



QUESTION AND ANSWER

FOR

JUNE 2018

PUBLIC SECTOR IN FINANCIAL MANAGEMENT

PAPERS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 1: PUBLIC SECTOR ACCOUNTING

MONDAY 11 JUNE 2018

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: There are four (4) questions. Attempt any three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE

- (a) You have just been posted to the Office of the Accountant General Expenditure Unit. The Unit is responsible for the consolidation of Government accounts. You have been asked to analyze the information given below in the Trial Balance of the Consolidated Fund for the year ended 31 December, 2017.

	<u>Debit</u> K'Million	<u>Credit</u> K'Million
Salaries - Superscale	6,760	
Salaries - Div I & II	2,010	
Salaries - Div III	230	
Administrative cost	3,350	
Conferences & seminars	1,260	
Foreign travel	750	
Social benefits	1,040	
Domestic debt interest	1,450	
External debt Interest	1,740	
Purchase of vehicles	250	
Purchase of equipment	410	
Construction of infrastructure	560	
Cash and bank	2,470	
PAYE		7,330
Corporation tax		5,010
VAT		2,320
Fines		150
Fees		310
Fuel Levy		700
Grants		430
Treasury bills		11,120
Bonds		13,460
Euro Bond		7,460
Bilateral & multilateral debt		19,660
Other expenditure	910	
Accumulated Fund	44,760	
	<u>67,950</u>	<u>67,950</u>

Additional information:

1. The Current Chart of Accounts based on the GFS 2001 is used to classify revenues and expenditure.
2. VAT of K50m was due to Government but was not received by Government as at 31 December, 2017
3. A grant agreement signed 2016 by the Government of Zambia and the Swedish Embassy for the purchase of various medical supplies for Kabwata Health Centre was received and paid for in November 2017,

Required:

- (i) Define the following terms as used in Public Sector Accounting and give two (2) example of each classification.
 1. Financial Assets (3 marks)
 2. Non – Financial Liabilities (3 marks)
 - (ii) Using Cash Basis IPSAS of Accounting, outline mandatory disclosure requirements for presentation of financial statements. (4 marks)
 - (iii) Using the information from the Trial Balance prepare Statement of Financial Performance for the Consolidated Fund for the year ended 31 December 2017. (20 marks)
- (b) The next assignment as the accountant in charge of the Expenditure Unit is to assist the Director of Finance in the ministry set up a budget committee. You have also been asked to review the recently issued 2019 -2021 Budget Call Circular. As the secretary to the Budget Committee, you have been asked to make a presentation to the members of the committee covering the following issues:

Required:

- (i) Briefly explain the Medium Term Expenditure Framework (MTEF). (5 marks)
- (ii) Briefly explain the Budget Call Circular and explain the difference between Call Circular and the MTEF. (3 marks)
- (iii) Briefly describe two (2) methods of Budgeting that government can use in preparing the annual budgets. (2 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions in this Section.

QUESTION TWO

Debt Management is a key component of Public Finance Management that enables the Government meets its financing needs at minimum costs and within acceptable levels of risk. One of the diagnostic tools that Government uses in managing its debt portfolio is to annually conduct a Debt Sustainability Analysis (DSA).

Required:

- (a) Explain what constitutes "Total Public Debt?" (2 marks)
- (b) Define the term Debt Sustainability and state the main objective of conducting a Debt Sustainability exercise. (5 marks)
- (c) Explain the benefits of conducting an annual DSA. (10 marks)
- (d) Explain the actions which can be taken to reduce accumulation of debt. (3 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) The Payroll Management and Establishment Control (PMEC) system is an integrated payroll system that enables Government to efficiently and effectively manage the government payroll.

Required:

- (i) Briefly describe the main features of an integrated payroll system. (5 marks)
 - (ii) Identify users of Public Sector Financial Information and state why this information is useful. (5 marks)
- (b) The Government Chart of Accounts is a detailed classification of government revenue and expenditure.

Required:

Briefly explain why it is important of classifying government accounts. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) An Inter-ministerial Committee has been set up to organized and mobilize resources for a Women’s Day event. The event will be officially opened by the Vice President. The Department of Buildings in the Ministry of Works and Supply recently received an order to carry out maintenance works at Cabinet Office in preparation for the event. As the accountant at Ministry of Works and Supply and a member of the inter-ministerial committee you have taken note of the events:

January 15	Committee of Women’s Day meeting.
January 16	Department of Buildings receives purchase order of K8, 000 from Cabinet Office to carry out maintenance works.
January 19	Procurement Committee at Ministry of Works and Supply approves request of K3, 000 from Director Buildings to procure supplies.
January 24	Chief Procurement Officer approves purchase of supplies on account for K3, 000.
January 30	Buildings Department start maintenance works at Cabinet Office.
February 5	Committee of Women’s Day meet to review progress on preparation of Women’s Day Event
February 20	Buildings Department complete works and invoice Cabinet office K8, 000
February 27	Buildings Department pays K3, 000 for supplies got on account
March 7	Women’s Day event official opened by Vice President.
March 13	Cabinet Office pays Buildings Department K8, 000 by cheque.

Required:

- (i) Discuss the terms cash and accrual accounting. (2 marks)
- (ii) Outline one (1) advantage and disadvantage of using cashing accounting. (2 marks)
- (iii) From the events listed above prepare Revenue & Expenditure statement for the Months January to March 2018.
1. Using Cashing Accounting (3 marks)
 2. Using Accrual Accounting (3 marks)

- (b) Public procurement is guided by universal principles and code of conduct that ensure efficient and effective use of public resources.

Required:

- (i) Define the term procurement. (2 marks)

- (ii) Briefly describe the fundamental principles of public procurement and state reasons why the procurement process is key to Public Financial Management?

(8 marks)

[Total: 20 Marks]

QUESTION FIVE

Professional Accountants are faced with various threats and challenges in the work environment.

Required:

- (a) Identify threats that professional accountants face in the work environment.
(10 marks)
- (a) Identify measures that can be implemented in the work environment to reduce threats to acceptable.
(10 marks)

[Total: 20 Marks]

END OF PAPER

PFM1- PUBLIC SECTOR ACCOUNTING SOLUTIONS

SOLUTION ONE

(a)

i. **Financial and Non-financial asset**

Financial asset - has value based on a contractual claim, rather than a physical net worth. **Examples** include stocks, bonds and bank deposits.

Non-financial asset is an **asset** with a physical value but cannot be readily converted into cash. **Examples** include real estate, equipment, machinery or a vehicle.

ii. **Mandatory disclosures under Cash Basis IPSAS include:**

- Statement of Cash Receipts and Payment
 - recognizes all cash receipts and payments including cash balances controlled by government
 - Segregates payments made by Third Parties on behalf of government
- Statement of Budget Execution - Approved Budget, comparison of budget and actual amounts
- Optional Statements – Statement of public debt;
- Accounting policies and explanatory notes

iii. **Statement of Cash Receipts and Payments using Trial Balances**

	<u>Actual</u> K'000	
<u>Revenue</u>		
Tax Revenue	14,660	
Non Tax Revenue	1,160	
Grants	52,130	
Other Revenue	-	
Total Revenue	67,950	
<u>Expenditure</u>		
Personnel Emoluments	9,000	
Uses of goods & services	5,360	
Financial charges - Interest	3,190	
Debt Service	-	
Social Benefits	1,040	
Non-Financial Assets - Capital	1,220	
Other Expenditure payments	910	
Total Expenditure	20,720	
Excess of Revenue over expenditure	47,230	

	<u>Workings</u>	<u>K'Million</u>			
1	Tax Revenue:		6	Financial charges	
	PAYE	7,330		Domestic debt int	1,450
	Corporation tax	5,010		External debt Int	1,740
	VAT	2,320			3,190
		14,660			
			7	Non- financial assets	
2	Non Tax Revenue			Purchase of vehicles	250
	Fines	150		Purchase of equipment	380
	Fees	310		construction of infrastru	560
	Fuel Levy	700		New Equipment - Kabwa	30
		1,160			1,220
3	Grants	400	8	Borrowings & Grants	
	Cash rec'vd	30		Treasury bills	11,120
		430		Bonds	13,460
				Euro Bond	7,460
4	Personel Emoluments			Bilateral & multilateras c	19,660
	Superscale	6,760			51,700
	Div I & II	2,010		Grants	430
	Div III	230			52,130
		9,000			
5	Uses of Goods and Services				
	Admin cost	3,350			
	conferences & seminars	1,260			
	foreign travel	750			
		5,360			

(b)

i. **MTEF**

Term Medium Term Expenditure Framework – also known as the Green Paper

- Consultative document based on the long term Vision and National Development Plan of the country.
- Outlines governments fiscal and macroeconomic targets including total revenues and expenditure projections for the next 3 years
- Sets out priority areas of expenditure and resource mobilization and allocations
- Includes strategies in growing the economy, mobilization of resources and spending areas
- Links policy making, planning and budgets

ii. **Call Circular** – also known as the Budget Circular

- The Call Circular is a budget manual aimed at providing guidance to Ministries, Provinces and Spending Agencies (MPSAs) in preparing the Medium Term Expenditure Framework (MTEF) and 2019 Annual Budget estimates of revenue and expenditure
- Difference is that the MTEF is a 3 year projection whilst the Call Circular is an annual estimation which forms part of the MTEF.

iii. **Budgeting Methods**

- **Incremental Budgeting** – a budgeting system where a budget is prepared using a previous period's budget or actual performance as a basis with incremental amounts added for new budget period. Only incremental amounts are added to arrive at the new amounts so as to allow for small increases in amounts.
- **Program Budgeting** – is a budgeting system that describes and gives the detailed costs of every program that is to be carried out with a given budget. The budget only includes revenue and expenses for a specific program.
- **Zero-based Budgeting** - is a method of budgeting in which all expenses must be justified for each new period. Every function within an organization is analyzed for its needs and costs, so budget starts from a zero base.
- **Activity Based Budgeting** – is a method of budgeting designed to provide greater transparency into the budgeting process. In its most basic form, it's a method of budgeting based on activity framework, using cost driver data in the budget setting. It follows the following steps:
 - i) Identify activities and their cost drivers
 - ii) Forecast the number of units of cost driver for the required activity level
 - iii) Calculate cost driver rate
- **Output Based Budgeting** – output budgeting is a wide-ranging management technique that is used to measure performance through budget. It is like a progress card on what various ministries and departments have done with outlays announced in the annual budget
- **Performance Based Budgeting** – is an approach to budgeting that reflects the input resources and the output of services for each unit of an organization. It is commonly used by the government to show the link between tax payer's money and outcome of services provided by government from same funds.

SOLUTION TWO

i. Total Public Debt

External debt, Domestic Debt, Guarantees, Contingent Liabilities including debt owed by central and local government and by public (state-owned) corporations. External debt is debt owed to lenders outside the country, e.g Euro bond while internal debt is the government's obligations to domestic lenders.

ii. Debt Sustainability

When government is able to service all its debts without undue stress or adjustments to its income and expenditure balance in the medium to long term. Debt is sustainable when government's current and future streams of income covers expenditure.

The objectives of DSA:

- To evaluate government's ability to finance its programs and at the same time service the ensuing debt without undue pressure on its income stream compromising the macroeconomic stability of the country.
- To reduce chances of excessive buildup of debt
- To recommend for a borrowing that limits risk of debt distress.
- To help guide countries and donors in mobilizing critical financing for low income countries.

iii. Benefits DSA include:

- i. To evaluate the solvency and liquidity status of the country's total public debt portfolio, taking into account current and future debt obligations;
- ii. To determine the fiscal space available to the government with a view to determining the borrowing limit, given the current debt level;
- iii. To guide the government on optimal funding options for its projects and programs;
- iv. To detect current and potential future fiscal stress that might be caused by external shocks with a view to preventing and resolving the crises;
- v. To evaluate the risks inherent with the current total debt portfolio and proffer mitigating measures; and,
- vi. To examine the impact of on-going fiscal policy reforms of the government and monetary policy objectives on public debt management strategies and provide policy advice.

iv. Actions to take in order to reduce debt burden:

- i. Prioritize expenditure
- ii. Convert debt into equity or assets
- iii. Stop contraction of new debt
- iv. Limit debt service payments
- v. Consolidate debt and refinance existing debt
- vi. Reschedule debt payments

SOLUTION THREE

(a) Payroll Management and Establishment Control (PMEC)

- i. Main features:
 - Organizational management – creation, abolition and upgrading of original units, position and jobs
 - Personnel Cost Planning – manages personnel emoluments budgets against establishment register.
 - Personnel administration - manages terms and conditions of service
 - Payroll management – manages payroll payments and deductions.
 - Authorizations - manages security access and data.
 - Little input from user is required.
- ii. Users of financial information

<u>Users</u>	<u>Information Requirements</u>
Taxpayers	Impacts of govt expenditure result in increased or reduced tax payments
Donor Community	Interested to see that funds are used for intended purposes and plans are attained as agreed. To access effectiveness of govt spending and ensure poverty alleviation
Media	Explain to society govt actions and impact on society
Creditors	Ascertain whether govt will have ability to pay back loans and borrow more
Investors	Return on investment
Planners	Planning purposes
Regulators	Govt spending is within legal requirements and made within financial controls
Economists	To understand key performance and underperforming areas of economy and forecast future financial and economic positions of the economy
Auditor General	Ensure govt accounts properly prepared' accounted and resources are efficiently, economically and effectively utilized

Trade Unions	Salary negotiations and other related emoluments
Contractors and Suppliers	Sufficient funds to pay contracts
Accountants	Use financial reports to develop and maintain management information system which make payments, capture information real time, and identifies spending patterns of various Government organization.
NGOs	To understand key areas of the country that require social and economic intervention.

