

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

GENERAL COMMENTS

Generally, the quality of the questions was good and it covered the entire examination syllabus. The mark allocation was fair and reflective of the weight assigned to the various topics of the syllabus. Nevertheless, the overall performance of the candidates did not meet the expectations. The pass rate was approximately 24%.

STANDARD OF THE QUESTIONS

The questions were 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 required by the syllabus.

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.

PERFORMANCE OF CANDIDATES

The overall performance in the examination was not encouraging as only 24% of the candidates passed. In fact, most candidates scored below 30% in the examination, indicating ill-preparedness of the candidates. Other factors that might have contributed to the poor performance are lack of recommended study manuals and question banks. Nevertheless, the Institute offered candidates free nationwide virtual intervention classes, and mock questions and solutions to support them in the preparation for the examination.

General Weaknesses of Candidates

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

- **Lack of understanding of the requirements of the question:** Candidates often fail to provide responses that align with the specific requirements of the questions. For example, in question 3 (a-ii), candidates were asked to recommend ways of improving each stage of the public financial management cycle and some candidates provided recommendation for achieving the objectives of public financial management. This shows lack of appreciation of the requirement of the question. Similarly, the question in 3(b-ii) required candidates to recommend two strategies for improving the performance of local government in **each** of the assessed areas and you find candidates providing only two omnibus recommendations, ignoring each assessed area.
- **Limited coverage of syllabus:** Some candidates exhibited a narrow focus on certain topics, such as the preparation of financial statements, neglecting other areas covered in the syllabus. Consequently, they struggled to attempt all questions in the examination, reducing their chances of success.
- **Poor time management:** Several candidates struggled 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.

- **Ill-preparation:** There were instances where candidates appeared to have little to no preparation for the examination, resulting in responses that demonstrate a complete lack of understanding of the subject matter. Prospective candidates are advised to avoid entering the examination unprepared as it is certain not to yield positive outcomes.
- **Use of unauthorised ink or pencil:** It was observed that some candidates used pencil to answer the calculation questions for whatever reason. Kindly note that the use of pencil or unauthorised ink in writing responses is forbidden by the examination rules.

QUESTION ONE

Below is a Trial Balance of Paja Teaching Hospital (PTH) under the Ministry of Health for the year ended 31 December 2023.

	Debit	Credit
	GH¢000	GH¢000
Cash and Bank - GoG	3,400	
Cash and Bank - IGF	72,200	
Cash and Bank - Donor Funds	210,400	
Undeposited Cash - IGF	4,000	
Petty Cash	100	
Investments	2,000	
Debtors	661,400	
Other Receivables	17,700	
Withholding Tax		2,900
Trust Funds		10,700
Trade Payables		452,400
GoG Subsidy - Employee Compensation		3,912,500
GoG Subsidy - Goods & Services		22,000
Development Partners Programmes Receipt		561,900
Other Non-Operating Income		1,500
Medicines & Pharmaceuticals		433,900
Surgical		50,800
Medical		111,400
Investigation		140,900
OPD		238,400
Obstetrics and Gynaecology		135,300
Dental		8,300
Pediatrics		40,300
Ear, Nose & Throat		5,300
Eye Care		7,300
Mortuary		30,000
Ambulance Fees		300
Ophthalmology		3,000
Physiotherapy		3,300
Examination Fees		200
Dialysis		400
Feeding		30,400
Employee Compensation - GoG	3,912,500	
Goods & Services - GoG	20,800	
Employee Compensation - IGF	148,000	
Goods & Services - IGF	978,500	
Capital Expenditure - IGF	27,500	
Goods & Services - Partners Fund	472,400	
Accumulated Fund		327,500
	6,530,900	6,530,900

Additional Information

i) The hospital, until the year 2023, used modified accrual accounting to prepare its financial statements. The CAGD in 2023 directed all MDAs to prepare the year 2023 financial statements in accordance with the accrual basis International Public Sector Accounting Standards (IPSAS).

ii) The hospital revalued its legacy assets acquired and expensed before the year 2023 as follows:

	GH¢000
Motor Vehicles	50,250
Buildings	120,540
Medical Equipment and other Equipment	31,500
Land	15,000

iii) Gavi, a major Development Partner supported the hospital with an amount of GH¢200,000,000 for the year 2023: 20% of this amount received was meant for the first quarter of 2024. Also, the Global Fund commitment to the hospital per the Partnership Agreement for the year was GH¢250,000,000. However only GH¢200,000,000 was received by the hospital.

iv) The NHIA on 15 January 2024 and before the hospital forwarded the financial statements to the Ministry, issued a report on claims submitted for payment by health facilities for the month of October 2023. The report revealed claims rejected amounting to 10% of the total submission of GH¢100,300,000 by the hospital.

v) In line with the PFM Act, 2016, (Act 921), Parliament approved a write-off of GH¢20,225,000 representing various hospital services provided to citizen by PTH over the years for which payments were not received.

vi) The capital expenditure for the year is made up of Medical Equipment (GH¢19,236,000) and Furniture & Fittings (GH¢8,264,000).

vii) The GoG depreciation policy is the straight-line basis and charged as follows:

Building	5%
Motor Vehicle	20%
Medical Equipment	10%
Furniture & Fitting	25%

viii) Inventory at year end were as follows:

	Cost	Replacement Cost	Net Realisable Value
	GH¢000	GH¢000	GH¢000
Medicines (for resale)	146,800	176,100	132,100
Medical Consumables (For use on clients)	29,400	33,800	30,800
Office Consumables	19,600	29,400	18,600

