



**QUESTION AND ANSWER  
FOR  
DECEMBER 2018**

**DIPLOMA IN PUBLIC SECTOR FINANCIAL  
MANAGEMENT**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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**DIPLOMA LEVEL**

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PFM 1: PUBLIC SECTOR ACCOUNTING

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MONDAY 10 DECEMBER 2018

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

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**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. You will be told when to start writing.
2. This paper is divided into TWO sections:  
Section A: One (1) Compulsory questions.  
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) Stated below is a Statement of Cash Receipts and Payments for the year ended 31 December, 2016 of the Government.

	<b><u>Budget</u></b> K'000	<b><u>Actual</u></b> K'000	<b><u>Variance</u></b> K'000
<b><u>Revenue</u></b>			
Tax Revenue	330,000	260,005	69,995
Non Tax Revenue	360,000	325,000	35,000
Grants	105,000	14,055	90,945
Other Revenue	87,000	25,500	61,500
Total Revenue	<u>882,000</u>	<u>624,560</u>	<u>257,440</u>
<b><u>Expenditure</u></b>			
Personnel Emoluments	375,000	337,000	38,000
Uses of goods & services	72,600	49,000	23,600
Financial charges - Interest	133,100	207,000	(73,900)
Debt Service	3,200	-	3,200
Non-Financial Assets - Capital	82,000	1,250	80,750
Other Expenditure payments	75,000	38,125	36,875
Total Expenditure	<u>740,900</u>	<u>632,375</u>	<u>108,525</u>
Excess of Revenue over expenditure	<u>141,100</u>	<u>(7,815)</u>	

From the above information you are **required** to:

- i) Explain the difference between tax revenue and non-tax revenue. (2 marks)
- ii) Give two (2) examples of tax revenues and two (2) examples of non-tax revenues. (4 marks)
- iii) State the possible reasons for the difference between:
  - a. Actual Grants and Budgeted Grants.
  - b. Actual Tax Revenue and Budgeted Tax Revenue.
  - c. Actual Non-Financial Assets - Capital and Budgeted Non-Financial Assets - Capital
  - d. Actual Debt Service and Budgeted Debt Service (4 marks)

- (b) The Government of Zambia recently launched its Seventh National Development Plan.

**Required:**

- i) List the financing options available to Government to finance development programs. (5 marks)
- ii) Explain what you understand by a Budget and why a Budget is an important tool for Government? (5 marks)

- (c) Ministry of Finance recently recruited assistant accountants to be deployed in various ministries, provinces and spending agencies. As part of the induction process, you have been asked to make a presentation to the new recruits covering the following issues:

**Required:**

- i) Define the term Public Sector Accounting and outline three (3) objectives of Public Sector Accounting? (5 marks)
- ii) Explain five (5) qualitative characteristics of Public Sector Accounting according to the International Public Sector Accounting Standards that make the information provided in the financial statements useful to different categories of users of accounts. (5 marks)

- (d) There are important conventional concepts that are relevant in the preparation of financial statement for both the private and public sectors. These concepts are commonly accepted for recording accounting transaction.

**Required:**

Clearly explain the following concepts as they relate to public sector:

- i. Going Concern Concept
- ii. Money Measurement Concept
- iii. Historic Concept
- iv. Objectivity Concept
- v. Consistency Concept

(10 marks)

**[Total: 40 marks]**

## **SECTION B**

**Attempt any THREE (3) questions in this section.**

### **QUESTION TWO**

Each country has in place Legislative Control Framework that is peculiar and unique to each country for the purpose of controlling the use of public funds. The Control Framework highlights various control structures:

i) Briefly explain how the Control Structures highlighted below institute measures to ensure proper expenditure control.

- a) Executive Control
- b) Departmental Control
- c) Treasury Control

(15 marks)

ii) Briefly describe reasons why it is important to have in place legislative to support any financial management information system (5 marks)

**[Total: 20 marks]**

### **QUESTION THREE**

The Integrated Financial Management Information System (IFMIS) is a financial management system controlled by the Government of the Republic of Zambia to process government's main business processes.

**Required:**

a) Describe five (5) key functions of a financial management information system.

(10 marks)

b) What are the benefits of implementing a financial management information system?

(10 marks)

**[Total: 20 marks]**

#### **QUESTION FOUR**

- (a) The International Federation of Accountants (IFAC) has specified Code of Ethics for which professional accountants are expected to comply.

**Required:**

Describe the fundamental principles that accountants are expected to adhere to.

(10 marks)

- (b) The Classification of the Functions of Government (COFOG) is a detailed classification of the government functions. The aim of the classification is to ensure that all government expenditure is reported accordingly.

**Required:**

List the functional areas reported as government expenditure according to COFOG classification.

(10 marks)

**[Total: 20 marks]**

#### **QUESTION FIVE**

- a) Name two (2) institutions who have oversight responsibility over public expenditure and describe their roles in ensuring public funds are used for their intended purpose.

(10 marks)

- b) Treasury Single Account (TSA) is a tool being used by the Government of the Republic of Zambia to enhance its cash management control.

**Required:**

- i) Define the term Treasury Single Account and state the main objective of implementing TSA.

(5 marks)

- ii) What are the advantages of implementing TSA?

(5 marks)

**[Total: 20 marks]**

**END OF PAPER**

## **PFM 1: PUBLIC SECTOR ACCOUNTING – SOLUTIONS**

### **SOLUTION ONE**

(a)

i. **Tax revenue and Non-Tax revenue**

- Tax revenue is a compulsory payment to government instituted through taxation
- Non tax revenue refers to revenue earned by government from sources other than tax.

ii. **Examples of Tax and Non-Tax**

**Tax:** PAYE, VAT, Sales Tax, Corporation Tax, Customs & Excise Duty, Mineral Royalty tax, Corporation tax, Property Tax,

**Non – Tax:** Fines, fees, levies, Ground rent, Passport fees, Commissions, dividends.

iii. **Reasons for the differences**

- Grants – unfavorable variance of K90,945,000 due to wrong budgeting; funds not released by cooperating partners;
- Tax revenue – unfavorable variance of K35,000 due low collections; Over estimations of tax targets;
- Non-financial assets – unfavorable variance of K80, 750 due to lack of financing to procure fixed assets and valuables; over estimation of requirements.
- Debt services – favorable variance of K3, 200 fewer debt contracts contracted in the year, no principal amount due for debt service.

(b)

**Seventh National Development Plan.**

i. **financing options available to Government**

- a. Increased collection of Tax Revenue and Non Tax Revenue
- b. Increase contracts of external debt
- c. Increase issuance of internal debt such as treasury bills & bond
- d. Increase Grants from cooperating partners
- e. Selling of assets such as shares in companies, mines

ii. **Budget and its importance**

- a. Budget is a financial plan, indicating the expenditure and income of government, tailored to suit a specific period of one year or more.
- b. It is important because:
  - i. Indicator of the financial performance of government during that period
  - ii. Highlights the programs and activities expected to be undertaken
  - iii. Reallocates resources according to programs and activities
  - iv. Used as a tool for economic stability and growth
  - v. For decision making

(c)

**Public Sector Accounting**

i. **Definition of term**

Term Public Sector Accounting means – budgeting, recording, summarizing and producing of financial reports of revenue and expenditure of public institutions. Public Institutions include central, local and government agencies.