(b) **Chart of Accounts**

1. **Consistency of recording** - Allows expenditure and revenue to be recorded in a consistent manner
2. **Comparison** - Allows for prior year comparison, budget vs actual expenditure
3. **Completeness of recording** - Ensures that all government expenditure/revenue is reported.
4. **Identification of transactions** – arranges transactions in logical sequencing by identifying type, quality, location, cost, frequency of occurrence sector and objectives of national budget.
5. **Standardization of codes** –allows for common uses by standardization of in a logical manner
6. **Allows for Uniformity of planning**
7. Enables **flexibility of the budget and accounting** introducing cost and revenue centres
8. Highlight **sources of revenue and expenditure**, funding for capital projects

SOLUTION FOUR

(a) **Cash and Accrual Accounting**

i. Cash and Accrual Accounting

Cash Accounting – revenue recognized when cash is received and expenses when cash is paid.

Accrual Accounting – revenue is recognized when earned and expenses when incurred.

ii. Advantage and disadvantage of cashing accounting

Advantages

- easier and simple to use

- easier to determine when a transaction has occurred (money in and out of the bank)
- easier to track how much cash the business has at any given time
- business income is not taxed until it is received.
- Easier to audit the business
- Creative accounting minimized

Disadvantages

- does not provide useful information for managing receivables and payables
- no faithful representation from financial statements (less reliable information)
- assets and liabilities of the business not recognized hence worthiness not known in totality.
- Does not show income invoiced but not received
- Does not take future expenses into account
- Shows misleading picture of long term wellness of sector
- Pause limits in making more predictive decisions for the business.

i. Revenue and Expenditure Statement for the Months January to March 2018

Statement of Revenue and Expenditure for January to March 2018							
	<u>Cashing Accounting</u>				<u>Accural Accounting</u>		
	<u>January</u>	<u>February</u>	<u>March</u>		<u>January</u>	<u>February</u>	<u>March</u>
Revenue	0	0	8,000		0	8,000	0
Expenditure	0	-3,000	0		0	-3,000	0
		-3,000	8,000		0	5,000	0

(b) Public Procurement

i. Definition:

Process by which a public institution selects, receives and pays for the inputs it requires to produce its goods and services and construction works in the most cost effective way.

ii. Procurement principals include:

- **Transparency** – information about the procurement is accessible to all bidders
- **Integrity** – reliable bidding information is provided to all bidders

- **Economy** – efficiency, value for money, fair price and managing resources with due care and diligence is taken so that there is good value for money.
- **Openness** – requirements should be open to all those who qualify to participate in the bidding
- **Fairness** – all bidders are treated the same way without bias.
- **Competition** – No hindrance to participate in the procurement and tender requirements must be proportionate to the contract.
- **Accountability** – everyone is accountable and is sanctioned when they go against the rules.

Public Procurement is key to PFM – reduces corruption, financial savings, value-for-money and economic empowerment.

SOLUTION FIVE

Ethics – Threats

Five (5) categories of common threat:

- **Self-interest threat.** Commonly called a 'conflict of interest' which may inappropriately influence judgment or behavior.
- **Self-review threat.** When you are required to evaluate the results of a previous judgment or service.
- **Advocacy threat.** Arising if promoting a position or opinion to the point that your subsequent objectivity is compromised.
- **Familiarity threat.** When you become so sympathetic to the interests of others as a result of a close relationship that your professional judgment becomes compromised.
- **Intimidation threat.** When you are deterred from acting objectively by actual or perceived pressure or influence.

Safeguards

- i. Put in place appropriate disciplinary processes
- ii. Implement policies and procedures that monitor the employee performance
- iii. Ensure that employees act in an ethical manner
- iv. Effective communication that emphasizes the importance of having high caliber and competent staff
- v. Put in place policies and procedures that encourage employees to communicate ethical issues to management without fear of retribution.
- vi. Enhancing internal controls
- vii. Consulting with other appropriate professional institutions

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 2: LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION

FRIDAY 15 JUNE 2018

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

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8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A

This question is compulsory and must be attempted

QUESTION ONE – (COMPULSORY)

Doctors at Kalingalinga Clinic wrote to the Minister of Health complaining among other things of the poor working conditions, lack of medicine and non-payment of overtime allowances for over six months. The Minister did not respond. The Chief Medical Officer and other doctors organized a procession in which they hoped to raise awareness to the public of the bad conditions in which they were expected to save lives. They were to march from Kalingalinga Clinic to State House and present a petition to the President, and then march back to the Clinic. The conveners notified the Inspector General of Police as required by law, that is, 14 days before the intended procession. If the police was not ready to police the procession on that day, police could have suggested an alternative date, but they did not. Instead, the police informed the conveners that the police did not have enough man power, and the procession could not go on. The Doctors went ahead with the procession and they were arrested and charged for illegal assembly under the Public Order Act.

- (a) Identify the sections of the Public Order Act under which such arrests would be made. (10 marks)
- (b) With reference to case law identify and discuss any constitutional breaches that would have been committed by the parties. (15 marks)
- (c) Explain the recourse the Doctors would have in event that they are arrested and being prosecuted under the identified sections of the Public Order Act above. (15 marks)

[Total: 40 Marks]

SECTION B

Answer Three (3) questions from this Section

QUESTION TWO

- (a) Define what law is and its relevance in public administration. (5 marks)
- (b) Write notes on the following sources of law in Zambia.
- (i) The constitution
 - (ii) Acts of Parliament
 - (iii) Delegated legislation
 - (iv) Case law
 - (v) Customs (5 marks)
- (c) Explain what a constitution is and, making reference to the constitution of Zambia and decided cases discuss the supremacy of the constitution compared to other laws. (10 marks)

[Total: 20 Marks]

QUESTION THREE

Three Ministers and the Mayor of Lusaka met at the National Assembly Motel in Lusaka to discuss the emergencies that had befallen them. They needed a quick response to curb loss of life and conserve nature by preventing indiscriminate logging of trees. The Minister of Lands and Natural Resources lamented the cutting down of indigenous trees like the Zambezi tic, Rosewood and the Mukula tree, these were exported to unknown countries. Many of those involved in this illegal trade claimed that these logs were in transit from neighboring countries, such as Congo D.R; she noted that the high electricity tariffs had led to increased charcoal trade which did not spare any tree species. While movement of charcoal was restricted, its sell around the capital city was not. To make matters worse, there is Forest Police to enforce the law.

Both the Minister of Health and the Minister of Local Government, as well as the Mayor of Lusaka could not hide their tears as they mourned lives lost due to the Cholera pandemic which had rocked the capital city. They unanimously agreed in their Press statement that Cholera was caused by street vending of contaminated food, sell of vegetables grown in water containing human waste or fish caught in contaminated water and decided to ban the sale of the same in the streets.

- (a) Identify two sources of law that may help to arrest the situation, advising on the legal content to be included in the law. (10 marks)
- (b) Suggest and explain suitable and satisfactory remedies that may be available under judicial review if any of the above officers acted ultra vires. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Identify the members of board of the Zambia Revenue Authority. (6 marks)
- (b) State the functions of the board. (4 marks)
- (c) Identify the instances when the following remedies can be granted under Judicial Review:
 - (i) Certiorari (4 marks)
 - (ii) Mandamus (2 marks)
 - (iii) Declaration (2 marks)
 - (iv) Injunction (2 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Discuss the grounds to be satisfied by the applicant for judicial review before the Courts of Law. (10 marks)
- (b) What requirements are needed for one to be granted leave for Judicial Review by the High Court? (5 marks)
- (c) Explain why the High Court is said to have 'unlimited jurisdiction.' (5 marks)

[Total: 20 Marks]

END OF PAPER

PFM2 LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION SOLUTIONS

SOLUTION ONE

- (a) The sections of the Public Order Act under which they may be arrested and charged are 5(4) and 7. Section 5(4) requires that where two or more people wish to have a public meeting, they need to notify the police who shall accompany the procession and provide security during the period of the procession. The police are also required to ensure law and order is maintained during the time being when the procession is in place. Section 7 on the other hand criminalizes any act in breach of section 5(4) above. Any person therefore who contravenes sub-section 4 of section 5 commits a criminal offence and if convicted, will be liable to a sentence of not more than 3 years.
- (b) Articles 20 and 21 of the republican constitution guarantees from of expression and assembly and association respectively. Under article 1(1) of the 2016 constitution, any law that is inconsistent with the constitution that law is void to the extent of the inconsistency. Since the articles above guarantee the said freedoms, unless there are exceptional circumstances, any act in breach of the freedoms under the said articles would be adjudged void. In the matter at hand and making reference to the celebrated case of *Christine Mulundika and Seven Others*, the arrest and prosecution of the protesters would be construed unconstitutional. Sections 5(4) and 7 of the Public Order Act would therefore be construed to be unconstitutional and may be invalidated for unconstitutionality and any prosecution pursuant to the said section and sub section would equally be unconstitutional. In *Christine Mulundika and Seven Others v The Attorney General*, the applicants were acquitted in the Magistrates Court after making a referral to the High Court and their appeal to the Supreme Court.
- (c) The bill of rights in the Zambian constitution has provided enforcement mechanisms where one contends that their rights and freedoms as guaranteed under the bill of rights are being, have been or are likely to be contravened in relation to them. Article 28(2)(a) provides that where in the subordinate court any of the parties who alleges that their rights under articles 11 to 26 inclusive are through the prosecution process, that person may apply to the presiding magistrate who shall refer the matter to the High Court (Constitutional Court now in accordance with article 128 of the 2016 constitution). The court to which the matter is referred shall then make a determination on the alleged infringements and if substantiated, the applicant may then be acquitted. This as the case in *Christine Mulundika and Seven Others v Attorney General and Resident Doctors Association v the Attorney General*.

SOLUTION TWO

(a) Law has been defined differently by different scholars. Some define it as a tool of social control because of its nature to control human conduct in society. Concise definition can however be drawn from Ghandi who defines law as:

“a body of rules laid down for guidance of human conduct imposed by some authority which makes it a command of that authority and is enforced”.

Law is therefore defined as a body of laid don rules for the guidance of human conduct imposed by established authority making it a command of the said authority and is enforced in event of a breach.

Law is relevant in public administration as it sets out how those that perform public administrative functions should conduct themselves to ensure they abide by the provisions of the law. Law is also relevant in public administration as it ensures there is no arbitrariness in the execution of public administrative functions. Where therefore anyone who performs public administrative functions acts contrary to the provisions of the law, enforcement mechanisms are available to ensure there is accountability for the manner public administrative functions are performed.

(b)

- i) The constitution as a source of law – the constitution is said to be a document that contains the fundamental laws of a country. In Zambia the constitution comes from the people and it is considered the first of all the laws of the land. The constitution is said to be the primary source of law in Zambia as, all laws made by other bodies with power to make law, are required to make that law in conformity to the constitution.
- ii) Acts of Parliament in Zambia are laws made by the country’s parliament. The constitution has conferred powers on the country’s legislature to make laws. However, when laws are made by parliament, they are required to conform to the provisions of the constitution otherwise they are declared null and void should they not. Acts of Parliament are usually known as administrative laws.
- iii) Delegated legislation is another source of law in Zambia. Delegated legislation is law made pursuant to Acts of Parliament. When parliament has passed legislation, it further gives power to other institutions to make laws.
- iv) Case law is equally another source of law in Zambia. Case law also known as precedents is judge made law.
- v) Customary law has existed from the time man existed. These are customs that guide the manner in which a society is required to exist. For example, in Zambia we practice customary and civil law. All customary matters are dealt with in the local courts.

(c) As already stated above, the constitution is a document that contains the fundamental laws of a country. It establishes the organs of government and confers on them the powers they have in the governance of the country. In Zambia like in many other countries, the constitution is said to be the supreme law of the land. Article 1 clause 1 of the Zambian constitution makes a declaration of its supremacy in relation to other laws. The supremacy of the Zambian constitution was illustrated in *Christine Mulundika and Seven Others v The Attorney General*. The case concerns the applicant and seven others who were arrested and charged under section 7 of the Public Order Act for breaching section 5(4) of the same Act. Section 5(4) of the Act required persons wishing to hold a public rally to obtain a permit from the police. Failure to obtain such permit constituted a criminal offence under section 7 of the Act. A permit was denied to *Christine Mulundika and Seven Others* but decided to hold the rally anyway. They were arrested and charged under the Act and brought before a magistrate. They however challenged the constitutionality of section 5(4) and 7 of the Act contending they were in violation of articles 20 and 21 of the constitution. The matter was referred to the High Court pursuant to article 28 of the constitution. The Supreme Court ruled in favour of the applicants holding that sections 5(4) and 7 of the Act indeed violated the constitution which guaranteed fundamental rights of freedoms of expression, association and assembly. The principle of law established by the case is that the constitution in Zambia is the supreme law of the land and should any other law be inconsistent with it, that other law is to the extent of the inconsistency to be declared void.