Required:

In compliance with IPSAS, the PFM Act and the Chart of Accounts of Government of Ghana, prepare:

- a) A Statement of Financial Performance for Paja Teaching Hospital for the year ended 31 December 2023. **(8 marks)**
- b) A Statement of Financial Position of Paja Teaching Hospital as at 31 December 2023. **(9 marks)**
- c) Explain “Events after the reporting date” in line with *IPSAS 14: Events After the Reporting Date*. **(3 marks)**
(Show all workings)

(Total: 20 marks)

QUESTION TWO

- a) The Ministry of Indigenous Enterprises has been charged to collect legacy fixed assets data and value them in accordance with International Public Sector Accounting Standards (IPSAS). The Fixed Assets Coordinating Unit (FACU) of the Ministry has collected for valuation the following data for your action:

The Ministry owns a four (4) storey Office Administration block. The average cost per floor is GH¢4,741,256.25. The building was constructed on a land size of 20 plots of land owned by the Ministry. Currently a plot of land in that area costs GH¢2,500,000. The FACU has measured the sizes of the building as follows: Length at 87.5 meters, Width 42.65 meters. FACU intends to apply a reference price per square metre of GH¢4,432 to the area of the measurement in order to determine the value of the asset.

However, a professional body, the Institute of Architects and Engineers has given the reference price for cost of such office Building at an estimated price of GH¢87,965,025. The building has not seen any further face lift ever since. However, a fence wall with a gate to enforce security and secure the land has just been completed in the current year at a cost of GH¢8,970,000 with a lifespan of 50 years.

The year of construction of the office building could not be determined, yet an old watchman who had been there for ages remembers that the building was constructed some 42 years ago, a time when his seventh child was born. It is the decision of Government of Ghana on adoption of IPSAS not to take advantage of the three-year exemption period, but account for legacy fixed assets by taking 60% of the reference cost of the legacy assets as the Deemed cost, with reduced life span to 30 years.

Required:

- i) Calculate the cost of the land and buildings with structures to be brought into the books on adoption of IPSAS and determine the depreciation chargeable in the first year in respect of these asset. **(7 marks)**
- ii) Show the extract of Statement of Financial Position of the Ministry of Indigenous Enterprises as at that date. **(3 marks)**

- b) You are the Director of Finance at the Ghana Water Development Authority, an entity under the Ministry of Forestry and Water. The Authority has a five-member Board chaired by the daughter of the Sector Minister. The Chief Executive Officer of the Authority has just been appointed by Government for an initial term of four years.

The Chairperson of the board runs boutique services. The Authority buys a lot of presents from this boutique whenever they are confronted with the need to give out presents to any high-profile person. The Chairperson has made a request to the Authority to finance her boutique services with an amount of GH¢546,000 to enable her business pay some urgent bills. No terms or conditions were provided in the request. Such an assistance from a financial institution would attract current prevailing bank interest on loan at a rate of 35% p.a. Recently another member of the Board contracted loan from the Bank for her child's university entrance fees at that rate.

Management of the Authority indicated that the amount was not significant to the Authority and has been approved by the Head of the entity and the Chief Director. The approved document has been handed over to you for payment. Considering the PFM Laws and IPSAS, you engaged the Chief Director about the request, but you were directed to go ahead and pay and use the appropriate accounting treatment in such circumstances. You accordingly raised the necessary documentations and effected the payment.

Required:

In relation to *IPSAS 20: Related Party Disclosures*:

- i) Explain the implications of this transaction on the Authority and state how you would account for this transaction in the financial statements of the entity. **(5 marks)**
- ii) State **SIX** situations where related party transactions may lead to disclosures by a reporting entity. **(3 marks)**
- iii) Explain **TWO** reasons for disclosing related party transactions/relations. **(2 marks)**

(Total: 20 marks)

QUESTION THREE

- a) As part of efforts to improve public financial management, the government has engaged experts to evaluate the entire public financial management cycle. The review report indicates that every component of the cycle is malfunctioning and emphasizes the need for a stronger commitment to building a robust system to achieve the desired outcomes.

Required:

- i) Explain **THREE** key objectives of an orderly and open public financial management system. **(4 marks)**
- ii) Recommend **TWO** ways of enhancing each stage of the public financial management cycle towards the attainment of desired outcomes. **(6 marks)**

- b) Accounting and reporting constitute a key pillar of an organised and transparent public financial management system in the public sector. The effectiveness of accounting and reporting reflect the integrity of financial data, the accuracy of in-year budget reports, and the quality of annual financial statements. In a recent Public Expenditure and Financial Accountability (PEFA) assessment, a local government had the following results:

Annual financial reporting	D
In-year budget report	D+
Financial data integrity	C

Required:

- i) Explain the assessment performance to the Municipal Chief Executive of the local government. **(4 marks)**
- ii) Recommend **TWO** strategies for improving the performance of the local government in each of the assessed areas. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

Ghana Wind Farms LTD, a State-Owned Enterprise (SOE), has appointed a new Board of Directors in January 2023. The new Board after settling for a year, are interested in assessing their performance for the year 2023 as against the performance of the previous Board in the year 2022 through ratio analysis. Below is the Financial Statement of Ghana Wind Farms LTD for the two years.