**Objectives:**

- Ascertain legitimacy of transactions and compliance with norms, regulations, and laws
- Provide evidence of stewardship
- Assist in planning and control
- Provide basis for decision making
- Assist in objective and timely reporting
- Enhance appraisal of the efficiency of management
- Highlight sources of revenue and expenditure, funding for capital projects

ii. **Qualitative characteristics of Public Sector Accounting**

- Fundamental Characteristic
  - **Relevance** – makes a difference to users
  - **Faithful representation** – complete, neutral and free from error
- Enhancing qualitative characteristics
  - **Comparability** – identifies similarities /differences between entities and year on year



- **Verifiability** – assures the information presents economic phenomena it represents
- **Timeliness** – information is less useful the longer it takes to report it
- **Understandability** – users have a reasonable knowledge of business and activities

(d)

### **Conventional Concepts of financial statements**

Concepts as they relate to public sector:

- i. **Going Concept**
  - Government will continue in operational existence for the foreseeable future
  - Financial Statements prepared on an ongoing basis.
- ii. **Money Measurement Concept**
  - All government transactions recorded in terms of money
  - Provides common unit of measurement
- iii. **Historic Concept**
  - Assets shown in the government balance sheet is at cost of purchases instead of current costs
- iv. **Objectivity Concept**
  - Government Accounting information must be free from bias and capable of independent verification
  - Information should be based on verifiable evidence
- v. **Consistency Concept**
  - Accounting method /treatment should be consistently applied in every period
  - Changes applicable only when change is better method and reflects true and fair view of Financial Position
  - Changes and its effect on profit should be disclosed

## **SOLUTION TWO**

### **Legislative Control Framework**

#### **i. Control Structures include:**

- a. **Executive Control** - Comprises President, and Cabinet members
  - Determination of monetary fiscal policies
  - Compilation and tentative approval of the Nation's budget
  - Appointment of the Auditor General at all tiers of government
  - Issuance of budgetary guidelines
  - Introduction of the due process
- b. **Departmental Control – Accounting Officers of Spending Agencies**
  - Ensure that expenditure is a lawful charge
  - There are Funds to meet expenditure
  - Stores/Services Received Advices (SRAs) are checked
  - Payment is in order in all respects
  - Payment vouchers duly signed with relevant supporting documents
- c. **Treasury Control – Ministry of Finance**
  - Issuance of financial authorities
  - Compilation and tentative approval of the nation's budget
  - Issuance of budgetary guidelines
  - Issuance of financial regulations
  - Issuance of financial circulars

#### **ii. Importance of legislative framework.**

- a. Sets out the roles and responsibilities of various players involved in the controlling and managing of public finances.
- b. Sets out provisions for receipt and custody of government funds, annual processes, submission and approval of estimates and procedures for release of funds
- c. Sets out basis of accounting for presentation of annual accounts
- d. Sets out provisions for the management of government assets, borrowings and investments.

## **SOLUTION THREE**

### **The Integrated Financial Management Information System (IFMIS)**

i. Five (5) key functions of a financial management information system.

- **Budget function**
  - Structured budget plans which forecast the revenues and expenditures approved by Parliament
  - Allocates resources to achieve objectives of government
  - The basis for budget data input in the System.
  - The budget plans are limited to a financial year
  - Forms a basis for cash releases.
- **Public Procurement function**
  - Selects, receives and pays for the inputs required to produce goods and services.
  - Linked to the budget function ensuring that funds are available when commitments are made.
  - Allows for registration of suppliers, contracts and requisitions
  - Linked to local purchase orders and receipts of goods and services.
- **Financial reporting and Accounting function –**
  - Records, classifies and summaries financial transactions.
  - maintains double entry General Ledger's in accordance with Generally Accepted Accounting Practice (GAAP),
  - Categorizes transactions according to Chart of Accounts
  - Produces standard reports such as cash flow Statements, Receipts and Payments and the Balance Sheet.
  - accounts for;
    - creditors and debtors registers,
    - registration of bills/invoices,
    - fixed assets and related transactions,
    - Depreciation using various methods in compliance with different accounting standards.
    - consolidation of the accounting data from individual companies
- **Auditing function**
  - The System allows for both internal and external auditing interrogation
  - Strong audit trail tracking all transactions
  - Segregation of duties embedded in the transaction process
  - Review the accuracy and reliability of financial information

- **Cash management**

Monitors and forecast cash flows and financing requirements, and performs reconciliation of bank accounts and IFMIS records.

- **Debt Management**

- Manages all transactions relating to local and foreign debt
- Calculates the future cost of servicing the debt
- Debt projections

- **Macro-fiscal planning**

- Establishes policy objectives and needs for financial resources
- Forward looking strategy for revenue and expenditure

ii. **Benefits of implementing financial management information system**

- Standard data classification for recording financial events
- Real-time financial information
- Common processes for similar transactions eliminating duplication of data entry
- Clear cash flow control and management
- Speedy and efficient reporting of funds - stakeholders
- Provide transparent data analysis segregated to the lowest unit of reporting
- Structured budget plans - lowest cost or revenue unit
- Budget linked to the commitment control – limit
- Double entry accounting
- Secure communication network

## **SOLUTION FOUR**

### **(a) IFAC code of conduct:**

- i. **Objectivity** - a professional accountant should not allow biasness, conflict of interest or undue influence of others overrides his/her professional judgment.
- ii. **Professional competence and due care** - to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- iii. **Professional behavior** - to comply with relevant laws and regulations and avoid any action that discredits the profession.
- iv. **Integrity** - to be straightforward and honest in all professional and business relationships.
- v. **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties

### **(b) Functional areas of government (COFOG) expenditure :**

- General public service
- Defense
- Public Order & Safety
- Economic Affairs
- Environmental Protection
- Housing and Community amenities
- Health
- Recreation, Culture and Religion
- Education
- Social Protection

## **SOLUTION FIVE**

### **(a) Institutions with Oversight responsibility**

#### **i. Oversight responsibility:**

Oversight means holding government accountable for its actions.

- Parliament – Public Accounts Committee; Committee of Estimates;
- Auditor General's Office

#### **ii. Roles:**

- Oversee the operations of government to ensure transparency and openness of government activities;
- Scrutinizes government policies to ensure policies have been implemented and are aligned to financial resources;
- Approves and scrutinizes government spending ensuring economy, efficiency and effectiveness of government expenditure;
- Ensures that the rights of members of the public are protected from abuse, illegal and unconstitutional conduct.
- To scrutinize government transactions, systems and practices

### **(b)**

#### **i. TSA**

Unified structure of government bank accounts that gives a consolidated view of government cash position.