QUESTION THREE

(a)

- The Minister of lands may issue a Statutory Instrument guided by the enabling Act of Parliament on logging and timber production and export. The SI may be used to ban cutting down, transportation of trees or movement of charcoal within a certain radius, say 100 kilometers.
- The Minister issue an SI suspending export of endangered species like the Mukula tree.
- The Minister can issue an SI banning transit of trucks carrying species.
- The Minister can engage Defence and Security wings, as well as government agencies such as the Road Transport and Safety Agency (RTSA) and the Zambia Revenue Authority (ZRA).
- The Minister of local government may issue a Statutory Instrument, while the local authority represented by the Mayor can issue by-laws banning vices that lead to cholera outbreak or use new regulations to strengthen existing legislation, for example stiffening penalties.

(b)

The Ministers of Local Government and the Minister of Health may issue SIs but the Mayor can only issue by-laws banning street vending, and also enforce the Public Health Act. Regular inspection to ensure that food stuffs are sold in designated places and in a clean environment must be conducted by local authorities ensure that

foodstuffs are not contaminated. Stiffer penalties may also assist in curbing practices that endanger sanitation. For example it is a public nuisance to throw litter from a moving vehicle and it is punishable by paying a fine.

SOLUTION FOUR

- a) The Zambia Revenue Authority board comprises of the Secretary of the Treasury, the Permanent Secretary in the Ministry of Justice, the Governor of Bank of Zambia, representatives of the Law Association of Zambia, the Zambia Confederation of Chambers of Commerce and Industry, the Zambia Institute of Certified Accountants, the Banker's Association of Zambia,² representatives appointed to the board by the Minister of Finance and the Chairperson elected by and from amongst the members of board.

- b) The duties of the board include making decisions, assessing, charging, levying, collecting all revenue due to the government and ensuring that all revenue is collected within the time credited to the national treasury.

- c)
 - i) Certiorari is a quashing order. It is granted in instances where there is want or excess of jurisdiction, where there is pecuniary bias, denial of the right to be heard and where there is denial of granting the right to legal representation on the part of an administrative institution, an inferior court or tribunal.
 - ii) Mandamus is a mandatory order. It is granted in instances where there is need to compel an administrative institution, inferior court or tribunal to exercise a duty which it neglected to exercise.
 - iii) Declaration is granted in an instance where a person is aggrieved by the decision of an inferior court, tribunal or administrative institution so that the High Court can state the legal positions of the parties.
 - iv) An injunction is a prohibitory order. It is granted in instances where there is need to prevent a tribunal or an administrative body from exceeding its jurisdiction or infringing the rules of Natural Justice.

SOLUTION FIVE

- a) A person seeking leave for Judicial Review before the court should satisfy the following grounds:

ILLEGALITY

In Lord Diplock's words, this ground means that the decision maker "must understand correctly the law that regulates his decision-making power and must give effect to it". A decision may be illegal for many different reasons. There are no hard and fast rules for their classification, but the most common examples of cases where the courts hold administrative decisions to be unlawful are the following:

The decision is made by the wrong person (unlawful sub-delegation)-If the law empowers a particular authority, e.g. a minister, to make certain decisions, the Minister cannot sub delegate this power to another authority, e.g. an executive officer or a committee. This differs from a routine job not involving much discretion being done by civil servants in the Minister's name, which is not considered delegation.

The decision maker went beyond their power: ultra vires- The classic example of this is **Attorney General v Fulham Corporation (1921)** where Fulham council had the power to set up wash-houses for those without the facilities. They decided to charge people to use it. The court held they went beyond their power by trying to benefit commercially from something that was supposed to be for everyone.

IRRATIONALITY

Under Lord Diplock's classification, a decision is irrational if it is "so outrageous in its defiance of logic or of accepted moral standards that no sensible person who had applied his mind to the question could have arrived at it." This standard is also known as Wednesbury unreasonableness, after the decision in **Associated Provincial Picture Houses Ltd v Wednesbury Corporation**, where it was first imposed.

Unlike illegality and procedural impropriety, the courts under this head look at the merits of the decision, rather than at the procedure by which it was arrived at or the legal basis on which it was founded. The question to ask is whether the decision "makes sense". In many circumstances listed under "illegality", the decision may also be considered irrational.

Proportionality is a requirement that a decision is proportionate to the aim that it seeks to achieve. E.g. an order to forbid a protest march on the grounds of public safety should

not be made if there is an alternative way of protecting public safety, e.g. by assigning an alternative route for the march. Proportionality exists as a ground for setting aside administrative decisions in most continental legal systems. However, it is not as yet a separate ground of judicial review, although Lord Diplock has alluded to the possibility of it being recognised as such in the future. At present, lack of proportionality may be used as an argument for a decision being irrational.

PROCEDURE IMPROPRIETY

A decision suffers from procedural impropriety if in the process of its making the procedures prescribed by statute have not been followed or if the "rules of natural justice" have not been adhered to.

Statutory procedures

An Act of Parliament may subject the making of a certain decision to a procedure, such as the holding of a public hearing or inquiry, or a consultation with an external adviser. Some decisions may be subject to approval by a higher body. Courts distinguish between "mandatory" requirements and "directory" requirements. A breach of mandatory procedural requirements will lead to a decision being set aside for procedural impropriety.

Breach of natural justice

The rules of natural justice require that the decision maker approaches the decision making process with "fairness". What is fair in relation to a particular case may differ. As pointed out by Lord Bridge in **Lloyd v McMahon [1987] AC 625**, "the rules of natural justice are not engraved on tablets of stone".

- b) According to Order 53 Rule 1, application for leave should be made by ex parte originating summons and should be supported by a statement setting out the name and description of the applicant, the relief sought and the grounds on which one is making the application. The applicant should have an interest in the matter and there should not be other more appropriate procedures for appeal existing aside for Judicial Review. The application should only be made against a public body.
- c) The High Court is said to have unlimited jurisdiction because it can handle any matter. It has the power to hear both criminal and civil cases. It has both original and appellate

jurisdiction. This means that it can hear appeal cases and new cases which are initiated there in. It has no limitations as to fines or the nature of punishment as is the case with the Magistrate Court.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR

TUESDAY 12 JUNE 2018

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: There are four (4) questions. Attempt any three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A:

This question is compulsory and must be attempted.

QUESTION ONE - (Compulsory)

Case Study -Decentralization in the Local Authorities in Zambia.

The Government's responsibility in a modern society is an enormous task involving the social economic and political aspects of citizens of a particular country. For this reason most countries find it necessary to decentralize their administration. Such decentralization can take a number of forms, for example; functional decentralization in which a particular service or function is hired from the Central Government to a semi-independent organization referred to as "quango" (quasi-autonomous non-governmental organization).

Another form is regional devolution; which involves the limited transfer by central government of specific functions with all of the administrative, political and economic attributes that these entail, to Local (i.e. Municipal) government which are independent of the centre within a legally delimited geographic domain.

Local government is an example of such devolution, but on a local basis. Local government is self-government involving the administration of the local community. Although subject to the central government in many ways, it must possess a considered amount of responsibility and discretionary power.

The Zambian Local Authorities have over the past 40 years undergone changes in their internal organization. Confidence and optimism, sustained and reflected in their expanding budgets, have given way to reduced spending plans and reduction in service provision. They are currently experiencing a longer term and noticeable threat which can be described as "delocalization" meaning; central government is always concentrating its power at the center and not devolving it to local levels. This is evidenced by loss of resources to adequately deliver social services. This is caused by inter alia, drainage of Council revenue bases through changes in taxation policy i.e., through macro-economic reforms and privatization; 'penetration' by Central Government of the District and Sub -District level (the establishment of Constituency Development funds committee.

The primary objectives of a decentralized system are to facilitate the efficient delivery of services and to promote accountable and transparent governance, which responds to and benefits all sectors of society, particularly the poor and which strives to eradicate all forms of exclusion. Thus the need for Local Government arises together with the need to bring the government closer to the communities.

Required:

(a) Briefly explain any **five (5)** factors that influence the decentralization of a government system. (10 marks)

(b) Describe any **five (5)** primary objectives of decentralization. (10 marks)

(c) Despite the several benefits of decentralization, central government is always concentrating its power on the central government and not on local government.

Provide any five (5) arguments why this is the case from the Zambian context.

(10 marks)

(d) Governments around the world use "***The Doctrine of Separation of Powers***".

(i) Define the term Doctrine of separation of powers. (1 mark)

(ii) State the Three (3) main spheres under which government is structured.

(9 marks)

[Total: 40 Marks]

SECTION B

Attempt any three (3) questions in this section

QUESTION TWO

"Since the early 1990s the Zambian Government has been implementing New Public Management reforms to stimulate the efficiency of the public sector and improve service delivery to Zambian citizens. However, despite these reforms the performance of government institutions has continued to fail in either quantity or quality of services as expected by tax payers. As Mulenga (2013) noted: "the abysmal state of the public sector in Zambia is no secret to the consumers". The implementation of New Public Management reforms is supposed to bring about increased efficiency of the professional administration and improved service delivery by public institutions (Pendlebury and Karhai, 2002; Pollitt and Talbot, 2004; OECD, 2005). This is because New Public Management reforms create statutory agencies or semiautonomous public institutions (the so-called agencification of public institutions) which bring about more flexible, responsible, customer friendly public service (Atreya and Armstrong, 2002; Pollitt et al., 2005; Vinni, 2007; de Waal, 2011). This effect is supported by the fact that, as Van Thiel (2009) states, public managers in statutory agencies or semiautonomous public institutions operate at arm's length of the government and therefore can carry out public tasks in a relatively autonomous way, thus having considerable managerial freedom."

Extracted from the HPO center Scientific Articles.

Required:

- (a) According to Henri Fayol, there is a single "administrative science" whose principles can be used in all management situations regardless of the type of organization. Briefly explain the four (4) most suitable principles of management the Zambian government should reinforce. (8 marks)
- (b) Briefly explain any three (3) major differences between human resource management and personnel management. (12 marks)

[Total: 20 Marks]

QUESTION THREE

TIZ calls for end to overpricing in public procurement

September 12, 2017

TRANSPARENCY International Zambia says many people view government as a milking cow when it is awarded contracts to supply goods and services.

TIZ has advised government procurement agencies to stop the trend of overpricing goods and services being purchased by the government.

The government has announced that \$1.2 billion would be spent on the 321 kilometer Lusaka-Chingola dual carriageway, yet experts reveal this distance could be worked on for not more than \$600 million, questioning the reasons behind the contract cost.

In a statement, TIZ executive director Wesley Chibamba challenged government to be more accountable to citizens, especially with regard to public resource management. He stated that public procurements were the main area of concern.

Required:

- (a) Explain the role of budgeting in the public sector, outlining the various outcomes that effective budgeting can achieve. (12 marks)
- (b) Describe how an Enterprise Contract Management System (ECMS) can reduce contract costs. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Define Public administration according to Pfeiffer. (2 marks)
- (b) Outline four (4) similarities between public and private administration. (8 marks)
- (c) Describe the factors that influence public policy decisions. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

One of the many duties of a manager in any business organization is to make decisions. This may include entrepreneurial decisions, problem solving and strategy formulation, to name a few.

Required

- (a) Describe the four decisional roles of managers (10 marks)
- (b) Policy is a plan of action or a set of decisions taken by a political actor or group. In the public sector, policies are formulated to govern the operations of the various departments in government.

Required:

Briefly, explain the following elements of policy:

- (i) Policy Decisions (2 marks)
- (ii) Policy Statements (2 marks)
- (iii) Policy output(s) (2 marks)
- (iv) Policy outcomes (2 marks)
- (v) Policy agenda (2 marks)

[Total: 20 Marks]

END OF PAPER

PFM3-GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR SOLUTIONS

SOLUTION ONE

(a) The factors that influence the decentralization of a government system include:

- i) Size of the organization (large or small)
- ii) Cost and importance of decision
- iii) Uniformity
- iv) History of the organisation
- v) Management philosophy
- vi) Availability of efficient management
- vii) Type of organization
- viii) Branches of organization

a) Decentralization is driven by different objectives and some of them include the following:

- i) To decongest the functions of government from the centre to various parts of the country or state.
- ii) To provide government services and facilities to every nook and corner of a country.
- iii) To involve citizens of a country and or state in governance through political means and policy making.
- iv) To tap human, financial and material resources in all parts of the country.
- v) To take care of peculiar needs and or problems of each part of a country

c) Centralization of government has some benefits which include the following:

- i) Uniformity in action especially in the area of decision making.
- ii) Duplication of certain functions is minimized.
- iii) There is better co-ordination and control of activities.
- iv) Centralization enhances higher levels of specialization and reduced cost.
- v) There is improved quality of work.
- vi) Personal leadership is promoted.

d) The ***Doctrine of Separation of Powers*** means that specific functions, duties and responsibilities are allocated to distinctive institutions with a defined means of competence and jurisdiction. It is a separation of three main spheres of government namely, Legislative, Executive and Judiciary.