Ghana Wind Farms LTD Statement of Profit or Loss for the Year Ended 31 December 2023

	2023	2022
	GH¢	GH¢
Revenue	9,860,000	6,218,000
Direct Cost	<u>(5,905,000)</u>	<u>(5,822,000)</u>
Gross Profit	3,955,000	396,000
Distribution costs	(297,000)	(264,000)
Administrative expenses	(505,000)	(455,000)
Other Income	236,000	13,000
Other gains	<u>-</u>	<u>1,482,000</u>
Operating Profit	3,389,000	1,172,000
Finance cost	(1,000,000)	(334,000)
Profit before tax expense	2,389,000	838,000
Tax expense	<u>(500,000)</u>	<u>(144,000)</u>
Profit after tax	<u>1,889,000</u>	<u>694,000</u>

Ghana Wind Farms LTD Statement of Financial Position as at 31 December 2023

	2023	2022
	GH¢	GH¢
ASSETS		
Non-Current Assets		
Property, plant & equipment	17,000,000	15,000,000
Investment	5,000	2,000
Advances & loans	<u>-</u>	<u>30,000</u>
Total Non-Current Assets	<u>17,005,000</u>	<u>15,032,000</u>
Current Assets		
Inventories	687,000	546,000
Trade and other receivables	2,829,000	1,978,000
Prepayments	87,000	42,000
Cash and cash equivalents	<u>383,000</u>	<u>434,000</u>
Total Current Assets	<u>3,986,000</u>	<u>3,000,000</u>
TOTAL ASSETS	<u>20,991,000</u>	<u>18,032,000</u>

Equity attributable to the owners		
Government equity	8,000	8,000
Other Government Equity	613,000	306,000
Equity	312,000	306,000
Other components of equity:		
Capital Surplus	8,471,000	7,599,000
Income surplus	(1,434,000)	478,000
Total Equity	<u>7,970,000</u>	<u>8,697,000</u>
Liabilities		
Non-current liabilities		
Deferred credit	6,692,000	670,000
Deferred tax liabilities	2,498,000	2,572,000
Borrowings – due after one year	<u>1,297,000</u>	<u>950,000</u>
Total Non-Current Liabilities	<u>10,487,000</u>	<u>4,192,000</u>
Current Liabilities		
Bank overdraft	166,000	180,000
Provisions for company tax	109,000	109,000
Trade and other payables	1,820,000	4,516,000
Borrowings –due within one year	<u>439,000</u>	<u>338,000</u>
Total Current Liabilities	<u>2,534,000</u>	<u>5,143,000</u>
Total Liabilities	<u>13,021,000</u>	<u>9,335,000</u>
TOTAL EQUITY AND LIABILITIES	<u>20,991,000</u>	<u>18,032,000</u>

Required:

- a) Compute the following ratios:
 - i) Current Ratio
 - ii) Quick Ratio
 - iii) Inventory Turnover (Days)
 - iv) Trade Receivable Collection Period (Days)
 - v) Trade Payables Period (Days)
 - vi) Working Capital Cycle
 - vii) Interest Cover Ratio
 - viii) Total Debt – Total Asset Ratio **(8 marks)**

- b) Based on your results in (a), write a report to the newly appointed board analysing and indicating whether their performance is better in comparison with the old board. **(9 marks)**

- c) Explain **THREE** limitations of ratio analysis. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

- a) The Public Financial Management Regulation makes the Principal Spending Officer (PSO) personally responsible for all payment of the covered entity. To mitigate possible risk exposure of the PSO during the payment process, the regulations provide guidance to assist approving authorities before signing off any payment.

In recent times, the Auditor-General has faulted PSOs for infractions such as misapplication of funds, misappropriation of funds, partially accounted payments among others. Similar observations were cited in the 2023 Management Letter of Nipa Ye Municipal Assembly.

Required:

- i) With reference to the PFM Regulation 2019, LI 2378, explain the provisions available to the PSO in the payment process before approval. **(6 marks)**
- ii) Distinguish between *misapplication of funds* and *misappropriation of funds* as used by the Auditor-General with an example each. **(4 marks)**
- b) Nolan's Seven Principles of Public life serve as guidelines for ethical behaviour in public service. They are not typically enforceable through direct legal actions instead they often operate as moral and professional standards shaping the behaviour of individuals in public office.

Required:

Explain **FOUR** of these principles. **(6 marks)**

- c) The Nine Hundred and Ninetieth Act of the Parliament of the Republic of Ghana entitled State Interests and Governance Authority Act, 2019 was established to oversee and administer state interests in state-owned enterprises, joint venture companies, and other state entities and to provide for related matters.

Required:

Explain **FOUR** functions of the State Interest and Governance Authority. **(4 marks)**

(Total: 20 marks)

SOLUTION

QUESTION ONE

a)

Paja Teaching Hospital
Statement of Financial Performance for the year ended 31 December 2023

	working	GH¢000	GH¢000
Revenue			
Government Subvention	1	3,934,500	
Internally Generated Revenue	2	1,230,970	
Grants	3	<u>571,900</u>	
			5,737,370
Expenditure			
Compensation of Employees	4	4,060,500	
Goods and Services	5	1,290,600	
Consumption of Fixed Assets	6	23,212	
Other Expenses		<u>20,225</u>	<u>(5,394,537)</u>
Net Surplus for the year			<u>342,833</u>

b)

