. It was observed that some candidates used social examples to explain public financial management phenomena. It is essential to note that all examples and illustrations should relate to the public sector, not personal or social issues. Candidates should desist from such practices.

The question on the responsibilities of the Internal Audit Agency and the Audit Service was not well answered, despite its familiarity to the candidates. Many candidates misconstrued the Internal Audit Unit with the Internal Audit Agency, providing responses that suited the functions of the Internal Audit Unit. Candidates should note that the Internal Audit Agency is an oversight body for internal audit in the public sector, aiming to ensure that internal audit functions are effectively performed within the covered entities. Additionally, many candidates did not appreciate the role of the Audit Service in public financial management, with some even writing that the Audit Service is responsible for financial reporting in the public sector. Candidates should learn the roles of these institutions in public financial management.

QUESTION TWO

a)

Statement of Financial Performance for the year ended December 31 2022

	GH¢ million
Revenue	
Direct tax	59,000
Indirect tax	119,200
Non-Tax	25,500
Grants	<u>222,000</u>
	<u>425,700</u>
Expenses	
Compensation for employees	96,150
Goods and Services	32,755
Consumption of fixed capital (or exclude impairment)	203,500
Interest	63,000
Grants	3,000
Subsidies	1,200
Social benefit	2,800
Other expenses (or include impairment)	<u>26,000</u>
	<u>428,405</u>
	<u>-2,705</u>

Statement of Financial Position as at 31 December 2022

	GH¢ million	GH¢ million
Non-current Assets		
Property Plant and Equipment		846,500
Long term investment		<u>128,000</u>
		974,500
Current Assets		
Inventory	245	
Receivable	17,600	
Cash and cash equivalent	<u>50,000</u>	<u>67,845</u>
		<u>1,042,345</u>
Liabilities and Fund		
Payable		135,000
Grant deferral		14,000
Domestic debt		440,000
External debt		<u>312,000</u>
		901,000
Accumulated fund		<u>141,345</u>
		<u>1,042,345</u>

Workings:**GH¢ million****Direct Taxes**

Corporate taxes	32,000
Personal income taxes	21,000
Capital gains and other taxes	<u>6,000</u>
	<u>59,000</u>

Indirect

Taxes on general goods and services	40,200
Import duties	44,000
Export duties	12,000
Communication service tax	<u>23,000</u>
	<u>119,200</u>

Non tax

Royalties	4,600
Fees and charges	18,800
Investment income	<u>2,100</u>
	<u>25,500</u>

Grants

Trial balance (50% of 28,000)	14,000
Debt forgiveness (40% of 520,000)	<u>208,000</u>
	<u>222,000</u>

Compensation for employees

Established post	63,000
Casual labour	20,000
Travel allowance	4,000
Utility allowances	2,500
Car maintenance allowance	650
Salary outstanding	<u>6,000</u>
	<u>96,150</u>

Goods and services

Travel and transport	14,000
Utilities	8,000
Training, seminar and conferences	10,000
Printing materials and stationery	1,000
Closing inventory of printing materials	-195
Closing inventory of office consumable	<u>-50</u>
	<u>32,755</u>

Interest

Domestic debt interest	26,000
External debt interest	<u>37,000</u>
	<u>63,000</u>

Non-current Asset Schedule

	Motor vehicle GH¢'m	Land & Building GH¢'m	Furniture GH¢'m	Equity Investment GH¢'m	Total GH¢'m
Cost					
Balance brought forward	320,000	900,000	250,000	160,000	1,630,000
Consumption of fixed capital					
Balance brought forward	120,000	290,000	42,000	0	452,000
Charge/impairment for the year	<u>64,000</u>	<u>45,000</u>	<u>62,500</u>	<u>32,000</u>	<u>203,500</u>
	<u>184,000</u>	<u>335,000</u>	<u>104,500</u>	<u>32,000</u>	<u>655,500</u>
Carrying Amount	<u>136,000</u>	<u>565,000</u>	<u>145,500</u>	<u>128,000</u>	<u>974,500</u>

GH¢ million

Payable

As per trial balance	129,000
Salary outstanding	<u>6,000</u>
	<u>135,000</u>

Inventory

Printing material	195
Office consumable	<u>50</u>
	<u>245</u>

Accumulated Fund Balance

Balance brought forward	144,050
Surplus	<u>-2,705</u>
	<u>141,345</u>

(68 ticks maximum @0.25 = 17 marks)

- b) Classification of expenditure by function for purposes of financial reporting has the following advantages:
- It provides useful financial information about the major functions of governments by showing the amount spent on each function. Thus, it links government expenditure to the execution of function of government.
 - It reveals the functional priority of the government and the users may use the information to demand reforms and focus of government. For example, a government that spends 50% of its moneys on defence will be exposed by the financial report and this may trigger national debate.
 - The users are likely to understand expenditure classified by function such as education and health than those classified by nature such as compensation for employees.