- i) **The Legislature:** This is the law making body of a political unit. This wing of government has power to enact, amend and repeal public policy. Laws enacted by legislatures are known as legislation. The legislature also observes and steers governing action and usually have executive authority to amend the budget or budgets involved in the process.
- ii) **The Judiciary:** Administration of justice is the primary function of the judiciary. In Zambia judicial power is vested in the courts. The role of the judiciary is to interpret the law and to adjudicate legal disputes in accordance with the law. Some the major judicial functions include; interpretation of the law to determine the facts involved in cases brought to the courts, guardianship of the constitution and protection of fundamental human rights.
The Executive: The executive branch is responsible for enforcing laws. In Zambia the executive power is vested in the president. Article 33 (2) of the constitution of Zambia provides that the executive power of Zambia vests in the president and shall be exercised by him or her directly or through officers subordinate to him.

SOLUTION TWO

- (a) According To Henri Fayol, There Is A Single "Administrative Science" Whose Principles Can Be Used In All Management Situations Regardless Of The Type Of Organization. Identify And Justify The Four (4) Most Suitable Principles Of Management The Zambian Government Should Reinforce. Fayol held that there is a single "administrative science", whose principles can be used in all management situations no matter what kind of organization being managed. He developed the following principles underlying management of all kinds of organizations:
 - i) **Delegation of authority** should be accompanied with responsibility.
 - ii) **Unity of Command;** every subordinate should get instructions from one superior. Dual command is a potential source of conflict.
 - iii) **Unity of Direction:** All operations of the same nature should have one manager and one plan.
 - iv) **Scalar Chain of command:** There should a clear line of authority especially as information flows from the highest level of the organization to the lowest level.
 - v) **Division of work:** This promotes specialization and effective utilization of the human resources.

- vi) **Discipline:** Helps members of the organization to be dedicated to their duties and give out their best abilities in the work.
- vii) **Subordination of individual interest to the general:** The interest of individuals should not supersede organizational interest. Members should promote the interest of the organization first.
- viii) **Remuneration:** Employees must be given a fair salary commensurate with their effort.
- ix) **Centralization:** Management at senior level must retain authority for key decision making.
- x) **Order:** All material things and people must be in their rightful places.
- xi) **Equity:** Treat all employees with fairness and justice.
- xii) **Stability and Tenure of Personnel:** Employees should be allowed to make long-term commitments to the organization.
- xiii) **Initiative:** Employees should be allowed to express their full potential in terms of creativity and innovation.
- xiv) **Esprit de corps:** Peace and harmony are a foundation of strong organization.

(b) Describe The Major Differences Between Human Resource Management And Personnel Management.

- Personnel Management is about administration and procedures while Human Resource Management is about a strategic approach to the acquisition, motivation, and management of an organization's human resources.
- Human resource management adopts the executive roles and transfers the personnel management aspects to the level of line management. Human resource managers often adopt advisory roles as opposed to purely functional and implementation roles.
- Personnel management is pre-occupied with the day to day running of the organization while human resource management adopts an advisory role and attempts to ensure that the organization's activities are closely linked with its corporate strategy and that they fit into the culture on the organization.

SOLUTION THREE

- a) Explain The Role Of Budgeting In The Public Sector, Outlining The Various Outcomes Effective Budgeting Can Achieve.

THE ROLE OF BUDGETING:

Budgeting is the act of compiling a plan to get resources (planned revenue), and to use those resources (planned expenditure) to meet the objectives of an institution. The objectives contained in contracts must be consistent with the strategic objectives of the institution.

Public sector reforms have previously included a move towards focusing on non-financial as well as financial targets. That is, service delivery promises are included in budgets so that the institution can be held accountable for delivering service promises within budget.

In a public sector context, budgeting is no longer about simply tracking expenditure and revenue over the period of one year. It is now about maximizing service delivery resources with a focus on sustaining this over time.

In other words, governments are charged with delivering services according to constitutional and legislative objectives while being responsible for the efficient management of public funds.

Aggregate fiscal discipline refers to the process of monitoring and controlling financial performance at a summary level. It ensures that revenue and expenditure targets in the budget are realistic and that revenue and expenditure targets in the budget are realistic and that actual performance is managed to meet targets.

Proper planning and budgeting for contracts contributes to the credibility of expenditure targets for purchase and receipt of goods and services, revenue targets and cash requirement targets. If contracts were not planned for and implemented accordingly, monitoring and controlling of financial performance would be difficult if not impossible.

- b) Enterprise contract management systems/solutions focus on contract life cycle management. Such a system can equally contribute to the cost reduction of contracts.
 - i) By consolidating contracts, contract management workload as well as negotiation is made possible, thereby reducing contract costs.
 - ii) This system can reduce the cost of internal and external audits, as more control measures would be in place, leading to a reduction in risk penalties for non-compliance with legislation and regulatory frameworks.
 - iii) This system allows for the automation of contract authoring and collaboration that in turn lessens the administrative burden and frees up parties to concentrate on negotiating better contracts. Resources can then be diverted to value added tasks, thereby reducing contract costs.
 - iv) The system allows the user to link key trigger dates in the contract document and contract management process to electronic calendars and reminders, providing powerful alert reports for contract owners, managers and other stakeholders. These automated alerts can assist in facilitating timely and accurate invoicing for accounts receivable, ensure follow ups are performed to minimize outstanding debtors and ensure collection of penalties and interest due. All functions of which can lead to cost reductions.

SOLUTION FOUR

- a) J.M Pfieffer

Administration consists of getting the work of government done by coordinating the efforts of people so that they can work together to accomplish their set tasks.

- b) Outline The Similarities Between Public And Private Administration.

- i) Both public and business administration rely on common skills, techniques and procedures.

- ii) In modern times, the principle of profit motive is not peculiar to private administration, because it is now accepted as a laudable objective for public sector enterprises as well.
 - iii) In personnel management, the private organizations have been influenced greatly by the practices of public organizations.
 - iv) The private concerns are also subjected to many legal constraints. Government is exercising much control over business firms through regulatory legislation such as taxation, monetary and licensing policies, etc. Consequently, they are not as free as they once used to be.
 - v) There is a similar type of hierarchy management systems, both in public and private sectors. Both have the same kind of organization structure, superiors-subordinate relationships.
 - vi) Both public and private administration carries on continuous efforts to improve their internal working and also for efficient delivery of services to people or customers.
 - vii) Public and private administration serves the people, whether being called clients or customers. Both have to maintain close contact with people to inform about their services and also to get feedback about products and services. In both cases, public relations help them to inform and improve their services to the people.
- c) Describe The Factors That Influence Public Policy Decisions.

i) PUBLIC OPINION

Public opinion and priorities have a strong influence on public policy over time. Relevant to sustainable businesses is the increasing public concern about the environment, volatile energy prices, and global climate change. This is influencing public policy through electoral politics, citizen rallies, and actions that affect governmental decision makers. Also influencing public policy relevant for sustainable businesses are new scientific findings and information, such as new findings about climate change and the human and business impact on climate change.

ii) ECONOMIC CONDITIONS

Economic conditions also significantly affect the policy environment and operating context for businesses. The Great recession at the end of the first decade of the twenty-first century enhanced interest and support for public investments and

incentives (including energy efficiency and renewable energy) that could help to create jobs.

iii) TECHNOLOGICAL CHANGE

Technological advancements - often motivated by market and business opportunities – also affect public policy. Technology is constantly changing and this affects the business environment directly and indirectly as public policies change with technological inventions. For example, new, lower-cost, and easier-to-use technologies can increase public support for policies that promote renewable energy and energy efficiency and that reduce environmental damage.

iv) INTEREST GROUPS

Interest groups include business and trade associations, professional organizations, labour unions, environment advocacy organizations, and cause-oriented citizen groups and lobbies. Individuals and businesses also organize into associations and interest groups for other reasons than to try to influence government. Interest groups advocate for public policies that serve the desires of their members and further the mission of their organizations.

v) BUSINESS ASSOCIATIONS

Business efforts to influence public policy and government include not only individual company efforts but business associations. These associations act collectively to promote public policies in the best interest of business in general and also in the interest of specific industries and localities. The Chamber of Commerce and the Association of Manufacturers are examples of such business associations.

SOLUTION FIVE

a) The Decisional Roles of managers

The decisional roles involve the making of strategy organizational decisions on the basis of the manager's status and authority and access to information. These roles include entrepreneurial role, disturbance handler role, resource allocator role and negotiator role:

- i) Entrepreneurial role is the manager's function to initiate and plan controlled change through exploiting opportunities or solving problems and taking action to improve the existing situation. The manager may play a major part, personally, in seeking improvement or may delegate responsibility to subordinates
- ii) Disturbance handler role involves the manager in reacting to involuntary situations and unpredictable events. When an unexpected disturbance occurs, the manager must take action to correct the situation
- iii) Resource allocator role involves the manager in using formal authority to decide where effort will be expended, and making choices on the allocation of resources such as money, time, materials and staff. The manager decided the programming of work and maintains control by authorizing important decisions before implementation
- iv) Negotiator role is participation in negotiation activity with other individuals or organizations, for example a new agreement with a trade union. Because of the manager's authority, credibility access to information and responsibility for resource allocation negotiations is an important part of the job.

b) Decisional Roles of Managers

i) Policy Decisions

These are usually actions adopted by public officials for implementation. This is done usually after policy demands by stakeholders such as demands for electricity supply, for health and educational facilities among others

ii) Policy Statements

These are speeches made by public officials indicating intentions and goals of government and what will be done to realize them.

iii) **Policy output**

This refers to what a government/state actually does compared to planned activities (planned activities written down in form of strategy or national plan). For instance, the number of roads actually constructed as compared to the projected number of roads to be constructed.

iv) **Policy outcomes**

These are intentional or non intentional consequences of policies for society that arise from policy implementation (government action) or lack of policy implementation (inaction) of government officials.

v) **Policy Agenda**

This refers to those actions or policies are slated for consideration and adoption. For instance, fiscal policy adjustments such as withholding tax or health care insurance policies.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 4: PUBLIC SECTOR FINANCIAL MANAGEMENT

FRIDAY 15 JUNE 2018

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: There are four (4) questions. Attempt any three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
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5. **Cell Phones** are **NOT** allowed in the Examination Room.
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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet

SECTION A

This question is compulsory and must be attempted

QUESTION ONE – (COMPULSORY)

A Southern African country has introduced austerity measures and budget cuts in the Education Sector that have left the sector with the problem of finding new ways to generate sufficient funds to deliver services, including introducing or raising school fees. The trend of reduction is set to continue until 2025. Some examples of charging are outlined below:

- The Ministry will introduce minimal charge of K6 for every text book allocated to a pupil at the beginning of the term;
- Parking charges for any vehicles parked at the school premises for more than thirty(30) minutes; and
- Increase school fees by 15%.

In order to supplement the efforts of the schools, the Ministry of Education, has engaged a charitable organisation to assist selected schools in rural areas who are not able to raise the resources from the community.

The community through the PTA chairperson in an interview with a Daily Nation Newspaper made the following comments: "A number of schools that were in need of financing were left out on the list of beneficiaries from the charitable organisation engaged by the Ministry of Education. The country's economy is going through a recession and that a number of parents will not afford to pay the school fees. In addition, a number of schools did not avail the budget during Annual General Meeting (AGM) for scrutiny. The community further indicated that the schools do not prepare the budget and that they are not aware of the budget cycle. (*Source of community comments: Daily Nation newspaper 5th December 2017*).

Required:

- (a) Describe the objectives of charging for services by Public Service Organisations. (2 marks)
- (b) Discuss with reference to the case and use of other examples, the desirable characteristics of such charges and factors that should be taken into account when setting fees and charges. (13 marks)
- (c) Discuss, with reference to the case study, the reasons managing stakeholders is important when introducing or changing public service charges. (8 marks)

(d) Discuss the difficulties that can be associated with funding obtained from charitable organisations. (7 marks)

(e) Discuss the differences between traditional historic budgeting and capital budgeting. (10 marks)

[Total: 40 marks]

SECTION B

Attempt any three (3) questions from this Section.

QUESTION TWO

Simutu Beta was employed recently as a Chief Investment analyst in the Ministry of Commerce, Trade and Industry. Mr Simutu Beta was asked to provide advice on an investment of new machinery by a private limited company-Plenty Minerals plc, involved in oil exploration in the remote part of Eastern Province of Zambia. The board of directors of Plenty Minerals plc recently passed a board resolution to invest in a new extracting equipment costing K200,000. This equipment was estimated to have a salvage value of 10% at end of 20 years of its useful economic life. The Financial Data was determined by the Financial Controller of Plenty Minerals plc of the expected revenues and expenditures (annually) clearly associated with the investment in the extracting machine as follows:

Required:

		K	K
Expected Revenue			500,000
Less: Operating Expenses			
Repairs and Maintainance		150,000	
Salaries and Wages		200,000	
Insurance		75,000	
Depreciation		50,000	475,000
Net Operating Income			25,000

- (a) Clearly explain the importance of capital budgeting to public and private sector entities. (12 marks)
- (b) Calculate the payback period for the proposed investment in the extracting machine. (2 marks)
- (c) Advice whether the investment in the extracting machine is financially viable based on your calculation in (b) above given that the desired payback period is 10 years. (2 marks)
- (d) Calculate the accounting rate of return for proposed investment in the extracting machine. (2 marks)
- (e) Advice whether the investment in the extracting machine is financially viable based on your calculation in (d) above given that the accounting rate of return is 10%. (2 marks)

[Total: 20 Marks]

QUESTION THREE

Kali Mining Plc is a mining company situated on the Copper-belt Province of Zambia. The company commenced operations 3 years ago and it is mainly engaged in mining copper and cobalt. The majority shareholders of Kali Mining are from Europe while the government of Zambia owns the minority shares.