Paja Teaching Hospital
Statement of Financial Position as at 31 December 2023

	Notes	GH¢000	GH¢000
Assets			
Non-Current Assets			
Property, Plant & Equipment	6	221,578	221,578
Current Assets			
Inventory	7	181,100	
Receivables	8	698,845	
Investments		2,000	
Cash and Cash Equivalents	9	290,100	<u>1,172,045</u>
			<u>1,393,623</u>
Liabilities and Fund			
Current Liabilities			
Accounts Payable	10	455,300	
Deferred Revenue (grant)		10,700	
Trust Fund		40,000	
Revaluation Surplus	11	217,290	
Accumulated Fund	12	670,333	<u>1,393,623</u>

Workings

1. Government subvention	
GoG subsidy - Employee Compensation	3,912,500
GoG subsidy - Goods & Services	22,000
	3,934,500
2. Internally generated revenue	
Medicines and Pharmaceuticals	433,900
Surgical	50,800
Medical	111,400
Investigation	140,900
OPD	238,400
Obstetrics & Gynaecology	135,300
Dental	8,300
Pediatrics	40,300
Ear, Nose & Throat	5,300
Eye Care	7,300
Mortuary	30,000
Ambulance Fees	300
Ophthalmology	3,000
Physiotherapy	3,300
Examination Fees	200
Dialysis	400
Feeding	30,400
Other non-operating income	1,500
Adjusted Claims (October 2023) 10% of GH¢100,300,000.	(10,030)
	1,230,970
3. Grant	
Development Partners Programmes Receipt	561,900
Trust Monies: Deferred Grant (Gavi)	(40,000)
Receivables: Outstanding (Global Fund)	50,000
	571,900
4. Compensation of Employees	
Government Subvention	3,912,500
Internally Generated Revenue	148,000
	4,060,500
5. Goods & Services	
Government Subvention	20,800
Internally Generated Fund	978,500
Partners Fund	472,400
Closing Inventory:	
Medicines	(132,100)
Medical Consumables	(29,400)
Office Consumables	(19,600)
	1,290,600

6. Fixed Asset Schedule

Property, Plant & Equipment	Motor Vehicles	Buildings	Medical & Other Equipment	Land	Furniture	Total
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Cost:	GH¢000	GH¢000	GH¢000	GH¢000	GH¢000	GH¢000
Revaluation	50,250	120,540	31,500	15,000	-	217,290
Addition	-	-	19,236	-	8,264	27,480
	50,250	120,540	50,736	15,000	8,264	244,770
Depreciation						
Depreciation for the year:	10,050	6,027	3,150	-		19,227
Additions			1,924		2,061	3,985
	10,050	6,027	5,074	-	2,061	23,212
Carrying Amount	40,200	114,513	45,662	15,000	6,203	221,578

7. Inventory

Medicines	132,100
Medical Consumables	29,400
Office Consumables	19,600
	181,100

8. Receivables

Accounts Receivable	661,400
Rejected Claims	(10,030)
Bad Debt Write-Off	(20,225)
Other Receivables	17,700
Outstanding Grant - Global Fund	50,000
	698,845

9. Cash & Cash Equivalents

Cash & Bank - Government	3,400
Cash & Bank – Internally Generated Fund	72,200
Cash & Bank - Donor Funds	210,400
Undeposited Cash – Internally Generated Fund	4,000
Petty Cash	100
	290,100

10. Accounts Payable

Withholding Tax	2,900
Trade Payables	452,400
	455,300

11. Revaluation Surplus

Motor Vehicles	50,250
Buildings	120,540
Medical & Other Equipment	31,500
Land	15,000
	217,290

12. Accumulated Fund

Balance per Trial Balance	327,500
Surplus for the Year	342,833
	670,333

(85 ticks maximum @ 0.2 marks each = 17 marks)

- c) **Events After the Reporting Date** are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

(3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question tested candidates on the preparation and presentation of financial statements for autonomous agencies, specifically a teaching hospital.

Sub-question (a) and (b) were the favourite questions for all the candidates. All candidates attempted this question with many of them scoring high marks. Overall average score in the question was 10 marks with the highest score being 20 marks. However, few of the candidates performed poorly due to inadequate preparations.

The following are some specific observations

- Some candidate spent their time providing notes on accounting policies which was not a requirement of the question. Candidate should only produce the notes of accounting policies when note to the accounts forms part of the requirements of the question.
- Some candidates find difficulty in classifying items in the Trial Balance, for example, some treated all the IGF revenues as goods and services and treated IGF bank balance, employee compensation (IGF), Goods and services (IGF) and capital expenditure (IGF) as IGF revenues. They think anything connected with IGF is revenue. It is a clear demonstration of lack of knowledge in the features and application of the Government Chart of Accounts.
- Some candidates did not understand that the petty cash balance is part of the cash and bank balances and rather treated it as Goods and services.
- The deferred revenue that resulted from the advance receipt of donor funding was poorly considered. Many candidates did not understand item (iii) provided by the examiner as additional information.
- The valuation of the legacy assets was poorly handled. While the revalued figures were considered under fixed assets, the corresponding revaluation surplus was ignored by most candidates.

- Most candidates, after preparation of the non-current asset schedule, went ahead to list the assets and their corresponding depreciation on the face of the Statement of Financial Position. This is contrary to the requirement of IPSAS 1: Presentation of Financial Statements.

Sub-section (c) of the question was not answered by the majority of the candidates and those who attempted it had very discouraging scores. Approximately 90% of the candidates could not explain “events after the reporting date” in line with IPSAS 14. Surprisingly most of the candidates who attempted the question could not identify the period and the two types of events. Those who were able to identify the events could not explain them well. This implies that candidates understanding and application of the IPSAS requires much more attention.