(Any 2 points @ 1.5 marks = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The performance in question 2 (a) was exceptionally good, with most candidates scoring between 8 marks and 18 marks. Nevertheless, there were some weaknesses in the responses. Some candidates could not accurately classify the expenses in line with the chart of accounts. The treatment of impairment of investment and debt forgiveness also posed challenges to some candidates. Additionally, some candidates could not prepare the non-current asset schedule correctly. Surprisingly, some candidates did not attempt the question at all, either due to a lack of time or knowledge.

The question on the advantages of function classification of expenses for financial reporting was unpopular with the candidates, although a few did exceedingly well. It was also observed that many candidates did not attempt the question at all, likely because they were focused on the question about preparing financial statements and unfortunately lost sight of this question.

QUESTION THREE

a)

i) Methods of scoring the PEFA assessment performance indicators.

M1 METHOD - Weakest Link Method

The M1 method is applied for multidimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimension(s) of the same indicator. Under this method, the indicator is assigned the score of the lowest dimension, but a “+” is added if one of the other dimension scores is higher.

This method is used for indicators with connected or related dimension.

(2 marks)

M2 METHOD - Average Method

The M2 method is applied for multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of higher scores on other dimensions of the same indicator. Because it applies equal weighting to each of the dimension scores within the indicator, the M2 method is also referred to as the “averaging method.”

The method is used for indicators with unrelated dimensions.

(2 marks)

ii) Limitation of the PEFA framework

- **Geographic Bias:** The PEFA data set is biased toward poorer regions and smaller countries, which are overrepresented compared with higher-income regions and larger countries
- **Snapshot of Performance:** The PEFA framework only provides a snapshot of PFM performance; more specialized tools are often required to provide in-depth analysis such as for example, IMF’s Public Investment Management Assessment (PIMAs) and Fiscal Transparency Evaluation (FTEs), the World Bank’s Debt Management Performance Assessment (DeMPA) and others.

There is also considerable debate in the PFM Community about whether PEFA performance indicators accurately measure the PFM performance and whether these performance indicators matter for fiscal policy, service delivery and other important government functions.

- **Time Inconsistencies:** While one of the biggest advantages of PEFA is that it allows changes in scores to be monitored over time, PEFA assessments typically are carried out every three to five years. The timing of successive assessments varies widely across countries. Therefore, there is no consistent timing of the data collected.
- **Comparison Over Time:** The PEFA framework has changed over time, with the most significant changes occurring between the 2011 and 2016 frameworks. PEFA 2016 provides a more robust assessment of PFM performance and covers new

areas of performance that were not included in the previous versions. These areas include macro fiscal forecasts, a medium-term fiscal strategy and outlook, a medium-term perspective in expenditure budgeting, and public assets and investment management. Thus, comparison over time is not possible for the new and revised performance indicators.

- **Publicly Available Data:** Not all PEFA assessments are publicly available. Only about two-third of PEFA assessments have been made publicly available through PEFA Secretariat website. In some cases, the failure to publish is simply due to delays, while in other cases, the government has chosen not to publish the report
- **PEFA Not an End:** Despite guidance from the PEFA Secretariat, many countries and donors treat improvement in performance ratings as an end in themselves. PEFA scores should be considered as one input of many in any PFM reform process.

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

b)
i)

**Central Government
Budget Performance Statement for the year 2023**

	2023		2022	
	BUDGET	ACTUAL	Variance	
	GHC' Million	GHC' Million	GHC' Million	%
REVENUE				
Direct Tax	29,933	27,710	2,223	7.43
Indirect Tax	26,572	31,012	(4,440)	-16.71
Non-tax	14,507	9,499	5,008	34.52
Grants	1,465	2,455	(990)	-67.58
	72,477	70,676	1,801	2.48
EXPENDITURE				
Compensation of Employees	31,001	35,862	(4,861)	-15.68
Goods and Services	30,425	13,749	16,676	54.81
Interest	35,864	33,996	1,868	5.21
Government Subsidies	667	1,379	(712)	-106.75
Exchange Difference	-	12,011	(12,011)	n/a
Social Benefits	1,965	126	1,839	93.59
Other Expenses	2,476	3,542	(1,066)	-43.05
Foreign Financed Investments	-	1,931	(1,931)	n/a
Consumption of Fixed Assets	-	2,359	(2,359)	n/a
	102,398	104,955	(2,557)	-2.50
DEFICIT	(29,921)	(34,279)	4,358	-14.57