#### **Objectives:**

- Ensure aggregation control over all government cash balances
- Minimize transaction costs
- Facilitate reconciliation between banking and accounting data
- Efficient control and maintenance of funds

#### **ii. Advantages of implementing TSA.**

- oversight and efficient management and control over all Government cash resources
- consolidations of cash position
- minimize transaction costs & reduce idle balances
- facilitates reconciliation between banking and accounting data
- facilitates provision of real-time financial information from the bank and any financial management system
- Improves appropriation control and operational control

- Enables efficient cash management
- Reduces bank fees and transaction costs
- Facilitates efficient payment mechanisms
- Improves quality of fiscal data

**END OF SOLUTIONS**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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**DIPLOMA LEVEL**

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PFM 2: LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION

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FRIDAY 14 DECEMBER 2018

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

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## SECTION A

**This question is compulsory and must be attempted.**

### **QUESTION ONE**

- (a) In every society world over, there are rules that have a coercive force by which that society is regulated. Such rules have become to be called laws. Thus, these rules are embodied purposely to regulate the manner in which members of society are to conduct themselves and to regulate their relationship with each other. These rules are formal and are usually referred to as laws which means that they act as a tool for social control since it controls the manner a society exist.

Thus, laws are 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.

It must be noted also that for law to be certain, it must be classified by reference to how that law came into existence. The words sources of law have several meanings attached to them and one of them is that it may mean some historical origins from which the law has come from or it may mean a body of rules which a judge will draw upon in deciding a matter.

#### **Required:**

- (i) Explain the difference between an Act of Parliament and a Statutory Instrument. (4 marks)
- (ii) List any five (5) advantages and any five (5) disadvantages of Judicial Precedent. (10 marks)
- (b) The Constitution being the Supreme Law among the sources of law in Zambia, it always requires thorough procedural care to be adopted. Procedural irregularity at this point is almost never in the vocabulary of the movers of this process.

#### **Required:**

With the aid of examples, explain the four (4) modes of adopting a Constitution in Zambia. (16 marks)

- (c) Separation of powers is a model for the governance of democratic countries. Under this model, the state is divided into branches, each with separate and independent powers and areas of responsibility.
- (i) Define separation of powers. (3 marks)
- (ii) Explain the three cardinal theories that spring from separation of powers. (7 marks)

**[Total: 40 Marks]**

## **SECTION B**

**Answer Three (3) questions from this Section.**

### **QUESTION TWO**

In most states public law is primarily concerned with the framing of policies and the application of those policies in relation to given cases within the established administrative and legal framework of statutory or constitutional powers. It is about reviewing the modes used in arriving at a decision already made by an authority or an individual public officer. It is also one device which ensures that the rule of law is seen to be accomplished in all government and legislative bodies.

#### **Required:**

- (a) List the two important public laws in the governance of a country like Zambia. (2 marks)
- (b) Discuss the four (4) differences between the two branches of law identified in (a) above. (8 marks)
- (c) The Zambia Revenue Authority is one such example of a public body. Explain how such public bodies are regulated. (10 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Explain what administrative law is. (5 marks)
- (b) Identify at least any three sources of administrative law in Zambia. (5 marks)
- (c) Explain the importance of administrative law in public sector finance and administration. (5 marks)
- (d) With reference to their sources and the effect each has, discuss the distinction between constitutional law and administrative law. (5 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

In his book *The Spirit of Laws*, Baron de Montesquieu argued that there was need to distribute political power. Montesquieu described division of political power among entities of the state and how they should relate to each other. He based this model on the British constitutional system, in which he perceived a division of authority among the sovereign, Parliament, and the courts of law.

#### **Required:**

- (a) Explain the rationale for the distribution in relations to Montesquieu's model. (10 marks)
- (b) Discuss whether the objectives of the doctrine are achievable in a young African state like Zambia. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

In Zambia, the Constitution has conferred upon the High Court original and unlimited jurisdiction to hear and determine any issues including one involving judicial review. There is no limit to the issues which may be presented before the Court for determination. However, this does not mean the powers of the High Court are limitless.

#### **Required:**

- (a) With the aid of examples, discuss the principle of judicial review. (5 marks)
- (b) Making reference to examples, explain what a public body is for purposes of judicial review. (6 marks)
- (c) List the three (3) grounds on which an application for judicial review would be brought before the courts of laws in Zambia. (5 marks)
- (d) Write notes on how the following remedies operate in judicial review applications.
- (i) Certiorari (quashing order) (2 marks)
  - (ii) Mandamus (mandatory order) (2 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **PFM 2: LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION SOLUTIONS**

### **SOLUTION ONE**

**(a) Statutory Instruments and By-laws** - Statutory Instruments and by-laws are both delegated legislation that is, laws made pursuant to a higher law which is an Act of Parliament also known as the enabling Act. These are defined as 'any delegated legislation (not including sub-delegated legislation) (delegated legislation made by a body under the authority of a statutory instrument made by a minister) to which the Statutory Instruments Act 1946 applies'. The definition above indicates that any other legislation arising from bodies that have been delegated with power to make delegated legislation does not qualify as statutory instruments. Regulations therefore made by institutions as Bank of Zambia, Zambia Revenue Authority, Road Transport Safety Agency (RTSA) pursuant to powers conferred on them by a minister in a statutory instrument, would not qualify for statutory instruments. Statutory instruments are very important sources of administrative law as they make the process of public administration smooth and supplement provisions of Acts of Parliament. The jurisdiction of statutory instruments extends to the country as a whole in the same manner Acts of Parliament do. By-laws on the other are equally delegated legislation but made by a local authority (councils) and their jurisdiction as opposed to statutory instruments is limited to the area of the local authority passing them. They are equally passed pursuant to Acts of Parliament and are required to conform to provisions of the enabling Act. Both statutory instruments and by-laws are intended to supplement provisions of enabling Acts and do not stand alone but to be in conformity with the enabling Act.

**(b)** There are various ways in which a constitution can be adopted. These include:

**By Parliament-** the president appoints a Constitutional Review Commission under Inquiries Act which gathers information throughout the country and makes recommendations of which are transformed into a draft Constitution which is handed to the president who sits with Cabinet to select the recommendations that they deem fit for the country. Having selected recommendations, they refer the same to Parliament for enactment into a new or amended constitution. This method has been used in Zambia since independence.

**Through Referendum-** a panel of experts or Constitutional Review Commission formulates a draft constitution which is then submitted to the entire citizenry who shall then approve it by voting either Yes or No to the proposed Constitution or amendment.

**Constituent Assembly-** this is a group of people selected for the purpose of making a constitution. It is composed of individual representatives from all walks of life and interested groups such as church, labor movements and political parties. The representatives will gather, debate and agree on the proposed draft before presenting it to parliament for enactment into law. This is used South Africa, Namibia, Ghana and Uganda.