Being a developing country, Zambia is encountering various economic challenges in the provision of public goods and services. The formation of the mine is in fulfilment of the government policy of privatization and also promoting foreign investment into the country. It is a means of reducing unemployment and boosting exports. It is also a source of revenue to the government as the mines are subjected to mineral royalty tax. Various incentives to attract foreign investors have been implemented by the government. Some of the incentives to foreign investors include tax holidays, relaxation of company registration legal requirements and investor friendly labour laws.

The establishment of the mine raised various concerns among various stakeholders. This is because the mine is situated in a rural setting and surrounded by villages. A number of villages have since been displaced to pave way for the mine. A recent report by one of the stakeholders referred to various "externalities" which are as a result of Kali Mining activities.

The mine has since its establishment rehabilitated some roads including installation of street lights in some villages. Other activities undertaken by the mine include sponsorship of exceptional footballers and providing scholarships to deserving students to study overseas. This has cheered the villagers and the area member of parliament.

Required:

- (a) Explain the contribution of Kali Mining to the provision of public goods and services, re-allocating resources and governments' fiscal policy initiatives. (8 marks)
- (b) Explain the externalities referred to by the stakeholders which are as a result of Kali mining Plc activities in the copper-belt province. (12 marks)

[Total: 20 Marks]

QUESTION FOUR

You are a consultant in public financial management. You are one of the four (4) consultants invited to present a paper at a workshop for public service workers sponsored by the World Bank. The objective of the workshop is to enhance performance management in the public sector and to discuss the ongoing public sector financial management reforms.

You have been specifically asked to cover the factors impacting on public sector financial management and the indicators of performance management in the public sector.

Required:

Prepare a draft paper in summary form to be used as part of your presentation covering the following:

- (a) Explanation of the four types of performance indicators in the public sector. (8 marks)
- (b) Explanation of the four factors influencing public sector financial management reforms in Zambia. (12 marks)

[Total: 20 Marks]

QUESTION FIVE

The University Teaching Hospital is a public referral hospital under the Ministry of Health for the Government of the Republic of Zambia. The hospital finances its operations from internally generated revenue (IGR) and government grants. You are a Chief Accountant at the Hospital and you have been given the following information on the revenue and expenditure projections for the Fourth quarter 2017 and first quarter 2018 to help you prepare the cash flow forecast for the first quarter of 2018.

Month 2017/2018	IGR K'000	Grants K'000	Donations K'000	Wages K'000	Goods & Services K'000	Non- Financial Assets K'000	Other Expenditures K'000
October	5,000	10,000	400	600	1,400	2,400	240
November	5,400			610	1,440		480
December	5,500		200	800	1,800	2,000	250
January	6,000	15,000	1,000	1,200	1,600		260
February	6,200			1,400	1,620	3,200	300
March	6,400		1,800	1,600	1,640		580

Addition Information:

1. Cash at Bank as at December 31 2017 was a deficit of K15million
2. The breakdown of internally generated funds were as follows:
 - National health Insurance constitute 60% of the IGR, clients are expected to pay their claims two months after the services have been rendered
 - Corporate customers constitute 20% of the IGR. They are granted one month credit item.
 - Cash customers constitute remaining 20% of the IGR
3. The government grant is released at the beginning of each quarter in full
4. The donations are always received on time. However, the donation for March 2018, amounting to K1, 800,000 will be received 80% in cash and 20% in kind.
5. Wages are paid to casual workers. They are paid in the month incurred.
6. Goods and services will be paid for as follows: 40% in the month incurred and 60% one month in arrears
7. Non- Financial assets are bought in four equal instalments, starting from the month in which asset was bought.
8. Other expenses are paid for as and when incurred.

Required:

- (a) Prepare cash forecast for the Hospital for the first quarter of 2018, showing each month and that of the whole quarter. (16 marks)
- (b) Based on the cash forecast in (a) above, advise management on the investment options available to them for the 2018 financial year. (4 marks)

[Total: 20 Marks]

END OF PAPER

PFM 4-PUBLIC SECTOR FINANCIAL MANAGEMENT SOLUTIONS

SOLUTION ONE

<p>a) Briefly describe the basic objectives of charging for services by Public Service Organisations. Discuss with reference to the case and use of other examples , the desirable characteristics of such charges and identify factors that should be taken into account when setting fees and charges</p>	
<p>The main objectives for charging for public services are to generate income that relates to recovering the costs of providing that service.</p>	
<p>The desirable characteristics for public services:</p> <ul style="list-style-type: none"> • Affordable – in terms of sustainable service delivery and cost recovery, or affordability in terms of any subsidisation. • Equitable – fair to users • Competitive, but without unfair advantage through use of public money • Maintaining a service level that is acceptable (and does not lead to additional costs for reparation) Above all else, any charging strategy must be legal – the organisations must not be prohibited by a specific law to charge for a particular service. 	
<p>Factors to be taken into account:</p> <ul style="list-style-type: none"> • Easily determined and calculated: the methodology should be relatively simple and straightforward and should not involve undue time and effort expended on the part of those responsible. • Equitable: public sector organisations have a responsibility to the users of services and to taxpayers. Charges which are made should be fair to all parties and should be seen to be fair. • Transparent and understandable: in order to reinforce the fairness and encourage people to willingly pay the charges, the basis of charging should be clear to those paying the charges. • Sufficient: that is, sufficient to meet whatever financial objectives have been set in relation to the service being provided. • Compatible with other objectives: the charge should not be set in such a way as to work against the meeting of other, service based objectives. It is important that the mission and purpose of the organisation is recognised clearly and that charges should not conflict with achieving them. 	

<ul style="list-style-type: none"> • Related to ability to pay: the local authority provides services that should be available to all, irrespective of ability to pay. In these cases charges should not act as a barrier preventing people from using the services. • Cost-effective: the charges made should at least cover the administrative cost of recovering them unless there is some other motive behind charging such as encouraging responsible use. 	
<p>b) Discuss, with reference to the case study and use of other examples, why managing stakeholders is important when introducing or changing public service charges.</p>	
<ul style="list-style-type: none"> • To manage expectations of service users with high power and / or interest: It is critical that those affected by changes to charges understand the reasons for charges, and are satisfied that the charges are necessary, fair and justified. The stakeholder engagement activities, including taking into account the views of stakeholders helps to deal with problems and resistance at an early stage. • It is also important to demonstrate good leadership and people management skills when undertaking stakeholder engagement activities, to ensure they are properly understood, and that the process is managed in a fair and equitable way to record all views and comments in a standard format. Those leading the stakeholder engagement must be clear and focused on key issues and themes, and not allow a particular pressure group to direct the engagement process and skew the outcomes unfairly. • Public service organisations make an important political decision when deciding how charges are used – which services should be charged for, which users should pay, and which services should be subsidised (or paid for in full) by taxpayers. Stakeholders’ responses to the introduction of a new charge or the increase of an existing charge can make charging decisions politically difficult. Stakeholders, such as pressure groups, can influence decisions on price setting. • Management of stakeholders is important for a range of reasons. Grant providers may also influence price setting for specific services. For example, grant monies may be provided with the stipulation that the service being funded by the grant is provided free of charge. It is important that a charging policy is clear, structured and consistent with the service objectives set. 	
<p>c) Discuss the difficulties that can be associated with funding obtained from other organisations and charities.</p>	

Before obtaining the grant the Financial Managers must:

- Ensure they are aware of the likelihood of obtaining a grant, before relying on it for planning budgets.
- Be aware of any grant conditions that are attached to funding obtained.

During execution Financial Managers Must ensure:

- Requirements to maintain appropriate financial records of spending, and evidence that funding has been spent on the activity it was granted for.
- Appropriate financial management (governance and controls)
- Adherence to grant conditions
- Retention of evidence of spending on specific activities
- Appropriate financial record keeping for spending.

If the public sector organisation cannot provide appropriate evidence to the granting body – there is a risk that the resulting repayment of a grant could seriously affect the budget, or even the overall financial stability of the public service organisation.

d) Traditional historic budgeting and capital budgeting

Traditional historic budgeting is one of the basic methods of budgeting. It is normally backward looking based on historic information and involves an incremental approach. It can be performed in several ways namely:

- i) The bottom up approach- this is where unit managers prepare their own budget and these are reviewed and consolidated by a central department. Changes are then suggested from the center and eventually after some negotiation a budget is agreed.
- ii) The top down approach- an initial budget is prepared by the Centre with targets for each unit. This is then expanded by unit managers to form a detailed budget.
- iii) Capital budgeting on the other hand is forward looking. It is the planning process used to determine whether an organization’s long term investments in fixed assets are worth the funding of cash. It is the process of allocating resources for major capital expenditures.

There are several methods of capital budgeting namely:

- a) Accounting rate of return
- b) Payback period
- c) Net present value
- d) Internal rate of return.

SECTION B

SOLUTION TWO

Capital budgeting process enables the firm to:

- 1) Develop and formulate long-term strategic goals

The ability to set long term goals is essential to the growth and prosperity of any business. The ability to appraise/ value investment projects via capital budgeting creates a framework for businesses to plan out future long term direction.

- 2) Seek out new investment projects.

Knowing how to evaluate investment projects gives a business the model to seek and evaluate new projects, an important function for all entities as they seek to compete and profit in their industry.

- 3) Estimate and forecast future cash flows

Future cash flows are what create value for businesses over time. Capital budgeting enables executives to take a potential project and estimate its future cashflows, which then helps determine if such a project should be accepted.

- 4) Facilitate the transfer of information

From the time that a project starts off as an idea to the time it is accepted or rejected, numerous decisions have to be made at various levels of authority. The capital budgeting process facilitates the transfer of information to the appropriate decision makers within a company.

- 5) Monitoring and Control of Expenditure and Creation of Decision.

By definition a budget carefully identifies the necessary expenditures and R& D required for an investment project. Since a good project can turn bad if expenditures are not carefully controlled or monitored, this step is a crucial benefit of the capital budgeting process.

6) Creation of Decision

When a capital budgeting process is in place a company is then able to create a set of decision rules that can categorise which projects are acceptable and which projects are unacceptable. The result is a more efficiently run business that is better equipped to quickly ascertain whether or not to proceed further with a project or shut it down early in the process , thereby saving a company both time and money.

i. Suggested Solution:

Payback Analysis:

Payback period=Cost of the extracting machine/Net Annual Cash inflows

$$=K200,000/K75,000^*$$

$$=2.7 \text{ Years}$$

(Extra marks will be given for explaining why depreciation has been added back to Net Income in order to arrive at K75,000). The reason being that depreciation is a non-cash expense. (K25,000+K50,000)

Because the payback period (2.7years) of the extracting machine is well below the desired payback period(10years) of the Plenty Minerals plc, the investment is therefore desirable.

ii. Suggested Solution:

Accounting rate of return = Incremental net operating income/Initial investment

$$=K25,000/K200,000$$

$$=0.125 \text{ i.e. } \mathbf{12.5\%}$$

The accounting rate of return promised by the extracting machine is more than the accounting rate of return of Plenty Minerals plc. The investment in the new extracting machine is, therefore, desirable according to accounting rate of return analysis.

SOLUTION THREE

a)

The role of government in an economy is to provide the legal framework and services needed for the effective operation of a market economy

A public good is a product that one individual can consume without reducing its availability to another individual and from which no one is excluded. Economists refer to public goods as non-rivalry and non-excludable goods. This means that individuals cannot be effectively excluded from use and use by one individual does not reduce availability to others.

In the context of Kinder-land public goods provided by the mine include the roads constructed and the street lights. The sponsorship of footballers and provision of scholarships are in this context not considered as public goods because they do not meet the definition. Not everyone is entitled to the scholarships as they are based on performance.

The tax system is one way of redistributing income because high taxes may be imposed on high income brackets so as to achieve some form of equality in income distribution. Through the payment of mineral royalty tax to government the mine therefore contributes to the redistribution of income. The purpose of this re-distribution of income is to improve the well-being of those members of society who are least fortunate and ensuring that everyone has access to a minimum standard of living.

Fiscal policy relies on government's powers of spending and taxation. Both taxation and government spending can be used to reduce or increase the total supply of money in the economy- the total amount that businesses and consumers have to spend.

When the country is in a recession the appropriate policy is to increase spending or reduce taxes.