QUESTION TWO

i) Ministry of Indigenous Enterprises

Determination of cost of land and building

Land --	--	2,500,000 x 20 =	GH¢ <u>50,000,000</u>
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Professionally assessed reference cost by IA&EG

estimated cost of the building toady	87,965,025
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Take proportion of reference cost on adoption	60%
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Building (Deemed Cost)	52,779,015
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Add.

Cost of Office Fence Wall	<u>8,970,000</u>
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Building/Fence	<u>61,749,015</u>
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Computation of Depreciation of Building

Depreciation in the first year of the Building over 30 years	52,779,015 / 30
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Annual Depreciation in year 1	1,759,300.50
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Depreciation of Fence / Gate building over 50 year	8,970,000/50
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Annual Depreciation	<u>179,400.00</u>
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Depreciation of Office Building	====	1,759,300.50
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Wall/Gate building	====	<u>179,400.00</u>
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Depreciation for current year		<u>1,938,700.50</u>
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(7 marks)

ii)

EXTRACT OF ASSETS IN THE STATEMENT OF FINANCIAL POSITION AS AT 31/12/ 20 XX

Non-Current assets		GHC
Land	---	50,000,000.00
Building/Fence (Net)	(61,749,015.00 – 1,938,700.50)	59,810,314.50

Liability and Fund

Revaluation surplus	102,779,015
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(3 marks)

b)

i)

IMPLICATIONS

The first step is that Candidates are expected to realise and state that this is a Related Party transaction which also under the PFM impacts conflict of interest and frauds on the seven principles of public life.

The Boutique would be regarded as a related party since its key management personnel and Board chair to the Authority has significant influence over the Authority. This is because the Board chair controls the Boutique while she has similar controlling power over the Authority through voting, vetoing and decision making as well as power to recommend to the government the change of the Head of the entity.

The transaction would need to be treated in the books as some form of advances not as a gift but as a loan or some form of advance which should be repayable by the Boutique or until such time a firm decision is made on the status of repayment or otherwise.

Because the transaction is not a typical government expenditure with appropriate budgetary allocation with warrant from the Minister for Finance I would therefore treat the request as an advance/loan with expectation that it would be refunded/repaid.

A major feature of Related Party transaction is the need for disclosures. Disclosures are required to make the financial statement relevant for decision making by users. It is also a cardinal requirement to satisfy the needs of a general-purpose financial statement.

The standard regards related party transactions as material irrespective of size quantum, or denomination. The subject of a controlling power on one hand over the other is significant in this standard.

(5 marks)

ii)

The following are examples of situations where related party transactions may lead to disclosures by the reporting entity:

- Where there has been rendering or receiving of services;
- Inter entity transactions involving purchases or transfers/sales of goods whether finished or unfinished goods;
- There has been purchases or transfers/sales of property and other assets;
- The transaction between the entities involved agency arrangements;
- Also, when the transaction involves leasing arrangements between the parties;
- In transactions where transfer of research and development cost are involved;
- Where there are arrangements which gave rise to license agreements between the parties,

- Financing of any form whether it involves loans, capital contributions, grants and whether in cash or in kind, and other financial support including cost sharing arrangements must be reported under the Related Party transactions and reported appropriately in the financial statement in accordance with the Standard

(3 marks)

iii) Reasons for disclosing related party transactions/relations.

Related party disclosure under IPSAS 20 (International Public Sector Accounting Standards) is required to ensure transparency, accountability, and comparability in financial reporting within the public sector. The standard specifically addresses the disclosure of relationships, transactions, and outstanding balances with related parties to prevent the misuse of resources and maintain public trust. The specific reasons include:

- **It promotes transparency and accountability.** Public entities often manage resources on behalf of citizens. Disclosing related party transactions helps provide assurance that transactions are conducted fairly and in the public interest. It ensures that any potential influence on financial statements by related parties is visible and understood by stakeholders.
- **It helps to identify conflicts of interest.** Related party disclosures reveal relationships or transactions that may create conflicts of interest. By identifying these, stakeholders can assess whether such relationships have influenced financial decisions or performance
- **It helps in preventing misuse of resources.** Related parties may influence resource allocation, leading to favouritism or misuse. Disclosure minimizes the risk of misappropriation or unethical practices by ensuring transactions are scrutinized.
- **It enhances reliability of Financial Statement** Disclosures enhance the credibility of financial statements by providing full information about transactions that could impact financial results. They contribute to a true and fair representation of the entity's financial position and performance.
- **It aids good governance and oversight.** Public sector entities are subject to greater scrutiny compared to private entities. Related party disclosures meet the governance requirements for transparency, fulfilling the public sector's accountability to legislators, donors, and the public.

(1 mark each for any two reasons = 2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Many candidates did not attempt both sub-sections of the question. Generally, the question was poorly answered. In all, the average score in the question was 5 marks.

Sub-section (a) requested candidates to calculate the cost and depreciation of legacy land and building which falls under the scope of IPSAS 17 Property, Plant and Equipment and IPSAS 33 First Time Adoption of Accrual Based IPSAS. However, most students got confused on the Fixed Asset Coordination Unit (FACU) valuation vis-a-vis the professional valuation. Meanwhile, few candidates did well. In sub-section (b), the candidates seemed not to be familiar with IPSAS 20: Related Party Disclosure and therefore poor responses were elicited. The responses confirm the ill-preparedness of the candidate for IPSAS application. The candidates are encouraged to embrace the change in syllabus and study the IPSAS comprehensively not only to pass the examination but to be able to support the implementation efforts of their respective entities.