**Constitutional Conference-** this is composed of members of all registered political parties in a country who will gather to debate and agree on the best proposals to be made into a constitution. It is common in the French speaking nations.

**(c)** Separation of powers can be defined as separating government's powers into three main organs namely; Executive, Legislature and Judiciary.

The concept of separation of powers means three cardinal things as follows;

- i. That the same person should not form part of or belong to more than one of the three organs of government. For instance, ministers should not be members parliament.
- ii. One organ of government should not control or interfere with work or functions of another. For example, the Judiciary is expected to be independent.
- iii. One organ of the government should not exercise the functions of the other. For example ministers should not have legislative at the same time judicial functions.

## SOLUTION TWO

- (a) Administrative law is very important in public sector finance and administration. Acts of Parliament being the main source of administrative law establish all public administrative bodies including all bodies engaged in public sector finance and administration. Administrative law therefore confers on the said bodies the functions they have and prescribes how they are to perform the functions conferred on them by administrative law which is Acts of Parliament. Administrative law ensures arbitrariness in the performance of public administrative functions is curtailed and also ensures the bodies are accountable to the law. Administrative law sets the benchmark for all public bodies including those engaged in public sector finance and administration. It therefore establishes them and prescribes the perimeters within which they are to operate and any act outside what administrative law prescribes, is *ultra vires* and therefore invalid. Through the process of judicial review administrative law equally ensures all bodies are regulated by law as they perform their functions. *Attorney General v Fulham Corporation, William Harrington v Dora Siliya and the Attorney General*.
- (b) Constitutional law and Administrative law although both being branches of public law are nonetheless different. Their differences stem from mainly their sources and what effect each of the two has. Constitutional law comes from the constitution especially in countries like Zambia where it is codified (written). However in countries like the United Kingdom where they have an uncoded (unwritten) constitution, constitutional law comes from a number of sources which also includes Acts of Parliament which are considered the main source of administrative law. The effect constitutional law has which distinguishes it from administrative law is that it mainly concerns itself with the constitution of a state that is, establishment of a state to the extent that a state has been defined by law. Constitutional law therefore constitutes all the organs of governance and confers on them the functions and powers they have in the governance of a country. Constitutional law also regulates the manner the organs established under it relate with one another and how the government relates with the people. Administrative law however mainly comes from Acts of Parliament and other delegated legislation and, by virtue of constituting the body that passes Acts of Parliament, from the constitution itself. However, in terms of effect, administrative law concerns itself with the day to day administrative functions of running the affairs of the state. It establishes public administrative bodies, confers on them the powers they have and how they are to exercise the powers conferred on them. Administrative law therefore is the law used in the daily running of the affairs of the state whereas constitutional law only concerns itself with the establishment of the state.
- (c) The Zambia Revenue Authority is regulated in the following two ways;
- Judicial Review- this looks at the powers conferred on the body and ascertains whether the body has acted within the confines of its powers. In an instance where power exists, it assess whether procedure laid down by the Act was followed when performing its functions. Judicial proceedings may be brought against the board to

question the legality, propriety and reasonableness of the decision made were it is found that trivialities were taken into account when making a decision and consequently affecting a person adversely.

Tribunal- The tribunal has jurisdiction over matters pertaining to the Act. This is stipulated under section 190 (1) of the Act, which provides that any person aggrieved by a decision or determination made by the Commissioner or rules made under this Act, may in respect of the matter set out in subsection (2) appeal to the tribunal in such manner and within such time as the Minister may by regulation prescribe. By S 3 (a) of the Act, the tribunal shall hear and determine appeals in respect of the following matters; a) of section 3 of the Revenue Appeal Tribunal Act, b) the refusal to grant, renew or cancellation of a license for the manufacturing of excisable goods, c) the refusal to grant, renew or cancellation of a license for a bonded warehouse, d) the refusal to grant, renew or the decision to suspend or cancel a Customs Agent's licence, e) the application of any administrative decision on a matter arising from a seizure of goods under this Act, or f) any other matter against which an appeal shall lie under this Act. The tribunal's jurisdiction is restricted to the provisions of the Act.

### SOLUTION THREE

a) Administrative law is very important in public sector finance and administration. Acts of Parliament being the main source of administrative law establish all public administrative bodies including all bodies engaged in public sector finance and administration. Administrative law therefore confers on the said bodies the functions they have and prescribes how they are to perform the functions conferred on them by administrative law which is Acts of Parliament. Administrative law ensures arbitrariness in the performance of public administrative functions is curtailed and also ensures the bodies are accountable to the law. Administrative law sets the benchmark for all public bodies including those engaged in public sector finance and administration. It therefore establishes them and prescribes the perimeters within which they are to operate and any act outside what administrative law prescribes, is *ultra vires* and therefore invalid. Through the process of judicial review administrative law equally ensures all bodies are regulated by law as they perform their functions. *Attorney General v Fulham Corporation, William Harrington v Dora Siliya and the Attorney General*.

b) *Sources of Administrative law*

Constitution - the constitution is not literally a source of administrative law. What qualifies it to be considered a source of administrative law is the fact that the constitution establishes the institutions that make Acts of Parliament and confers on other bodies, authority to come up with the actual administrative laws (Acts of Parliament and delegated legislation). In countries where it is written, the constitution maybe considered the primary source of administrative law which would require all other actual administrative laws to conform to its provisions and failure to which, the other laws would be rendered void. (*Christine Mulundika and Seven Others v The Attorney General* (1996) ZR)

(b)(ii) Acts of Parliament - Acts of Parliament are in actual fact, the primary sources of administrative law. In countries without a concrete constitution like the United Kingdom, Acts of Parliament stand as the ultimate source of administrative law. In Zambia and other countries with a concrete constitution, Acts of Parliament may be considered secondary to the constitution yet in fact qualifying for consideration as primary sources because of what has already been stated above. Acts of Parliament stand as sources of administrative law because all public administrative bodies are established by or under Acts of Parliament and it is the Acts of Parliament that provide for how they are to perform their public administrative functions. Equally, where they are said to have acted *ultra vires*, it is in relation to provisions of Acts of Parliament that their *ultra vires* conduct would be determined from. (*Attorney General v Fulham Corporation* [1921] 1 Ch 440 where the local authority was empowered under statute to establish washhouses for the non-commercial use of local residents but the corporation decided to open a laundry on a commercial basis.