Kali mining as a tax payer of mineral royalty tax will contribute to the implementation of government's fiscal policy by complying with the country's tax laws. This may include paying reduced taxes in a recession and paying more taxes in an economic boom.

b)

Externalities are factors whose benefits (called external economies) and costs (called external diseconomies) are not reflected in the market price of goods and services. Externalities are a loss or gain in the welfare of one party resulting from an activity of another party without there being any compensation for the losing party.

An example of the positive externalities (external economies) in the context of the mine is the construction of roads, installation of street lights, provision of scholarships and sponsorships. It refers to the corporate social responsibility efforts where the society benefits in terms of provision of various initiatives or goods and services.

Negative externalities (external diseconomies) may refer to the pollution or smoke which the mine may impose on the nearby villages. The displacement of the villages can be an externality if the displaced residents were not compensated.

Where externalities are there to benefit the society the role of government is to encourage such actions by provision of subsidies to promote social well-being of its citizens, and if there are negative externalities government should step in to restrict such actions. In the case of the mine government should have stepped in to compensate the displaced residents.

SOLUTION FOUR

- a) There are four types of performance indicators in the public sector:
- 1) Output Indicators. These focus on output as the measure of performance. In other words, performance is judged by the quantity of output.
 - 2) Welfare Indicators. These consider the value of performance to the final user. How much the final user benefits as a result of someone's performance. Therefore the end user is the best judge of performance.
 - 3) Performance. This indicator will focus on the how. How the services are being produced. The steps involved in arriving at the final result.
 - 4) Composite indicators that combine the first three.
- b) Factors influencing public sector financial management reforms:
- 1) Government Leadership and ownership
A pre-requisite for successful implementation of any reforms in the public sector is government leadership, commitment and ownership of the reforms at the highest level. PFM reforms fundamentally change the way government does business and their implementation may face resistance. It is therefore important that there is high level leadership and political will for the reforms to be implemented successfully.
 - 2) Coordination across Government
The institutional arrangements are important in implementing PFM reforms. This requires involvement of key stakeholders through established structures to support implementation. If this is lacking, this may adversely affect implementation.
 - 3) Technical Capacity.
The nature and complexity of the reforms require that technically competent staff are involved in the reforms. However, in many developing countries undertaking these reforms, capacity may not exist and this does affect implementation.
 - 4) Availability of Resources
These reforms require substantial financial resources to be implemented and in most cases these may not be available. However, development partners have provided funds in the recent past to support these reforms.

SOLUTION FIVE

- a) **Prepare cash forecast for the Hospital for the first quarter of 2018, showing each month and that of the whole quarter (16 marks)**

University Teaching Hospital Cashflow Forecast for the First Quarter 2018

	January K'000	February K'000	March K'000	Total K'000	
Receipts/Inflows					
Cash – IGR	1,200	1,240	1,280	3,720	
NHIS – IGR	3,240	3,300	3,600	10,140	
Corporate - IGR	1,100	1,200	1,240	3,540	
Grant	15,000			15,000	

Donation	1,000		1,440	2,440	
Total Receipts/Inflows	21,540	5,740	7,560	34,840	
Payments/Outflows					
Wages	1,200	1,400	1,600	4,200	
Goods & Services (WK1)	1,720	1,608	1,628	4,956	
Non-Financial Assets(WK2)	1,100	1,300	1,300	3,700	
Other expenses	260	300	580	1,140	
Total Payments/Outflows	4,280	4,608	5,108	13,996	
Bal b/f	(15,000)	2,260	3,392	(15,000)	
Surplus/Deficit	17,260	1,132	2,452	20,844	
Bal c/f	2,260	3,392	5,844	5,844	

Workings:

1. Goods and Services

	Oct	Nov	Dec	Jan	Feb	March
40% in the Month	560	576	720	640	648	656
60% in the next		840	864	1,080	960	972
	560	1,416	1,584	1,720	1,608	1,628

2. Non- Financial Assets

	2,400		2,000		3,200	
Payment – 2,400	600	600	600	600		
Payment - 2,000			500	500	500	500
Payment - 3,200					800	800
	600	600	1,100	1,100	1,300	1,300

a) Based on the cash forecast in (i) above, advise management on the financing options available to them for the 2018 financial year. (4 marks)

- Management of the hospital need to seek additional finances in January or review its payment plan in January to address the cash deficit that is revealed in the cash forecast.
- Cash surplus forecast for February and March could be invested in short term securities.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 5: PUBLIC SECTOR AUDITS

THURSDAY 14 JUNE 2018

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: There are four (4) questions. Attempt any three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A

This question is compulsory and must be attempted

QUESTION ONE

- (a) You have just graduated with a Diploma in Public sector Financial Management and an advertisement has been placed in the Daily Newspaper for Assistant auditors in the office of the Auditor General. You have been shortlisted to attend an interview. During an aptitude test, you are required to:
- (i) Explain the role of the Supreme Audit Institution in Zambia. (4 marks)
 - (ii) Explain the Accountability triangle. (3 marks)
 - (iii) State three (3) types of Audits performed by the Office of the Auditor General. (3 marks)
 - (iv) Explain the fundamental ethical principles of an auditor. (10 marks)
- (b) After successfully attending the interviews, you have been appointed as Assistant Auditor and posted to the Provincial Office in Muchinga province. The first day in the office exposes you to the fact that there are two newly created districts in the province. You have been assigned to perform inspection audits of infrastructure in Mafinga district. Your supervisor has asked you to draft an engagement letter for this assignment for his review.
- As part of the preliminaries for your audit, your team visited the Provincial Accounting unit with the view to obtaining some accounting records pertaining to expenditure in Mafinga district. Your review of records reveals that Parliament approved a budget of K100m to complete all works in the new district. Further, reviews of payment vouchers reveal that K90m has been paid out to contractors for works which include a boarding secondary school, staff houses and administration office blocks for the district. You visit the district and find that all the projects are fifty (50%) complete but all the contractors have abandoned the projects.

Required:

- (i) Describe the main legislative audit mandate for the Office of the Auditor General. (3 marks)
- (ii) Analyse whether there was value for money according to the findings in Mafinga district. (6 marks)
- (iii) State five (5) matters that should be included in the draft engagement letter requested by your supervisor. (5 marks)
- (iv) Explain the importance of public sector auditing. (6 marks)

[Total: 40 Marks]

SECTION B

Attempt any three (3) questions in this section

QUESTION TWO

You are a lead auditor for Chifubu Water Ltd, a public water utility company formed to service Lufwanyama and Mpongwe districts on the Copperbelt province. It is a company that has been in existence for four years and has been managed by university graduates without practical experience. Your preliminary understanding of the entity gives an indication that the company has ethical challenges among the management team. It has come to your attention that the Company receives grants from the Ministry of Energy and Water development.

As a result of the information you have gathered about the firm, you realise the need to engage management of Chifubu Water Ltd and some of your engagement team members in the planning process of the audit. You would like to prepare the audit strategy and the audit plan before commencing the audit.

As a public sector entity, Chifubu Water Ltd operates as a commercial business entity providing sewerage services to the public at a profit. This implies that there are numerous threats to the company achieving its objectives.

As a lead auditor, you intend to conduct a risk assessment on the water utility company, and in order to successfully do that, it is important that you obtain an understanding of the Control environment for Chifubu Water Ltd. Chifubu Water Ltd has an internal audit department.

Required:

- (a) Describe the benefits of audit planning in the audit of Chifubu Water Ltd. (5 marks)
- (b) Differentiate between an Audit plan and Audit strategy. (5 marks)
- (c) Explain what you need to evaluate in order to gain understanding of the control environment. (4 marks)
- (d) State the factors to consider when intending to use the work of internal audit department of Chifubu Water Ltd. (6 marks)

[Total: 20 Marks]

QUESTION THREE

You are a senior auditor in the Office of the Auditor General and you have been assigned to conduct a financial audit at the Ministry of Finance.

The scope of the assignment is that you should conduct an audit of the payments and the payment systems at the Ministry.

The risk assessment that has been carried out has revealed the following:

1. The government runs a computerised centralised system, the Integrated Financial Management Information System, which hosts the Treasury Single Account.
2. All payments generated by Ministries are paid through this system.
3. The paying ministry initiates the payment which is only finalised by the Cash Management Office at the Ministry of Finance.

4. The Ministry of Finance finalises the payment and authorises the Bank of Zambia to make payments through bank transfers using the Real Time Gross Settlement (RTGS) System with Bank of Zambia.
5. There is no documentary evidence of payments made by Ministries at the Ministry of Finance. All the authorisations and approvals for payment and the supporting documents are maintained at the ministries.

You are about to commence the audit and your manager has asked you to call for a pre-audit meeting with all members of the audit team. It is the first time that the office will use Computer Assisted Audit Techniques (CAATs) in the performance of an audit. You are the only one who has been trained on the use of CAATs and this meeting is meant to familiarise the rest of the team on their use.

Required:

- (a) Classify Computer Assisted Audit Techniques (CAATs). (4 marks)
- (b) Explain Data Analysis Software. (4 marks)
- (c) Explain two prerequisites for using Audit Software. (8 marks)
- (d) Explain four (4) benefits of using Computer Assisted Audit techniques (CAATs) in an audit of the Ministry of Finance. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

ISSAI 1530 *Audit Sampling* defines audit sampling as the application of audit procedures to less than 100% of items within the population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

ISSAI 1330 states that the auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls.

In designing and performing tests of controls, you shall obtain more persuasive audit evidence in order to place greater reliance on the effectiveness of the controls.

Required:

- (a) Explain the following methods of sampling:
 - (i) Systematic selection (3 marks)
 - (ii) Monetary Unit sampling (3 marks)
 - (iii) Haphazard Sampling (3 marks)
 - (iv) Random Selection (3 marks)
- (b) Describe your actions as an auditor in establishing the operating effectiveness of the controls. (5 marks)
- (c) Explain substantive testing in an audit of financial statements (3 marks)

[Total: 20 Marks]

QUESTION FIVE

You are a senior auditor in the Office of the Auditor General. You have been assigned to carry out a financial audit of Facts Publications Ltd, a state owned enterprise, for the year ended 31 December 2017.

The company has been operating for many years and in the recent past has faced serious liquidity problems resulting in staff going without pay for six months. In the current year, the company has started liquidating the salary arrears but at the year-end it is six month in arrears. In an effort to alleviate the financial problems that employees are facing, the company negotiated with a commercial bank requiring the bank to offer low interest loans recoverable over five years to employees.

A majority of the employees obtained these loans most of which was used to settle debts the employees accumulated during the period they were not getting paid.

The following additional information is available:

1. The average salary of employees in this company is much lower than that of employees in similar companies.
2. The company has engaged in a restructuring exercise resulting in many staff being laid off and so creating problems for the company in terms of segregation of duties.
3. The management letters for the previous three years have reported on poor internal controls and laxity on the part of management implementing the recommendations made by the auditors.
4. The government has indicated that it intends to sell off the company to the private sector. Management has stated that in computing the terminal benefits. Full recovery of any outstanding loans shall be deducted because management guaranteed the repayment of the loans. This will result in a majority of the employees taking home very little.

You have concluded the audit and signed the audit report on 28 February 2018 and you have issued a modified audit opinion. Prior to issuing of the financial statements, you come across a matter which would have required an adjustment of the financial statements and if not adjusted caused you to issue a different opinion had it come to your attention before signing the audit report.

Required:

- (a) Identify and explain the fraud risk factors in Facts Publications Ltd. (6 marks)
- (b) Explain the duty of the auditor with regards the matter identified after signing the audit report but before issuing the financial statements. (5 marks)
- (c) Explain each of the forms of modifications to the auditor's opinion in line with ISSAI 1705 *Modifications to the opinion in the independent auditor's report*. (6 marks)

- (d) State three (3) types of entities that the Office of the Auditor General may audit.
(3 marks)
[Total: 20 Marks]

END OF PAPER

PFM 5: Public Sector Audits Solutions Solutions

SOLUTION ONE

a) The Supreme Audit Institution:

i. The role of the Supreme Audit Institution

- Review public activities for regularity and compliance. Regularity in this context means compliance with formal criteria e.g. relevant laws, regulations and even agreements.
- Carry out certification audits which still includes regularity and compliance as well as fair presentation of financial statements
- Provide assurance on public accountability
- Ensure that transactions are examined against stated objectives and evaluation of outputs, outcomes and impacts

ii. Accountability triangle:

This is the relationship amongst the public sector auditors, Parliament and government. The simple explanation is that accountability in the public sector is established when Parliament confers responsibility on government ministries who are supposed to account for their actions.

The Auditor General's responsibility is also conferred by parliament to audit and report upon the manner in which conferred responsibilities have been discharged by the ministries, provinces and other spending agencies.

iii. Types of audits performed by the OAG:

- Financial audits- The purpose is to determine whether the financial information provided is presented in accordance with the applicable reporting framework for that entity.
- Performance audits-Also known as value for money audits is to assess whether the programme is operating in accordance with the principles of Economy, Efficiency and Effectiveness
- Compliance audits- assess whether activities are in conformity with established rules, regulations, laws, established policy, and budgetary decisions.

iv. Fundamental ethical principles of an auditor:

- **Integrity**- This is to be able to act honestly, in good faith and in the interest of the public.
- **Independence and objectivity**- It is to act in an impartial and unbiased manner and to be free from circumstances that may compromise professional judgement
- **Competence**-Is a condition of acquiring and maintaining knowledge and skills appropriate for the auditing role
- **Professional behaviour**- It is compliance with applicable laws and regulations, and avoid any behaviour that might discredit the Supreme Audit Institution.