QUESTION THREE

iii)

An effective public financial management system aims at achieving three main objectives, namely aggregate fiscal discipline, allocative efficiency and operational efficiency.

- **Aggregate fiscal discipline.** The maintenance of aggregate fiscal discipline is the first objective of a PFM system and deals with the interaction between revenue and expenditure. It entails ensuring that aggregate levels of revenue and public spending are consistent with targets for the fiscal deficit and do not generate unsustainable levels of public borrowing.
- **Allocation efficiency.** A public financial management system aims at ensuring that public resources are allocated to agreed strategic priorities and should spur reallocation from lesser to higher priorities—in other words, should ensure that allocative efficiency is achieved
- **Operational Efficiency.** A public financial management system aims at ensuring that operational efficiency is achieved, in the sense of achieving maximum value for money in the delivery of services.

(4 marks)

iv) Ways of enhancing each phase of the public financial management cycle towards the attainment of the objectives.

Planning phase could be improved by:

- Ensuring attainable macroeconomic and fiscal rules and targets in the economic policy
- Ensure realistic macroeconomic and fiscal objectives and targets.
- Complying with the fiscal policy provisions and rules contained in the Public Financial Management Act 2016 (Act 921).

Budget preparation and approval phase could be improved by:

- Ensure clear budget guidelines to support the budget preparation process.
- Ensuring realistic costing of activities, programmes and projects.
- Providing effective executive oversight of the budgeting process, perhaps through enhanced budget hearing mechanism
- Ensuring effective parliamentary scrutiny and examination of the budget proposals laid before the house.

Budget execution phase could be improving by:

- Effective procurement system in the public sector to support efficient and economical procurement of goods, works and services.
- Adherence to approved budget in the implementation of activities, programmes and projects.
- Ensuring effective expenditure control and payment system
- Effective cash, asset and debt management throughout the implementation process.

Recording, Accounting and Reporting could be improved by:

- Maintaining a robust recording and accounting system
- Complying with the International Public Sector Accounting Standards (IPSAS) in the preparation of financial reporting.

- Ensuring effective accounting controls

Review and Audit phase could be improved by:

- Enhancing internal audit and internal review function of the entity
- Strengthening external audit to ensure effective accountability
- Impartial parliamentary review of the audit findings of the Auditor General.

(6 marks)

b)

i)

This result reveals the three indicators of the Accounting and Reporting pillar of public financial management: annual financial reporting, in-year budget reporting and financial data integrity.

The annual financial reporting measure the assembly's capacity to prepare and present a credible financial report and unfortunately the assembly performed poorly, scoring D which signifies poor performance on the PEFA assessment scale.

The quality of the assembly's in-year budget report was also assessed and we scored D+ which means that the assembly has no mechanism in place to produce such report. This is indicative of a poor performance.

The integrity of the financial data was also measured and the assembly performed averagely, with a score of C. This means that the financial data of the assembly is somehow credible.

(4 marks)

- ii) The subsequent performance of the Assembly could be improved when the following recommendations are implemented.

Annual Financial reporting could be improved through:

- Speed up the adoption of the International Public Sector Accounting Standards.
- Ensure timely preparation and submission of the financial reporting, which should be within two months after the end of the financial year.
- Engage professional accountants to manage the accounting and financial reporting process.

In-year budget report could be improved by:

- Instituting a sound budgetary control systems that will facilitate the generation of the in-year budget reports.
- Implementing the Ghana Integrated Financial Management Information System (GIFMIS) to support budget reporting in the Assembly.
- Resourcing the budget unit of the Assembly to take responsibility of the budget reporting.

Financial Data Integrity may be improved by:

- Speeding up the implementation of GIFMIS to enhance the integrity of the financial data.
- Ensuring timely and accurate recording of financial transactions in the GIFMIS
- Improving the ethical values of the accounting officers in the Assembly.

(6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Generally, the questions were well answered by candidates. The average score in the question was 9 marks, but there were some outliers. Sub-question a(i) received some excellent responses from candidates, but surprisingly few had no idea. While sub-question a(ii) also received some great answers, some candidates seemed not to read the question very well and therefore provided unrelated responses. These candidates were rather making recommendation for enhancing the attainment of the objective of public financial management instead of the stages of the public financial management cycle.

Sub-question b(i) was fairly answered by most candidates. However, few candidates demonstrated lack of appreciation of the methodology of the Public Expenditure and Financial Accountability (PEFA) Framework. They tried using weakest link and average methods in re-computing the indicators, instead of explaining the assessment provided in the question directly. This was entirely unnecessary. Sub-question b(ii) received some favourable responses from the candidates.