(b)(iii) Statutory Instruments and By-laws - Statutory Instruments and by-laws are both delegated legislation that is, laws made pursuant to a higher law which is an Act of Parliament also known as the enabling Act. These are defined as 'any delegated legislation (not including sub-delegated legislation) (delegated legislation made by a body under the authority of a statutory instrument made by a minister) to which the Statutory Instruments Act 1946 applies'. The definition above indicates that any other



legislation arising from bodies that have been delegated with power to make delegated legislation does not qualify as statutory instruments. Regulations therefore made by institutions as Bank of Zambia, Zambia Revenue Authority, Road Transport Safety Agency (RTSA) pursuant to powers conferred on them by a minister in a statutory instrument, would not qualify for statutory instruments. Statutory instruments are very important sources of administrative law as they make the process of public administration smooth and supplement provisions of Acts of Parliament. The jurisdiction of statutory instruments extends to the country as a whole in the same manner Acts of Parliament do. By-laws on the other are equally delegated legislation but made by a local authority (councils) and their jurisdiction as opposed to statutory instruments is limited to the area of the local authority passing them. They are equally passed pursuant to Acts of Parliament and are required to conform to provisions of the enabling Act. Both statutory instruments and by-laws are intended to supplement provisions of enabling Acts and do not stand alone but to be in conformity with the enabling Act.

c) Importance of administrative law in public sector finance and administration

Administrative law is very important in public sector finance and administration. Acts of Parliament being the main source of administrative law establish all public administrative bodies including all bodies engaged in public sector finance and administration. Administrative law therefore confers on the said bodies the functions they have and prescribes how they are to perform the functions conferred on them by administrative law which is Acts of Parliament. Administrative law ensures arbitrariness in the performance of public administrative functions is curtailed and also ensures the bodies are accountable to the law. Administrative law sets the benchmark for all public bodies including those engaged in public sector finance and administration. It therefore establishes them and prescribes the perimeters within which they are to operate and any act outside what administrative law prescribes, is *ultra vires* and therefore invalid. Through the process of judicial review administrative law equally ensures all bodies are regulated by law as they perform their functions. *Attorney General v Fulham Corporation*, *William Harrington v Dora Siliya* and the *Attorney General*.

d) Constitutional law and Administrative law although both being branches of public law are nonetheless different. Their differences stem from mainly their sources and what effect each of the two has. Constitutional law comes from the constitution especially in countries like Zambia where it is codified (written). However in countries like the United Kingdom where they have an uncoded (unwritten) constitution, constitutional law comes from a number of sources which also includes Acts of Parliament which are considered the main source of administrative law. The effect constitutional law has which distinguishes it from administrative law is that it mainly concerns itself with the constitution of a state that is, establishment of a state to the extent that a state has been defined by law. Constitutional law therefore constitutes all the organs of governance and confers on them the functions and powers they have in the governance of a country. Constitutional law also regulates the manner the organs established under it relate with one another and how the government relates with the people. Administrative law however mainly comes from Acts of Parliament and other delegated legislation and, by virtue of constituting the body that passes Acts of Parliament, from the constitution itself. However, in terms of effect, administrative law concerns itself with the day to day administrative functions of running the affairs of the state. It establishes

public administrative bodies, confers on them the powers they have and how they are to exercise the powers conferred on them. Administrative law therefore is the law used in the daily running of the affairs of the state whereas constitutional law only concerns itself with the establishment of the state.

## **SOLUTION FOUR**

- (a) Montesquieu observed that the liberty of an individual can only be secure if the legislative, executive and judicial functions of government were exercised by distinct and independent organs, namely the Parliament, Judiciary and the Executive. If these functions were vested in one organ, then the freedom of an individual would be compromised. For example if police which exercised the executive functions to arrest was also the legislator and the court, one would be confirmed guilty upon arrest and the presumption of innocence until proven guilty, which is a fundamental human right in public trials would have no place.

However it has not been possible to have a clean break and these organs of government are actually interdependent: parliament makes laws but needs the judiciary to interpret them; parliament discusses bills but needs the president to sign them into law (Acts of Parliament); the executive needs laws made together with parliament to execute and implement policies of government. It has therefore been evident that the executive especially tends to frustrate the doctrine as it seen meddling with the legislature and judiciary. This has been compounded by powers given by constitution to the executive to make key appointments and dismissal.

- (b) The objectives of the theory of separation of powers as stated by Montesquieu has challenges effect on a young African country like Zambia.

The judiciary can be noted to have check and balances over the other arms of government. The judges are appointed by the president who is in the executive with parliamentary ratification but unfortunately equally removed by him without parliamentary consent. The judiciary further checks the executive and the Legislature via judicial review. Judicial review is designed to keep those persons and bodies with delegated powers within the scope of the power conferred upon the by parliament.

Similarly, the relationship between the Judiciary and the legislature has some controlling effects over the executive in the manner it performs functions to ensure conformity to the law and the rules of natural justice.

Therefore, the objectives of the doctrine of separation of powers in a young African country like Zambia is a bit problematic.

This has been seen for instance, the President who is the Executive is also in the Legislature as the Head and then also has appointing powers to appoint Judges in the Judiciary. This somewhat defeats the theory of complete separation of powers.

## SOLUTION FIVE

- (a) The principle of judicial review as outlined in *Nyampala Safaris v Zambia Wildlife Authority* [2004] is that, "judicial review does not concern itself with the merits of the decision made by a body but by the process leading to the decision and having established that either the process was followed or the law existed giving the body authority to make the decision it made, it ends there and it is not the job of the court to substitute their decision for that made by a body". The statement clearly shows that judicial review does not look at the decision made but at the process leading to the decision to ensure the body acted according to the procedures laid down, and the body has the legal authority to make the decision made. If the body acted *intra vires*, the courts have no authority to interfere.
- (b) Ordinarily a public body is one which is a creature of statute or established by or under an Act of Parliament. However since 1987, the court widened the interpretation of what a public bodies. *R v Panel on Mergers and Take-Over ex parte Datafin*. In the case the court ruled that the ordinary way to determine whether or not a body is a public body is to look at the source of its powers. It is usually the case that a public body will derive its powers from an Act of Parliament establishing it. However, a public was also qualified as a public body if the functions it performed were of a public nature or had public law consequences regardless of whether or not it is a creature of statute or, if, in the absence of that body which ordinarily is a private body, but because of the nature of functions its performs, the government would have seen it necessary to establish a body to perform the functions it performs then that body even though its source of power is not an Act of Parliament, will be brought within the ambit of a public body for judicial review purposes.
- (c) The three grounds are: illegality, procedural impropriety and wednesbury unreasonableness. Illegality means a body does not in fact have the legal authority to make the decision it has made. In such instances, the decision of the body is quashed and would not have any effect. *William Harrington v Dora Siliya and the Attorney General* where the tribunal established to probe Hon. Siliya's alleged breaches of the Parliamentary and Ministerial Code of Conduct Act proceeded to venture into the constitution. The High Court held that the tribunal acted *ultra vires* as it did not have the legal authority to venture into the constitution as its jurisdiction was clearly matters relating to a breach of the Act of Parliament.
- Procedural impropriety – in such instances, a body has acted procedurally wrong with regard to the procedure as laid down by the Act of Parliament establishing it and giving it the authority to perform public administrative functions. *Bedford Kango'mbe v The Attorney General*. The applicant a teacher was dismissed from the teaching service without proper procedures as laid down by law being followed. On an application for judicial review, the decision of the then President Kaunda was said to be *ultra vires* the law which required a person's dismissal to be recommended by the teaching service commission and the President was on to act on the recommendation of the commission and did not have the power to go contrary to the commission's findings.