(50 ticks @ 0.1 marks = 5 marks)

ii) **Report on the actual performance of Central Government for 2022 and 2023 financial years**

Introduction

This report compares the actual performance of the central government for the 2022 and 2023 financial years, based on trend analysis.

Indirect Tax Revenue

There was an appreciable increase of 19.6% in indirect tax revenue in 2023 compared to 2022. This increase could be attributed to several factors, including higher citizen spending on goods and services and an increase in indirect taxes such as VAT, which rose from 12.5% to 15%. However, the contribution of indirect tax revenue to total government revenue remained relatively stable at 43.8% in 2023 and 43.29% in 2022, indicating no significant change.

Non-Tax Revenue

Non-tax revenue, which mainly comes from the sale of goods and services by covered entities and revenue from fines and penalties, increased significantly by 56% over 2022. This rise could be due to higher fees and charges, expansion in services and goods sold by covered entities, or more breaches of laws and regulations resulting in more fines and penalties. The contribution of non-tax revenue to total government revenue was 13.44% in 2023, up from 10.13% in 2022, indicating better performance in 2023.

Goods & Services

Goods and services expenditure in 2023 decreased by 11.6% compared to 2022. This reduction could be due to insufficient releases to covered entities. In terms of the proportion of government revenue utilized, goods and services expenditure was 19.45% in 2023 and 25.97% in 2022, indicating that the government spent less on service delivery in 2023 compared to the previous year.

Deficit Balance

The government deficit balance improved, decreasing by 5.98% in 2023 compared to 2022. Not only was the deficit balance better in 2023 per the trend analysis, but it also improved in relation to total government revenue for the two years. The government deficit balance for 2023 was 48.5% of total revenue, 12 percentage points below that of 2022. This impressive result could be due to measures the government instituted in expenditure control, such as using the GIFMIS system, among other initiatives.

(1 mark each for each item discussed =4 marks; format of a report 1 mark=1 mark. Total = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was very popular with candidates, and most answered it satisfactorily. However, some challenges were observed in the responses to question 3 (b). Some candidates could not indicate whether the variances or outturns were favourable or unfavourable. Candidates should be guided by the principle that when actual revenue exceeds the budgeted revenue, the variance is said to be favourable, and the converse is true for expenses.

The question required candidates to write a report in question 3 (b ii), but most candidates failed to comply with the format, causing them to lose some marks allotted for the format. Candidates should always present their responses in the required format, if any.

QUESTION FOUR

a)

MEMO

To: Head of Finance

From: Deputy Head of Finance

Subject: Clarification on Procurement Related Matters

Mr. Chairperson, with reference to the Public Procurement (Amendment) Act, 2016 (Act 914) I would like to make the following submissions on the three issues under discussion:

The membership composition of Regional Health Directorate Entity Tender Committee falls under category D entities under “Regional Offices of subvented agencies and Government Departments” which is made up of:

- Head of the Entity (Regional Director of Health Services)
- Head of Finance
- Attorney from Attorney General’s Office
- 3 Heads of Department including user department
- Representative from Regional Coordinating Council
- Head of Procurement Unit

(1 mark each for any three points = 3 marks)

The law classifies covered / procurement entities into categories for the purpose of procurement activities under the Public Procurement (Amendment) Act, 2016 (Act 914). **The approving authorities of procurement thresholds for Ministries, Departments and Agencies and other covered entities** are grouped as follows:

- Entity Head
- Entity Tender Committee
- Central Tender Review Committee

(1 mark each for any 2 approval thresholds stated= 2 marks)

Conditions under which a Procurement entity shall not make a claim to the amount of a tender security and shall promptly return or procure the return of the tender security document.

- the expiry of the tender security;
- the entry into force of a procurement contract and the provision of security for the performance of the contract, if the security is required by the invitation documents;
- the termination of the tendering proceedings without the entry into force of a procurement contract; or
- the withdrawal of the tender prior to the deadline for the submission of tenders.

(1 mark for each point, 4 marks)

Mr. Chair, the above are my submissions to assist further deliberations on the various issues raised.