QUESTION FOUR

a. i

RATIOS	FORMULA	2023	2022
Liquidity		GH¢ MILLION	GH¢ MILLION
Current ratio	$\frac{\text{current assets}}{\text{current liabilities}}$	$\frac{3,986}{2,543}$ =1.57 times	$\frac{3,000}{5,143}$ =0.58 times
Acid-test ratio	$\frac{\text{current assets} - \text{Inventory}}{\text{current liabilities}}$	$\frac{3,986 - 687}{2,543}$ = 1.30 times	$\frac{3,000 - 546}{5,143}$ =0.50 times
Efficiency			
Inventory turnover (days)	$\frac{\text{Cos=Direct cost Inventory}}{\text{cost of sales}} \times 365$	$\frac{687}{5,905} \times 365$ =43 days	$\frac{546}{5,822} \times 365$ =34 days
Trade receivables collection (days)	$= \frac{\text{Trade receivables}}{\text{Revenue}} \times 365$	$\frac{2,829}{9,860} \times 365$ = 105 days	$\frac{1,978}{6,218} \times 365$ =116 days
Trade payables settlement period	$= \frac{\text{Trade payables}}{\text{Cost of sales}} \times 365$ Cos=Direct cost	$\frac{1,820}{5,905} \times 365$ =113 days	$\frac{4,516}{5,822} \times 365$ =283 days
Working capital cycle	= Inventory turnover Period (days)+ Trade receivables collection period (days)- Trade payables settlement period (days)	43+105-113 = 35 days	34 + 116 – 283 = -133 days
Long Term Solvency			
Interest Coverage ratio	$\frac{EBIT}{\text{INTEREST EXPENSE}}$	$\frac{3,389}{1,000}$ = 3.40 times	$\frac{1,172}{334}$ = 3.51 times

Total Debt /Total Asset Ratio	$\frac{\text{Total DEBT}}{\text{Total ASSET}} * 100$	$\frac{1,297 + 439}{20,991} * 100$ = 8.30%	$\frac{950 + 338}{18,032} * 100$ = 7.14%
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*EBIT = Operating Profit

(8 marks)

b)

REPORT TO BOARD OF DIRECTORS

Assessment of the Financial Performance of Ghana Wind Farms Limited for the year ended 31 December 2023

As requested, this report presents the analysis of the performance of the company for the year ended 31st December 2023. The company's performance in the comparative year ended 31 December 2022 is used as the benchmark. The company's performance has been assessed on the bases of liquidity, efficiency, and long-term solvency. Reference should be made to the attached appendix for figures used in the report.

LIQUIDITY

The Liquidity position which is assessed using the current ratio and quick ratio in this case looks at the relationship that short-term assets bear with short-term liabilities or commitments. Ghana Wind Farms' current ratio of 1.57 times in 2023 is better compared to that of 2022 of 0.58 times, which shows that for 2023 their current asset can cater for their short-term liabilities more than one time and it's a favourable liquidity position for Ghana Wind Farms.

Also, the Acid test ratio of 1.3 times in 2023 is more favourable than that of 2022 of 0.5 times. The above ratios suggest that in 2023 Ghana Wind Farms has more favourable liquidity position which is good for the company operations since it has more ability to meet its short term commitment as and when they fall due.

EFFICIENCY

Efficiency is concerned with how well Citizen's Energy has managed its available resources and working capital. This is assessed using inventory turnover days, trade receivable days, trade payables days, and working capital cycle. Inventory turnover of 43 days in 2023 is higher than 34 days in 2022. This probably signifies that Ghana Wind Farms has been more efficient in managing its resources in 2023 than in 2022 in the distribution of its inventories. Ghana Wind Farms' receivable period of 105 days is better than the situation of 116 days in 2022. This might signify that Ghana Wind Farms has been more efficient in 2023 in its debt recovery than in 2022.

Also, Trade payable days of 113 days in 2023 are less favourable than that of 283 days in 2022. This might signify that Ghana Wind Farms pays its short-term obligation more quickly in 2023 than that of 2022, a situation that could affect their liquidity position negatively.

Again, its working capital cycle position of 2023 of 35 days is also more favourable than negative (133 days) in 2022. A positive working capital balance means that current assets cover current liabilities. Conversely, a negative working capital balance means that current liabilities exceed current assets.

LONG TERM SOLVENCY

The ratios used to assess the long-term solvency of Ghana Wind Farms are the total debt to total asset and interest coverage. The year 2023 the debt to asset ratio of 8.30% is a bit higher than that of the 2022 of 7.14%. Total Debt to total assets is a measure of the company's asset that are financed by debt rather than equity. In all Ghana Wind Farms is a low leverage Company because the amount of assets financed by loans is less than 10% which means the company will stay afloat during a recession.

With the interest coverage ratio of over 3 times across the years is favourable for Ghana Wind Farms Company because it means it fulfil its long term financial obligation as and when it falls due.

CONCLUSION

In summary, Ghana Wind Farms appears to have performed better in 2023 than in 2022 which means the board of directors has managed the resources of the company much better in 2023.

(Features of a report = 1; discussion of results 8 marks; Total 9 marks)

c) Limitations of Ratio Analysis

- Ratios ignore qualitative aspects of the firm.
- Ratios ignore the price level changes due to inflation.
- There is no standard definitions of the ratios.
- Differences in accounting policies may make ratios difficult to compare from company to company.
- Creative accounting practices may make ratios meaningless.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

The question was on analysis and discussion of financial statements of a commercial state owned enterprise (SOE). The candidates were presented with a Statement of Profit and Loss for the year and the Statement of Financial Position.

Sub-question (a) required candidates to compute eight (8) ratio typical of profit making organisations and sub-question (b) asked candidates to produce a report based on the ratios computed in (a). The final sub-question examined candidates on the limitations of ratio analysis. The question fitted into the syllabus, the mark allocated was appropriate and the time allowed for the task was commensurate.

QUESTION FIVE

a)

- i) With reference to Section 78 of PFM Regulation 2019, a Principal Spending Officer of a covered entity is personally responsible for ensuring in respect of each payment of that covered entity,
- the validity, accuracy and legality of the claim for the payment;
 - that evidence of services received, certificates for work done and any other supporting documents exists;
 - that the commitment for the payment has been approved in accordance with these Regulations through the Local Purchase Order being generated under the Ghana Integrated Financial Management Information System; and
 - that there is a sufficient unspent amount of an appropriation for making the payment.
- The Principal Spending Officer is required to ensure that the covered entity uses the Ghana Integrated Financial Management Information System from the commencement of the procurement process through to payment.