Wednesbury unreasonableness – here the applicant is not contending that the body did not have the legal authority to make the decision it has made or that the procedure as

laid down in the law was not followed but that, in making the decision, the body took into account certain trivialities it ought not to have taken into account that a reasonable person would not have taken into account or that the body failed to take into account certain factors it ought to have taken into account that a reasonable person would have taken into account and as a result of that, the bodies decision is so outrageous in its defiance of logic that a reasonable person would not have made the decision made by the body. Under this ground, if established that indeed the decision is unreasonable, the body would be ordered to go through the decision making process and either not take into account what would be considered trivialities or to ensure it takes into account what it failed to take into account whether or not the decision it makes after comes out the same. *Associated Provincial Picture Houses v Wednesbury Corporation*. The grounds of procedural impropriety and wednesbury unreasonableness have the same effect whereas illegality the effect is different.

(d) (i) Certiorari (quashing order) – this is one of the remedies in an application for judicial review. A quashing order has the effect of completely nullifying a decision made by a public body. This ground is available where a body exceeds the legal authority it has to make a decision made and therefore means the decision it has made has no backing of the law and therefore made arbitrarily. Therefore from the very beginning, the decision is wrong and, because the body has no legal authority to make the decision, it will not be asked to start from the beginning and make the decision notwithstanding the decision to be made. The body cannot at all be allowed to make that decision. *William Harrington v Dora Siliya and Attorney General; Attorney General v Fulham Corporation*.

(ii) Mandamus (mandatory order) this is a remedy available in judicial review where a body fails to follow procedure as outline in the law. A body that fails to follow the procedure stipulated by law is said to have acted arbitrarily and the decision it makes will not be valid although equally, will not be quashed. However, the courts will order the body to go back to the decision making process all over and follow the procedures as stipulated by law. Under this remedy which comes mainly due to want of procedure, it does not matter if the decision to be made by the body after having followed the correct procedure is the same as that made through want of procedure. What matters therefore is that the body is acting in accordance with the law and there is no arbitrariness in the manner the body makes decisions the law has given it authority to make. *Bedford Kango'mbe v Attorney General* (

## END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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**DIPLOMA LEVEL**

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PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR

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TUESDAY 11 DECEMBER 2018

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

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**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.
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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**

#### **Case study - Leadership and Governance in Africa**

The concept of leadership and good governance is a back bone of every organisation in Africa, whether private or public institution. For any organization to succeed in its business transaction there is need to adhere to acceptable ethical standards in workplaces. In that way, professionalism is achieved. The positive effects of professionalism simply mean that any organization's reputation would always be positive. This is actually one of the key success factors for any organization.

Article "22" of the public service charter in Africa provides vital information that public service organization can use to effectively serve various stakeholders including Zambia.

However, in some cases this is not the same situation on the ground in most of service organisations in Africa, Zambia inclusive. It is not strange to find information making headlines in the media about issues of corruption, embezzlement of funds, and diversion of resources, smuggling money laundering, lack of accountability and many other unacceptable work practices.

This kind of situation is a serious cause for concern and therefore requires good leaders to address it so that economies in Africa improve on issues of governance.

#### **Required**

- (a) (i) Define the term 'Ethics'. (2 marks)
- (ii) Mention any eight (8) ethical values and principles of leaders according to the Charter for the Public Service in Africa. (8 marks)
- (iii) Outline how you would manage ethics at your workplace. (10 marks)
- (b) Leadership is the art of influencing people so that they strive willingly and enthusiastically toward the achievement of group goals. Good leaders therefore use their power effectively and in a responsible manner.

Explain any five (5) **power bases** that leaders use to influence others. (20 marks)

**[Total: 40 Marks]**

## **SECTION B**

**Attempt any three (3) questions in this section.**

### **QUESTION TWO**

Negotiation is a process of communication in which the parties aim to “**send a message**” to the other side and influence each other.

#### **Required:**

- (a) State any **five (5)** features of negotiation. (5 marks)
- (b) Outline any **ten (10)** ways a leader would consider in order to overcome any potential barriers to effective communication during negotiations. (10 marks)
- (c) State any **five (5)** key skills for negotiation. (5 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

#### **Acting President Challenges Public Workers (Extract)**

The Acting President urged public service workers to uphold the highest levels of professionalism when executing their duties to boost citizens’ confidence in the public service and government as a whole. Government was committed to offer a citizen-centered service delivery culture to not only meet the aspirations of the people, but foster socio-economic development. The acting president said that Government was in a hurry to improve the delivery of public services to the people to meet their expectations and would continue to promote the use of information and communication technologies to deliver quality services. The acting president further said that technology would eliminate unnecessary bureaucracy, reduce corruption, increase transparency, and improve efficiency in the delivery of services. ([https://www.daily-mail.co.zm/wina-challenges-public-workers/June 24, 2017](https://www.daily-mail.co.zm/wina-challenges-public-workers/June%2024,%202017))

#### **Required:**

Using the Communication Process Model, state and explain the elements of the communication process which the acting president used in addressing the nation and which can also be used in the public sector organisations. (20 marks)

**[Total: 20 Marks]**



#### **QUESTION FOUR**

The public sector achieves most of its work in providing services to a country's citizens by offering contracts to various contractors.

##### **Required:**

- (a) Describe the resources that are used in different contracts. (10 marks)
- (b) Briefly explain any **five (5)** roles and skills of the contract managers. (10 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

For public policy to be meaningful and beneficial to the citizens of a country, it must be translated into action plans and be implemented in a systematic manner. More often than not policy implementation occurs in the real environment or atmosphere.

##### **Required:**

- (a)
  - (i) Briefly explain the **environmental conditions** that promote effective Public policy implementation. (10 marks)
  - (ii) State any five (5) variables that can also promote effective public policy Implementation. (5 marks)
- (b) Name the five (5) stages of implementation of a policy. (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

### PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR –SOLUTIONS

#### SOLUTION ONE

a) i) Ethics are standards which guide the behaviours and actions of personnel in private and public institutions.

ii)

- Efficiency
- Professional discipline
- Dignity
- Equity
- Impartiality
- Fairness
- Public spiritedness
- Courtesy in the discharge of duties

iii)

- Understand the benefits of ethical conduct;
- Focus on ethical conduct;
- Develop a code of ethical conduct;
- Promote ethical process;
- Link ethics to other management processes;
- Demonstrate ethical practices.

b) The power bases that leaders use to influence others are:

- i) **Legitimate power:** This is power that comes as a result of the position one occupies in the hierarchy of the organization.
- ii) **Reward power:** This refers to the ability by the leader to give out rewards to subordinates.
- iii) **Coercive power:** This is power based on the ability to inflict fear in the subordinates or the use of threats.
- iv) **Referent power:** This is power that comes as a result of one's leadership qualities. Followers get impressed by these qualities and follow the leader.
- v) **Expert power:** This is the ability to dispense valuable information to the followers. The leader does that as a result of their skills, knowledge or talents that they possess.