Thank you

(1 mark for format)

Total: 10 marks.

b) Feasibility of the Water PPP project in light of PPP guiding principles:

- **Value for Money:** It states that the project should be cheaper when executed by PPP than when executed from the public entity. In this case, the private sector will provide all the financing for the project and therefore the Agency would not spend any money on the project. Thus, value for money is ensured in the proposal.
- **Risk Allocation:** The risk associated with PPP projects should be shared by the public entity and the private entity, or best the public entity should transfer the risk to the private sector. In this case, the Agency proposes to immune the private sector of risk associated with the project and this is contrary to the guiding principles. The risk identified should be shared or transferred to the private sector.
- **Ability to Pay:** Affordability of the service is paramount in PPP consideration. Existing water supply are free throughout the rural areas and introducing PPP will mean paying per user consumption in a period. This is likely to make the services unaffordable. On count of ability to pay the project is likely to fall flat.
- **Local Content and Technology Transfer:** The project proposes the use of local materials and skills which met the requirement of the PPP guiding policy.
- **Environment, climate and social safeguards:** The project is environmentally friendly and therefore the project meets the requirement of the guiding policy.

In conclusion, the PPP may be a feasible option to the supply of water to the community if the ability to pay factor would be reconsidered to ensure that the water supply is available and affordable to all people.

(Any 4 points @ 2 marks each = 8 marks: Conclusion statement = 2 marks: = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Section (a) of the question received very poor responses due to its recall nature. Most candidates could not indicate the composition of the entity tender committee of the Regional Health Directorate, likely because they may not be familiar with the schedules containing the composition of entity tender committees for sub-vented organizations. Similarly, most candidates could not provide the approval authority of thresholds as required by the question. Many of them mistook the question to be about the thresholds of procurement methods and therefore wrote about the monetary thresholds rather than the approving authority. The conditions for non-claim for tender security were also poorly answered.

The question on the feasibility of a PPP arrangement for a water and sanitation improvement project was fairly answered by most candidates. Some candidates succinctly explained the guiding principles of PPP but could not link them to the case

study provided, resulting in loss of marks. Some candidates also mixed up the guiding principles with the governing principles of PPP, which resulted in a substantial loss of marks. In section (a) of the question, responses varied widely. Some candidates resorted to literal English to explain technical concepts, which is deemed unacceptable. Many candidates struggled to respond to the test items due to their practical nature, resulting in generally poor answers.

QUESTION FIVE

a)

- i) Budget authorisation is the process of vetting and approving the budget estimates and plans of covered entities within the executive. It takes the form of budget hearing at the Ministry of Finance and Cabinet consideration of the budget. The final authorisation is granted by the President of Ghana for submission of budget to Parliament.

On the other hand, budget approval is the process of granting parliamentary approval to the budget through the passage of the Appropriation Acts and Finance Acts. So, while budget authorisation occurs at the instance of the Executive budget approval is given by the Legislature-Parliament.

(3 marks)

ii) Activities involved in budget authorisation are:

- **Budget hearing:** This is where the Budget Office invites the Principal Accounts Holders together with their Principal Spending Officers to defend their plans and estimates submitted. It focuses on the broad policy objectives, programmes and cost of implementation of the budget.
- **Cabinet and presidential authorisation:** Cabinet reviews and authorises the budget for submission to Parliament. It examines the estimates and make revisions where necessary.

(3 marks)

Activities involved in budget approval:

- **Presentation to Parliament:** The Minister, on behalf of the President, lay before Parliament not later than the 15th of November of each financial year estimates of the revenues and expenditure of the government, the annual budget for the ensuing financial year. The budget is laid in the form of Appropriation Act and Finance Act.
- **Examination of the budget:** After the budget is laid, Parliament breaks into select committee to scrutinise the plans and estimates submitted. The Principal Accounts Holders and Principal Spending Officers are invited to assist Parliament in the examination.
- **Debate of the budget:** After the examination, the House debates the budget based the result of the examination.
- **Approval of budget:** Parliament finally approves the budget through vote. Consequently, an Appropriation Act and Finance Act are passed.