(Any four relevant points @ 1.5 marks each = 6 marks)

ii) **Differences between *misapplication of funds* and *misappropriation of funds*.**

Misapplication refers to the use of funds for purposes other than those for which they were originally intended, often without criminal intent. It most occurs as the result of administrative errors, negligence, or poor financial management. For instance, using funds allocated for healthcare to finance educational project connotes misapplication.

Misappropriation involves the deliberate and illegal use of funds for personal gain or unauthorized purposes. It takes the form of financial fraud or theft, embezzlement or diverting funds for private use. For example, a public official siphoning funds meant for public service delivery into their personal account.

(4 marks)

- b) The Seven Principles of Public Life represent a collective effort to establish a standard of behaviour that promotes public trust and confidence in the actions of those entrusted with public responsibilities.

Selflessness: This principle states that holders of public office should act only in terms of the public interest.

Integrity: This principle states that those who hold public office must avoid placing themselves under obligations to people or organisations that could try to influence them or their work in an inappropriate manner. Holders of public office should not act on or make decisions in order to make financial or material gain for themselves or anyone they know.

Objectivity: This principle ensures that holders of public office are acting in a way and making decisions that are impartial, fair and based on merit. They must use the best evidence to make such decisions and do so without discrimination or bias.

Accountability: Accountability states that holders of public office are accountable to the public for any decisions they make or actions they take. Under this principle, holders of public office must submit themselves to the scrutiny necessary to ensure that their accountability is upheld.

Openness: Openness sets out that holders of public office should act in a way and take decisions in a transparent manner. This principle states that information should not be withheld from the public, unless there is a lawful and obvious reason for doing so.

Honesty: This principle states that holders of public office should always be truthful.

Leadership: This principle sets out that holders of public office should always treat others with respect, whilst exhibiting each of the seven principles within their own behaviour. Holders of public office should promote and support the principles and deal with poor behavior if this ever occurs.

(Any four well-explained points for 1.5 marks each = 6 marks)

c) *Functions of the State Interest and Governance Authority*

- 1) In consultation with the respective sector Ministers
 - evaluate the mandates of State-owned enterprises and other State entities and make recommendations to the relevant sector Minister; and
 - evaluate the strategic plans, and organizational structures of State-owned enterprises and other State
- 2) ensure adherence to the terms and conditions of the annual performance contract signed by the Authority with the State-owned enterprises and other specified entities;
- 3) monitor and evaluate the performance of joint venture companies;
- 4) develop a Code of Corporate Governance to guide and promote sound corporate governance practices of specified entities;
- 5) prepare and submit, to the Minister, an annual assessment report on the governance and institutional performance of specified entities;
- 6) assist the Minister responsible for Finance to assess borrowing levels of State-owned enterprises and other State entities in accordance with the Public Financial Management Act, 2016 (Act 921);
- 7) assist the Minister responsible for Finance to make a determination where a request for a government guarantee, financing of capital expenditure or investment plan is submitted by a specified entity;
- 8) ensure that dividends due the State are paid by specified entities;
- 9) advise the sector minister on policy matters for effective corporate governance of specified entities;
- 10) advise Government on the appointment and removal of Chief Executive Officers or members of the boards or other governing bodies of specified entities; and
- 11) co-ordinate the sale or acquisition of the State interests in specified entities and advise the Minister accordingly;
- 12) assist the Minister responsible for Finance to oversee the sale or acquisition of the State's interests in specified entities; and
- 13) perform any other functions ancillary to the objects of the Authority.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

The performance of candidates in the question was below expectation, with an average score of seven (7) marks. Most of the candidates did not understand the (a) and (c) parts of the question. Candidates couldn't bring out clearly the responsibilities of PSO in relation to payment process as contained in the PFM regulations. Many were rather explaining the typical payment process without reference to the law and regulations and this resulted in candidates scoring low marks. A good number of students did well in a(ii), which was on the differences between misapplication and misappropriation of funds. However, some could not provide the examples as required by the questions and this affected their scores.

The (b) part of the question, which was on Nolan's Seven Principles of Public Life, was equally well understood by majority of the candidates, thus scored very good marks. Nevertheless, a few of them confused the Nolan's principle of public life with the International Federation Accountants (IFAC) Code of Ethics for professional accountants.

The (c) part of the question, which was on functions of State Interest and Governance Authority (SIGA), was poorly answered. Less than 1% of the candidates had it right. Most of them dwelt so much on the functions of Public Sector Institutions. Surprisingly, the role of SIGA and other institutions were specifically stated in the syllabus.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Generally, the questions were of high quality, the marks allocation was fair and explicit, the time allowed was commensurate with the task at stake. The questions also complied with the syllabus content and weighting. The overall performance of the candidates was not encouraging, especially the responses elicited on IPSAS application was disappointing. Ill-preparation of candidates was found to be the major cause for the poor performance in the paper.

Recommendations

Based on the observations, the following recommendations are proposed:

- **Ample preparation.** Candidates should allocate sufficient time to prepare for the examination. Utilizing tuition services of 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 temptation of underestimating the Paper.** Candidates who are exempted from all subjects in level two except this paper, particularly PhD, MPhil, 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.
- **Use of right ink.** Candidates should desist from using pencil and other unauthorised inks in writing the paper.