## **SOLUTION TWO**

- a)
  - i) Minimum of two parties
  - ii) Predetermined goals
  - iii) Expecting an outcome
  - iv) Resolution and consensus
  - v) Parties willing to modify their positions
  - vi) Parties should understand the purpose of negotiations
  
- b)
  - i) Active listening
  - ii) Follow-up and feedback
  - iii) Parallel channels and repetition
  - iv) Right Timing
  - v) Be patient and pay adequate attention
  - vii) Use need to know and exception principle.
  - vii) Being empathetic in understanding and using feedback mechanism
  
- c) Key skills for negotiating require:
  - i) Preparation and planning skills
  - ii) Knowledge of the subject matter
  - iii) Ability to think clearly and rapidly and under pressure and uncertainty
  - iv) Ability to express thoughts verbally
  - v) Listening skill
  - vi) Patience general problem solving and analytical skills

### SOLUTION THREE

- a) The Communication Process Model contains seven major elements which are;
- i) **Sender:** This refers to the person who has the message or ideas to be communicated.
  - ii) **Message:** This is the actual information or ideas that are communicated. Mental images can include ideas, thoughts, pictures, and emotions.
  - iii) **Receiver:** This is the recipient of the message. Information must be received in a manner that makes the receiver to have shared meaning and understanding for communication to be effective.
  - iv) **Feedback:** The response is critical in the communication process and this is demonstrated by way of action or behavior from the receiver.
  - v) **Channel:** Refers to the media used to transmit or communicate the message to a receiver. This can be done in many ways: during face-to-face verbal interaction, over the telephone, through printed materials (letters, newspapers, etc.), or through visual media (television, photographs).
  - vi) **Context or setting:** This may refer to the background, situation, or scenery where the communication is taking place.
  - vii) **Noise or interference:** These are distractors of communication in the whole process.

## **SOLUTION FOUR**

a)

- i) People – these are the human resources that are engaged to work in the contract.
- ii) Finance – This is the financial resources that are used to procure materials, pay workers and pay for the other services that the contract uses.
- iii) Processes – these are the processes that the contractor will go through in trying to achieve the required works.
- iv) Systems – these are the systems that assist management with information to use in their decision making.

b) The roles and skills of a contract manager:

i) Roles:

- The manager should ensure that the contract legally stipulates the Requirements in line with the contract owners' request and institution's strategic objectives;
- Ensures that contract documentation and information is managed throughout the contract life cycle;
- Ensures that the goods and services are delivered according standards set out in the contract;
- Ensures that communication and negotiation are done at all levels;
- Prevents and corrects situations of poor communication.

ii) Skills:

- Financial skills – to be able to understand the financial implications of a contract;
- Change management skills – to help in managing relationships and contract modification;
- Analytical skills – to ensure sufficient analysis and reporting of contract progress.
- Risk management skills – to help in minimizing contract risks.
- Performance management skills.

## **SOLUTION FIVE**

### **a) Conditions for effective policy implementation**

#### **i) Conditions**

- The program should be based on a sound theory relating to changes in target group behavior;
- Policy decisions should contain unambiguous policy directives and structure the implementation process in such a way as to increase the chances of good performance of the target groups;
- The leaders and implementing agencies require significant managerial and political skills and commitment to the goals;
- The program should be supported by organized constituency groups and key legislators throughout the process;
- The priority objectives should not be undermined over time by conflicting public policies or changes in social economic conditions.

#### **ii) Variables**

- Policy standards and objectives;
- Policy resources;
- Inter-organizational communication and enforcement activities;
- Economic social and political conditions;
- Characteristics of implementing agencies;
- Disposition of implementers.

### **b) Steps in the policy implementation process**

- i) Policy outputs/decisions;
- ii) The compliance of target groups with those decisions;
- iii) The actual impacts of agency decisions;
- iv) The perceived impacts of those decisions;
- v) The political systems

## **END OF SOLUTIONS**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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PFM 4: PUBLIC SECTOR FINANCIAL MANAGEMENT

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FRIDAY 14 DECEMBER 2018

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

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## **SECTION A: COMPULSORY**

**This question is compulsory and must be attempted.**

### **QUESTION ONE**

The Ministry of Agriculture is considering setting up a new fertilizer manufacturing plant to be situated in the Copper Belt Province of Zambia. This is due to the rapid growth of the agriculture sector which has resulted in increased demand of agriculture inputs. The annual demand for fertilizer is expected to reach 500,000 tons next year.

The purpose of the plant is to supplement the current national production levels of approximately 421,000 tons of fertilizer annually so as to meet the increased demand. The national fertilizer deficit is estimated at 79,000 tons annually. The cost of manufacturing a 50 kg bag of fertilizer is estimated at K100. If the project is not undertaken the government will be expected to import the 79,000 tons of fertilizer for an estimated K316m per annum in order to meet national demand.

The cost of construction of the plant is estimated at K250m. This figure includes the cost of feasibility studies which were undertaken for K50m. Operating costs of the plant are estimated to be K127m per annum.

The plant is expected to be operational for an initial period of ten years. At the end of this period the government plans to sell the plant to a private investor company for an estimated K50m.

The investment will be financed through public domestic borrowing to be arranged by the Ministry of Finance.

The Ministry of Finance uses the social opportunity cost (SOC) discount rate of 6% to evaluate capital expenditure projects.

There has been criticism raised by various stakeholders concerning the planned selling of the plant to a private investor after ten years of operation. The critics believe that the period is too short and the possibilities of recouping the initial investment cost within ten years are slim. However the consultants engaged by the ministry to appraise the project argue that the period is long enough to recoup the initial investment cost.

#### **Required:**

- (a) Calculate the Net Present Value (NPV) of the fertilizer plant using the social discount rate provided by the Ministry of Finance. (11 marks)
- (b) Calculate the Payback Period of the fertilizer plant using:
  - (i) Traditional method (2 marks)
  - (ii) Discounted cash flow method (DCF) (4 marks)
- (b) Based on your calculations in parts (a) and (b), comment on whether or not government should proceed with the proposed investment. (2 marks)



- (c) Describe the main features of capital expenditure decisions such as the proposed fertilizer plant which distinguishes them from revenue expenditure decisions.  
(8 marks)
- (d) Explain five (5) possible reasons the government may resort to using debt capital in order to finance capital expenditure projects of this nature.  
(5 marks)
- (e) Describe the options for domestic borrowing available to the government to finance capital expenditure projects and recommend with reasons the one(s) which should be used for the plant.  
(8 marks)

**[Total: 40 marks]**

## **SECTION B**

**Attempt any THREE (3) questions in this section.**

### **QUESTION TWO**

The Auditor General's report for the financial year ending 31 December 2016 revealed that the Teaching Service Commission of Zambia has been using the services of a Secretary to facilitate the whole payment process. There has been no segregation of responsibilities in the payment cycle. In addition cash flow forecasts are not prepared and submitted to the Ministry of Finance.