(3 marks)

b) Implication of the following elements for revenue control policy in the Assembly:

Control environment

Revenue control policy should emphasise:

- Integrity, ethical values and morale of revenue collectors
- Clear authority, duties and responsibilities for revenue management
- Appropriate management style and organisation structure

Risk Assessment

The revenue control policy should focus on:

- Setting of clear revenue goals or objectives to ensure that everyone understands what is expected of him or her in boosting revenue
- Identification of risk in revenue management and to design policies to mitigate those risk

Information and communication

The revenue control policy should ensure:

- Free flow of information on revenues to appropriate officers for enhance monitoring and controls
- Ensure transparency in accounting for revenues through dissemination of relevant revenue information.
- Prompt update on information on revenue processes and outcomes.

(2 points under each element @ 1 mark each = 6 marks)

c) There are two claims of the Director Finance.

- First claim is that there is nothing much to report upon in the Assembly and therefore he chooses not to prepare financial statements for the Assembly. This claim is baseless because public sector entities are not exempted, under both the IPSAS and the PFM Act, from financial reporting for lack of sufficient transactions to report upon.
- Second claim is that the Assembly is not a reporting entity. Under the Conceptual Framework for General Purpose Financial Reporting in the public sector, a public sector reporting entity may have a separate legal identity or be, for example, an organisation, administrative arrangement or program without a separate legal identity. Two 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 GPFs of the entity for information for accountability or decision-making purposes.

The Assembly has the right to impose rates and other levies on the local citizens so as to use the resources mobilised to provide public services to them. In addition, there exist primary users for the financial statements as local citizens are service

recipients as well as resource providers to the Assembly. In conclusion, the Assembly is a reporting entity, and therefore both claims of the Director are baseless.

(Reference to the requirement for financial reporting in the public sector = 1 mark; explanation on reporting entity =3 marks; and conclusion to show that the entity is a reporting entity = 1 mark. Total =5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The responses to part a) of the question were good, except that some candidates interchanged the explanation for budget authorisation with budget approval. Generally, budget authorisation occurs within the executive, while budget approval is the responsibility of parliament.

The question b) which was on revenue policy implications of the COSO framework was quite popular among candidates. However, some candidates explained the elements without stressing the implications for the revenue policy of the entity. Candidates should always endeavour to read and understand the requirements of the questions before attempting to provide responses.

The response to c) was not only exciting but also brought out the real appreciation of the candidates. The question exposed the problem-solving skills of the candidates, as many of them could not identify the key issues in the assertion of the Director of Finance and therefore their responses were more speculative, lacking a solid foundation for their arguments. In such questions, the first thing the candidate should do is identify the key issues and try to address each of them with relevant theories or principles. For example, there were two issues raised in the assertion: (1) Should financial statements be prepared when there were no significant transactions? (2) Which entity qualifies as a reporting entity? The conceptual framework would then help the candidate to address these questions with principles and facts, where necessary. Overall, the question was averagely answered.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The quality of the administered questions was highly commendable, with their practical nature being particularly noteworthy. Furthermore, the allocation of time for each question was explicit and appropriate for the task at hand. Additionally, the requirements of each question were clearly and concisely stated, thereby minimising the likelihood of candidates misunderstanding the expectations. However, despite the quality of the questions, the responses of candidates witnessed were unmatched. The primary weaknesses observed among candidates include poor preparation for the examination. Furthermore, candidates struggled to bridge the gap between theoretical concepts and practical scenarios presented in the questions. This inability to connect theory to real-world situations hindered their overall performance.

Recommendations

Based on the observations, the following recommendations are proposed:

- **Ample Preparation:** Candidates should allocate sufficient time to prepare for the examination. Utilising tuition services such as Partners in Learning (PIL) and studying ICAG Study Texts and Question Banks are highly encouraged. Candidates should aim to dedicate at least 6 hours per week to studying the subject, in addition to attending lectures. This will enhance their knowledge and increase their chances of passing the paper.
- **Broad Coverage of Syllabus:** Candidates should avoid focusing excessively on specific topic areas, as the examination covers a wide range of subjects. It is essential for candidates to have a comprehensive understanding of all topics in the syllabus, as they are equally examinable.
- **Effective Time Management:** Time management is crucial for success in the examination. Candidates should allocate time to each question based on its mark or weight. For instance, a 10-mark question should be allotted 18 minutes for a response. Candidates often spend too much time on financial reporting questions at the expense of other equally important questions.
- **Avoid Underestimating the Paper:** Candidates who are exempted from all subjects in level two except this paper, particularly MBA and MSC Exempt Candidates, should refrain from underestimating its importance. The paper requires current knowledge and practical appreciation of public sector financial management issues. Therefore, candidates should prepare thoroughly regardless of their previous qualifications.
- Candidates should always indicate correctly their index numbers and question numbers.