- **Confidentiality**-To protect information in an appropriate manner, balancing this requirement with the need for transparency and accountability.

b) Audit of new districts:

i. Main legislative audit mandate for OAG

- Article 249 of the constitution of Zambia (Amendment no. 2 of 2016 which deal with the appointment powers and duties of the OAG
- The public Finance Act of 2004 covering Financial Regulations which sets out the regulatory framework within which public funds and other resources are to be raised and spent
- The Public Audit Act which gives powers to the OAG to audit every statutory or public company.

ii. Value for money assessment

Economy- Parliament can be assumed to have approved the budget for Mafinga district making the resources available in due time, appropriate in quantity and obtained at the best price through a transparent tendering process.

Efficiency- Means getting the most from the available resources. The Mafinga project does not appear to be efficient in the sense that K90, 000,000(90%) had been paid out to the contractors and yet only 50% works had been done. Moreover, contractors had abandoned the sites.

Effectiveness- Means that the audited entity has achieved its objectives. The Mafinga project was not effective on account that the budgeted and paid for projects were not completed within the agreed period.

iii. Matters that will be included in the draft engagement letter:

1. The objective and scope of the audit of the financial statements.
2. The responsibility of the auditor.
3. The responsibilities of management.
4. Identification of the financial reporting framework for the preparation of the financial statements.
5. Reference to the expected form and content of the reports that will be issued.

iv. The importance of Public Sector Auditing

- **Oversight**-Auditors in the public sector assist managers in exercising oversight by evaluating whether they are doing what they are hired to do i.e. spending funds on intended programs and complying with laws and regulations. They also assist the governance structure by verifying reports of financial performance.
- **Insight**- Assisting decision makers by assessing which programs and policies are working and which ones are not. This insight is enhanced by sharing best

practices and benchmarking information looking horizontally across public sector entities.

- **Foresight**-Auditing also help organisations look forward by identifying trends and bringing attention to emerging challenges before they become a crisis. The audit activity can highlight challenges to come e.g. demographic trends, economic conditions, or changing security threats.

SOLUTION TWO

a) The relevance of audit planning:

- i. Planning is essential for effective performance of the audit engagement
- ii. Audit planning assists the auditor to devote appropriate attention to the most important areas of the audit
- iii. Planning assists the auditor identify and resolve potential problem areas on a timely basis
- iv. Audit planning assists in identifying the right audit team members
- v. Audit planning facilitates the direction, supervision and review of work

b) Audit strategy and Audit plan:

- i. **Audit strategy** is that which sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The overall audit strategy may include industry specific financial reporting requirements, number of locations to be visited, audit client reporting timetable, and communication between the audit team and the client.
- ii. **Audit plan**-This converts the audit strategy into a more detailed plan and includes the nature, timing and extent of audit procedures to be performed in order to obtain sufficient and appropriate evidence.

c) Understanding the control environment.

- i. Evaluate whether with the oversight of those charged with governance, management has created and maintained a culture of honesty and ethical behaviour.
- ii. Evaluate whether the strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.

d) Factors to consider when intending to use the work of internal audit of an audited entity:

- i. Evaluate the objectivity of the internal audit function
- ii. Establish the technical competence of the internal auditors
- iii. Ascertain whether the work of internal auditors is likely to be carried out with due professional care

- iv. Establish whether there is likely to be effective communication between the internal auditors and the external auditors

SOLUTION THREE

a) Classification of CAATs

- i. Data analysis software
- ii. Network security evaluation software
- iii. OS and DBMS security evaluation software
- iv. Software and Code testing tools

Alternative classifications will also be given credit.

- b) Data analysis software is the most common of the many and is usually referred to as audit software. The general products available in this category are known as general purpose audit software as it has the ability to extract data from commonly used formats and the tables of most data base systems.

Therefore, this software can be used in audits of almost any application on any technology platform as it can perform a variety of queries and various other analysis of data

c) Prerequisites for using audit software:

i. Access to Data

The foremost requirement for using software is access to data since the auditor needs to obtain access to live data. Hence the information systems auditor installs the audit software on a computer; he connects it to the appropriate server holding the data. The auditor then needs to have read only access to the files that hold the data and can transfer it to the computer. After this, the software can use the data files and perform the audit. It is essential to ensure that the data is downloaded as actual copy from the real data.

This can be assured if the data is transferred by the auditor himself or by a specialist information system auditor.

ii. Knowledge of the application and data

There is need for the information systems auditor to understand the technical details of the platform on which the application is built.

It is also necessary to know the files or tables in which the data reside. Thirdly the auditor needs to obtain the file description and the data field types.

In case codes are used in the tables, it is important to know the corresponding description of the codes.

d) Benefits of using Audit software:

Due to growing data volumes and management expectations on assurances becoming more specific, random verifications and testing do not yield the desired results and value. The use of audit software ensures complete scrutiny of transactions in the auditable area. Audit software is helpful in dealing with erroneous or exceptional transactions, even when data volumes are huge. This can actually be done in a fraction of the available time.

Another merit of using audit software is the uniform user friendly interface that the audit software provides to the auditor when performing tasks, irrespective of the data formats or the underlying technology used by the application. Additionally, audit software also maintains logs of the tests for review by peers and seniors, and advanced features allow the programming of certain macros and routines that can further enhance audit speeds and efficiency.

SOLUTION FOUR

a) Definitions:

i. Sampling methods

- Systematic selection-The method divides the number of sampling units within a population into the sample size to generate a sampling interval. The starting point of the sample can be generated randomly, but ISSAI 1530 recognises that it is more likely to be 'truly' random if the use of random number tables is used.
- ii. Monetary Unit Sampling-this method of sampling is a value-weighted selection whereby sample size, selection and evaluation will result in a conclusion in monetary amounts. The objective of monetary unit sampling (MUS) is to determine the accuracy of financial accounts.
- iii. Haphazard Sampling-When the auditor uses this method of sampling, he does so without following a structured technique. ISSAI 1530 also recognises that this method of sampling is not appropriate when using statistical sampling. Care must be taken by the auditor when adopting haphazard sampling to avoid any conscious bias predictability. The objective of audit sampling is to ensure that all items that make up the population stand an equal chance of selection.
- iv. Random Selection-This method of sampling ensures that all items within a population stand an equal chance of selection by the use of random number tables or random number generators. The sampling units could be physical items, such as sales invoices or monetary units.

b) Establishing operating effectiveness of controls:

- i. Perform other audit procedures in combination with inquiry to obtain evidence about the operating effectiveness of the controls, and this may include;
- Ascertaining how the controls were applied at relevant times during the period under review
 - Check the consistency with which the controls were applied.
 - Establish by whom or by what means the controls were applied.
- ii. Determine whether the controls to be tested depend on other controls, if so, whether it is necessary to obtain audit evidence supporting the effective operation of the indirect controls.

c) Substantive Testing- an audit procedure designed to detect material misstatements at the assertion level.

Substantive testing involves examination of the financial statements and supporting documentation to see if they contain errors. This may further include tests of details of

classifications of transactions, account balances and disclosures in addition to substantive analytical procedures.

SOLUTION FIVE

a) Fraud risk factors in Facts Publications Ltd:

1. The fact that the internal controls of Facts Publications Ltd are weak is a fraud risk factor in that this would motivate an employee to commit fraud knowing that controls will not detect the fraud.
2. The fact that employees are heavily indebted due to the loans obtained resulting in most of the employees getting very low net pays may pressurize the employees to commit fraud with a view to making ends meet.
3. The fact that the salaries in Facts Publications Ltd are well below the competitors in the same industry will make employees feel they are unfairly treated and so commit fraud.
4. The intention by the government to sell of the shares of Facts Publications Ltd may motivate employees to commit fraud. This is compounded by the fact that there are poor controls in the company.

b) Subsequent events:

ISSAI 1560 *Subsequent events* gives guidance in the area of subsequent events.

The following action will be taken by the auditor:

1. Discuss the matter with management and where appropriate with those charged with governance.
2. Determine whether the financial statements need to be amended.
3. Find out from management how they intend to deal with the matter in the financial statements.

If management amends the financial statements:

1. Perform audit procedures that are necessary on the amendments to the financial statements that have been made.
2. Issue a new auditor's report on the amended financial statements.

If management declines to amend the financial statements, modify the audit report as appropriate if matter considered material.

c) Forms of audit opinion modifications:

1. Qualified opinion:

This is a form of opinion issued by the auditor in two situations as follows:

- When the auditor has obtained sufficient appropriate evidence and there is a matter of concern which is material but not pervasive to the financial statements.

- Secondly when there is a limitation of scope and the auditor has not obtained sufficient appropriate audit evidence and the matter is material but not pervasive to the financial statements.

The form that the opinion takes is that of 'except for' the matter of concern, the financial statements show a true and fair view.

2. Adverse opinion:

This is a form of modification of the opinion when the auditor obtains sufficient appropriate audit evidence and concludes that the matter of concern is both material and pervasive to the financial statements. The form that the opinion takes is that the financial statements do not show a true and fair view.

3. Disclaimer of opinion:

In this case the auditor has not been able to gather sufficient appropriate audit evidence due to a limitation of scope. The matter of concern is both material and pervasive to the financial statements. The form of report is that the auditors disclaim forming an opinion and states that he is unable to form an opinion.

d) Types of entities that OAG may audit:

1. Government Ministries.
2. Grant Aided Institutions.
3. Local Authorities.
4. Donor Funded Projects.
5. Any other organization that receives government money.
6. Parastatal organizations and other companies where the Government has a stake.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

MONDAY 11 JUNE 2018

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO sections:
Section A: One (1) Compulsory question.
Section B: There are four (4) questions. Attempt any three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE

The following trial balance was extracted from the accounting records of Ronald Mensa University as at 31 December 2015.

	DR	CR
	K'000	K'000
Funding from Central Government		32,300
Academic fees and support grants		25,200
Research Grants and Contracts		6,375
Long term Loans		35,000
Salaries and Wages	35,620	
Operating Expenses	17,800	
Research and Development costs (note 1)	5,750	
Land at valuation	8,250	
Building at valuation	75,000	
Other tangible non-assets at cost	12,250	
Investments	17,890	
Accumulated Depreciation (Building as at 1 Jan. 2015)		37,575
Accumulated Depreciation(Other Tangible non- assets 1 Jan. 2015)		5,512
Loan Interest paid	2,475	
Trade receivables and payables	3,299	20,962
Retained earnings (1 Jan. 2015)		18,086
Revaluation Reserve		16,776
Bank	13,702	
Current Asset Investments	5,625	
Inventory (31 December 2015)	125	
	197,786	197,786

The following additional information is available:

- 1) The research and development costs of K5,750,000 included in the trial balance are made up of the following elements:
 - Project 1: K1,250,000 was spent on applied research. It is hoped that this will ultimately lead to the development of a new vaccine.
 - Project 2: K2,000,000 was spent on research into how witchcraft can be used to support technology for economic development
 - Project 3: K2,500,000 was spent on the development of a new scanner while the University considers this project no longer a priority of national government and by 31 December 2015 no funding had been identified to continue with the project in 2016. However, on 15 February 2015, a loan was obtained from a commercial organisation which means that the project can be completed and the scanner sold commercially
 - The costs to complete all three projects have been estimated by the University.
- 2) Buildings are depreciated using straight line over 40 years and other tangible assets are depreciated at 25% reducing balance.
- 3) The research grants contracts of K6, 375,000 included in the trial balance are to fund the three projects referred to in note 1 above. It is the policy of the University to recognise income on the basis of percentage completion of the project.

	Income Included in the Trial Balance K'000	% of Project
Project 1	1,500	80
Project 2	2,100	96
Project 3	2,775	90
Total	6,375	

Required:

- (a) Prepare a statement of financial performance for the University for the year ending 31 December 2015. (10 marks)
- (b) Prepare a Statement of Financial Position of the University as at 31 December 2015. (12 marks)
- (c) With reference to relevant IPSAs, explain your treatment of the costs of K2, 500,000 which relate to project 3. (10 marks)

- (d) With reference to the relevant IPSAs explain your treatment of the income of K6,375,000 from research grants contracts. (8 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions in this section.

QUESTION TWO

Part X Article 118 of the Zambian Republican Constitution requires that the National Treasury prepares and tables the Consolidated Annual Financial Report of the Republic. Furthermore, the Provisions of the Public Finance Act, 2004 require that the financial statements be prepared in accordance with and comply with Generally Accepted Accounting Principles regarding public finances.

Required:

- (a) Explain who is responsible for the preparation of the Consolidated Annual Financial Report of the Republic of Zambia. (3 marks)
- (b) Explain what is meant by fair presentation of financial statements for public entities. (10 marks)
- (c) Explain what is meant by consistent presentation of financial statements for public entities. (7 marks)

[Total: 20 Marks]

QUESTION THREE

You are the Accountant General of the Republic of Zembra, and the Secretary to the Cabinet has written a memo to you indicating that they just concluded a seminar addressed by His Excellency the President of the Republic of Zembra under the theme "promoting ethical conduct, integrity and accountability in the public sector for enhanced public service delivery." The discussions during the seminar focused on financial and adoption of accrual accounting in the public service. It was emphasised that migration from cash basis to accrual basis is necessary to improve transparency in the public sector. Another issue discussed was commitment control system. The meeting was informed that commitment control strengthens financial management and therefore Ministries, Provinces and other spending Agencies (MPSAs) must ensure that every expenditure was used in accordance with what was appropriated by Parliament. The Secretary to the Cabinet is not clear on the above mentioned issues and is seeking clarification.

Required:

- (a) Explain to the Secretary to the Cabinet the three differences between accrual accounting and cash accounting. (6 marks)
- (b) Identify three (3) justifications for adopting accrual based IPSAs accounting in the public sector. (6 marks)

- (c) Explain the term commitment control and illustrate how it could strengthen Public Financial Management. (8 marks)

[Total: 20 marks]

QUESTION FOUR

On 1 January 20X6, the Central National Service entered into a two year **fixed price contract** for K12, 000,000.00 to construct a secondary school for Kufunsa District Council. The total cost of construction was estimated at K8, 000,000.00. The accumulated costs incurred from the commencement of the contract to the end of the first two years of construction were as follows:

- K2,000,000 as at 31 December 20X6
- K6,000,000 as at 31 December 20X7

The Central National Service accounts for revenue is using the percentage of completion method.

Required:

- (a) Explain the difference between a fixed price contract and a cost-plus contract according to IPSAS 11. (5 marks)
- (b) Calculate the surpluses/deficits that should be shown in the statement of financial performance in the accounts of Central National Service in both 20X6 and 20X7. (10 marks)
- (c) Explain the disclosures to be made by Central National Service as required by IPSAS 11. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) Performance and Financial Management is critical in managing and improving organisation performance. The public sector landscape is rapidly changing with stakeholders demanding accountability in managing public resources. Performance and financial management is therefore critical in managing and improving organisational performance.

Required:

Explain the importance of Performance and Financial Management to Public Sector Institutions. (10 marks)

- (b) The current strategic plan for Ministry of Health has overall objective of improving delivery of health services. One critical strategy of attaining this goal is to undertake performance reviews. The Chief Accountant suggested that in order to improve financial management of finances there was need for the Ministry to undertake cash flow forecasts and working capital management as well as ensuring resources are allocated to the most important projects and investments by analytical approaches to project and investments. The Permanent Secretary has requested that you explain to him the requirements of effective performance and financial management before he authorises your office to undertake the assignment.

Required:

You are Chief Accountant for Ministry of Health; write a memo to Permanent Secretary outlining the requirements of effective performance and financial management and the role of the Accountant and the Accountancy Professional.

(10 marks)

[Total: 20 Marks]

END OF PAPER

PFM6 – FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES SOLUTIONS

SOLUTION ONE

(a)

Ronald Mensa Statement of Financial Performance for the Year ending 31 December 2015

	K'000	K'000	
Revenue			
Funding Council Grants	32,300		
Academic Fees and Support Grants	25,200		
Research grants	5,714		
Total Revenue		63,214	
Expenses			
Salaries and Wages	35,620		
Operating expenses	17,800		
Write off of research costs	1,250		
Depreciation – Building	1,875		
Depreciation – Other intangibles	1,685		
Total Expenses		58,230	
Surplus from operating activities		4,984	
Non - operating revenue / Expense			
Interest Cost		2,475	
Surplus for the period		2,509	
Presentation			

Workings:

1. Research Grants

	Amount (k)	% complete	
Project 1	1,500	80%	1,200
Project 2	2,100	96%	2,016
Project 3	2,775	90%	2,498
Total			5,714

2. Building

Building at valuation	75,000
Useful life	40 years
Depreciation	1,875

3. Other intangible Assets

Cost	12,250
Accumulated depreciation	5,512
Net book value	6,738
Depreciable amount	6,738
Reducing balance 25%	1,685

(b)

Ronald Mensa Statement of Financial Position as at 31st December 2015

	K'000	K'000	
Assets			
Non – Current Assets			
Property , Plant and Equipment	48,853		
Intangible assets (2,000+2,500)	4,500		
Investments	17,890		
Total non- Current Assets		71,243	
Current Assets			
Inventory	125		
Trade receivables	3,299		
Investments	5,625		
Cash and Cash Equivalents	13,702		
Total Current Assets		22,751	
Total Assets		93,994	
Equity and Liabilities			
Revaluation Reserves	16,776		
Retained Earnings	20,595		
Total Equity		37,371	
Non- Current Liabilities			
Long term borrowing	35,000		

Total non-current liabilities		35,000	
Current Liabilities		72,371	
Trade payables	20,962		
Deferred income	661		
Total Liabilities		21,623	
Total Equity and Liabilities		93,994	
Presentation			

Workings:

1. Property , Plant and Equipment

	Land	Building	Other Tangible Assets	Total
Valuation/Cost	8,250	75,000	12,250	95,500
Accumulated Dept.	-	39,450	7,197	46,647
	8,250	35,550	5,053	48,853

2. Deferred Income – Research grants and Contracts

Income included in the Trial Balance	6,375
Less revenue recognised in 2015	5,714
Deferred income	661

3. Retained Earning

As at 1 st January 2015	18,086
Surplus in December 2015	2,509
Total	20,595

(c)

With reference to relevant IPSAs, explain your treatment of the costs of K2,500,000 which relate to project 3	
<ul style="list-style-type: none"> IPSAS 31 governs the treatment of intangible assets including research and development costs and IPSAS 14 governs events after the reporting date Development costs can be capitalized if they meet the six criteria: 	
Criteria	Project 3
Saleable or useable by the entity	Yes-Can be sold once complete
Technically feasible to complete	Yes-Technically feasible
Economic benefits expected to flow	Yes-Can be sold commercially to generating economic benefits to university
Measureable expenditure	Yes-Expenditure has been measured and included in trial balance
Intention to complete	Yes-Intending to complete
Completable	Yes-Although no funding in place at year end, shortly after year end a loan was obtained so that project can be completed.
<ul style="list-style-type: none"> Project 3 meets the six criteria and therefore can be capitalized. Although the loan was obtained after the balance sheet date it provides information about balances at the balance sheet date i.e. the costs of project 3. The intangible asset should not be amortised until the expected economic benefits commence. 	

(d)

With reference to the relevant IPSAs explain your treatment of the income of K6,375,000 from research grants and contract	
<ul style="list-style-type: none">• IPSAS 9 governs the treatment of revenue from exchange transactions including income from research grants and contracts.• Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.• Where revenue relates to 'rendering of services' it must also be possible to (1) reliably measure the stage of completion, and (2) reliably measure the costs incurred and the costs to complete.• In relation to the research grants and contracts, economic benefits of K6,375, 000 have already flowed to the entity and can be measured reliably.• Information is available on stage of completion (percentages given in note 3 of the question paper) and costs to complete are known to the university.• Revenue of K5,714,000 should therefore be recognized based on the percentage of completion (see working 1 above) in 2015.• The remaining amount of K661,000.00 should be held as deferred income on the statement of financial position.	

SOLUTION TWO

(a)

The responsibility for the preparation of consolidated financial statements of the government usually rests **jointly** with the Accountant General and the Minister responsible for Finance.

(b)

- i. Financial statements shall present fairly the financial position, financial performance and cash flows of an entity.
- ii. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, revenues and expenses set out in IPSAs.
- iii. The application of IPSAs is presumed to result in fair presentation.
- iv. A fair presentation also requires an entity to:
 - Select and apply accounting policies in accordance with IPSAS 3.

- Present information including accounting policies in a manner that meets qualitative characteristics of information.
- Provides additional disclosures when compliance with the special requirements of IPSASs is not sufficient to enable users understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

(c) The presentation and classification of items in the financial statements shall remain the same from one period to the next period.

Except:

- when it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or
- An IPSAS requires a change in presentation.

An entity changes the presentation of its financial statements only if the changed presentation provides information that is more reliable and is more relevant to users and the revised structure is likely to continue so that comparability is not impaired.

SOLUTION THREE

a)	Explain to the Secretary to the Cabinet the three differences between accrual accounting and cash accounting.	
	<ul style="list-style-type: none"> • In accrual accounting comprehensive set of financial statement are prepared to measure financial performance, position and cash condition of the entity. However, cash accounting reports mainly on cash condition of the entity by embracing receipt and payment information. • Under accrual accounting, non-financial assets are capitalised and depreciated over their useful life span but under cash accounting cost of non-financial assets are written off in the year of acquisition or construction, hence no depreciation is charged. • Under cash accounting all obligations of government are disclosed on the statement of financial position but in the cash accounting system such information is not disclosed on the financial statement until they are paid. • Under accrual accounting allowances are permitted for receivables but no such allowances are accounted for under cash accounting. 	

<ul style="list-style-type: none"> Under accrual accounting revenues are reported when they are earned and expenditures when incurred but under cash accounting revenues are recognised only when received and expenditures when actually paid for. 	
<p>b) Identify three justification for adopting accrual based IPSAs accounting in the public sector.</p>	
<ul style="list-style-type: none"> It provides superior measure of performance in terms of cost of service, efficiency and effectiveness in service delivery. It promotes accountability and transparency in public financial management through increasing disclosure of all assets and liabilities. It provides comprehensive financial information that support decision making and control. It ensures general improvement in the quality of financial reporting in the public sector. 	
<p>a) Explain the term commitment control and illustrate how it could strengthen Public Financial Management.</p>	
<ul style="list-style-type: none"> Commitment control is a technique in which expenditures are recorded when decision is made by management to spend on an activity or item. It is a process by which appropriations are incurred against future expenditure decisions of management. <p>Commitment control strengthens public financial management in the following ways:</p> <ul style="list-style-type: none"> It ensures that departments do not over spend their appropriation without further authorisations. It also ensures that spending is done within the vote hence misapplication of funds may be reduced or curtailed. It promotes effective planning of expenditure within the available resources and ensures that disbursements are synchronised with commitment. 	

SOLUTION FOUR

(a)

Fixed price contracts are contracts where the revenue is fixed at the onset of the contract, either for the contract as a whole or for units of output.

Cost-plus contracts are contracts where costs will be recoverable plus some agreed element of profit.

The distinction between the two types is particularly important when deciding the stage at which contract revenues and expenses should be recognised.

(b)

Contract revenue	12,000,000.00
Estimated costs to completion	8,000,000.00
Costs to date:	
End of 20X6	2,000,000.00
% completion	0.25
Revenue for year	3,000,000.00

Costs to date:

End of 20X7	6,000,000.00
Actual costs incurred in year 2	4,000,000.00
% completion	0.50
Revenue for year	6,000,000.00

(c)

Key disclosures to be made:

- i. The contract revenues and costs recognised to date and in each year
- ii. The methods used to determine both contract revenues and the stage of completion
- iii. The amounts recognised in the statement of financial position in relation to the contract should be disclosed, including gross amounts due from customers and recognised as an asset and any amounts that are due to the customer
- iv. Any advances received from customers and
- v. Any retention withheld by customers being amounts held back by the customer as security

SOLUTION FIVE

<p>a) Explain the importance of Performance and Financial Management to Public Sector Institutions.</p>	
<ul style="list-style-type: none"> • Clarifies Purpose, Results, Accountability - An effective organization must be clear about what it is expected to deliver. • Promotes Synergy -Every policy, regulation, service, protection provided by the state is the work of numerous individuals, organizations and institutions. It is their linking up, their coordination and the synergy of their effort that provides efficiency and quality to public service. It must be the role of the performance management framework and system to ensure this lining up, this co-ordination and this synergy. • Ensures Transparency - Private sector agencies are held accountable through their annual report to shareholders. Public sector agencies must similarly be held to account for their annual results. Unfortunately, this is often not taken very seriously. And if performance reports are submitted or tabled, they are usually never publicised or audited. This reinforces inefficiencies, poor performance and sometimes corruption. 	
<p>b) You are Chief Accountant for Ministry of Health for country XYZ , write a memo to Permanent Secretary outlining the requirements of effective performance and financial management and the role of the Accountant and Accountancy professional in Financial Management</p>	
<p><u>MEMO</u></p> <p>To: Permanent Secretary</p> <p>From: Chief Accountant</p> <p>Date:</p> <p>Subject: Requirements of Effective Performance and Financial Management and the role of the Accountant and Accountancy Professional</p> <p>Requirements for Effective Performance and Financial Management</p> <ul style="list-style-type: none"> • Engaging people to determine their information needs; • Implementing processes and systems to collect the right data; • Turning the data into information and insights; and 	

- Presenting it in the best way

Role of the Accountant and the Accountancy Professional

- To manage and deploy resources to deliver organizational objectives is a vital contribution of finance and management professionals, either in their capacity as the employee of, or as an advisor or consultant to, an organization.
- Application of tools and techniques to improve performance & financial management of organizations. They must have organizational and environmental awareness, and be cognizant and knowledgeable of other disciplines, such as technology, people and project management, and managing, measuring, and linking financial and non-financial activities and performance.

END OF SOLUTIONS