#### **Required:**

Prepare a brief report to the Chairperson of the Teaching Service Commission explaining the following:

- (a) The main objectives of financial management in the public sector. (10 marks)
- (b) The major steps of preparing the cash flow forecast and the objectives of cash forecasting. (10 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Reo Success Technical Secondary School is a government owned secondary School which was opened a year ago. Reo has not prepared any budget or financial statements since it was opened. This is because it did not have a qualified bursar in the first year of operation. The school board of management is considering setting up a budget for the coming year. However they are uncertain as to which budgeting method to adopt. The chairman of the school board of management recently called for a board meeting which will be held to discuss the budgeting method to adopt for the school.

The budget will be essential because Reo receives a government grant which depends on expenditure requirements for the coming year. The budget should be submitted to the ministry of education before the end of the year in order to allow government to determine the amount of the grant for the coming year. However the amount of the grant is not sufficient to sponsor Reo's budget in full. The grant accounts for approximately 50% of total revenue.

The school bursar has proposed the following budgeting methods for consideration at the meeting. These include the historical, incremental, zero based and activity based budgeting methods.

Reo enrolled 1,500 male students and 500 female Students in the first year of operation. It generated K9m from the males and K3m from the female enrollments. Reo management estimates a 10% increase in the enrollment figures for the next year.

**Required:**

- (a) Explain which budgeting method(s) would not be feasible for the board to adopt in the first year of operations among those proposed by the school bursar. (6 marks)
- (b) Explain any five (5) objectives of budgeting for an Organisation. (10 marks)
- (c) Prepare a flexed revenue budget for Reo for the second year of operation. (4 marks)

**[Total: 20 marks]**

**QUESTION FOUR**

Measuring and managing performance in public service is of great interest to politicians, the media and public service organisations themselves. While it can help to improve performance, it can be a waste of time and money and can even cause damage if poorly done. It is therefore crucial that performance measurement and management are done properly so that the media and public service organisations deliver effective services and ensures sustainability.

You have been tasked with the responsibility of producing suitable performance assessment indicators for the public university where you are currently employed.

**Required:**

- (a) Explain the four (4) major types of performance indicators relating to public sector organisations. (8 marks)
- (b) Explain the process of assessing the effectiveness of an indicator. (12 marks)

**[Total: 20 marks]**

### **QUESTION FIVE**

The Chairperson of Dundumwezi District Council of the Government of the Republic of Zambia recently made the following comment at a council meeting which was attended by the area member of parliament. "Dundumwezi District Council is severely constrained in this time of austerity and so should do everything within their power to generate income and that includes income from investments. Also interest rates are so low for borrowing, why are we not borrowing to invest in successful companies?"

#### **Required:**

- (a) As the treasurer of Dundumwezi District council, prepare a short report to members of council to discuss the validity of this statement, giving examples of legal powers and recommended practice. (15 marks)
- (b) Describe the debt instruments available to the council and other factors to consider when investing the funds (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## Formulae

### Modigliani and Miller Proposition 2 (with tax)

$$k_e = k_e^i + (1 - T)(k_e^i - k_d) \frac{V_d}{V_e}$$

### Two asset portfolio

$$s_p = \sqrt{w_a^2 s_a^2 + w_b^2 s_b^2 + 2w_a w_b r_{ab} s_a s_b}$$

### The Capital Asset Pricing Model

$$E(r_i) = R_f + \beta_i (E(r_m) - R_f)$$

### The asset beta formula

$$\beta_a = \left[ \frac{V_e}{(V_e + V_d(1 - T))} \beta_e \right] + \left[ \frac{V_d(1 - T)}{(V_e + V_d(1 - T))} \beta_d \right]$$

### The Growth Model

$$P_o = \frac{D_o(1 + g)}{(r_e - g)}$$

### Gordon's growth approximation

$$g = br_e$$

### The weighted average cost of capital

$$WACC = \left[ \frac{V_e}{V_e + V_d} \right] k_e + \left[ \frac{V_d}{V_e + V_d} \right] k_d(1 - T)$$

### The Fisher formula

$$(1 + i) = (1 + r)(1 + h)$$

### Purchasing power parity and interest rate parity

$$S_1 = S_0 \times \frac{(1 + h_c)}{(1 + h_b)} \quad F_0 = S_0 \times \frac{(1 + i_c)}{(1 + i_b)}$$

### Modified Internal Rate of Return

$$MIRR = \left[ \frac{PV_R}{PV_I} \right]^{\frac{1}{n}} (1 + r_e) - 1$$

### The Black-Scholes option pricing model

$$c = P_a N(d_1) - P_e N(d_2) e^{-rt}$$

Where:

$$d_1 = \frac{\ln(P_a / P_e) + (r + 0.5s^2)t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

### The Put Call Parity relationship

$$p = c - P_a + P_e e^{-rt}$$

### Present Value Table

Present value of 1 i.e.  $(1 + r)^{-n}$

Where  $r$  = discount rate

$n$  = number of periods until payment

		<i>Discount rate (r)</i>									
<i>Periods</i>		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
(n)											
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	1
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	2
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	3
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	4
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	5
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	6
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	7
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	8
9	0.941	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	9
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	10
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.305	11
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	12
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	13
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	14
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	15
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	1
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	2
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	3
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	4
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	5
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	6
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	7
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	8
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	9
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	10
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	11
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	12
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	13
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	14
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	15

### Annuity Table

Present value of an annuity of 1 i.e.  $\frac{1 - (1 + r)^{-n}}{r}$

Where      r = discount rate  
              n = number of periods

		Discount rate (r)									
Periods	(n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1		0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2		1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3		2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4		3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5		4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6		5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7		6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8		7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9		8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10		9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11		10.37	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12		11.26	10.58	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13		12.13	11.35	10.63	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14		13.00	12.11	11.30	10.56	9.899	9.295	8.745	8.244	7.786	7.367
15		13.87	12.85	11.94	11.12	10.38	9.712	9.108	8.559	8.061	7.606
(n)		11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1		0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2		1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3		2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4		3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5		3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6		4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7		4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8		5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9		5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10		5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11		6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12		6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439
13		6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14		6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15		7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675



## PSFM 4

### SUGGESTED SOLUTION

#### SOLUTION ONE

a)

##### WORKINGS

Cost of importing a 50kg bag.  $79,000 \times 1000 = 79,000,000$  kg

Number of bags  $79,000,000 / 50 = 1,580,000$  bags

Import price per 50Kg Bag =  $K316,000,000 / 1,580,000 = K200$

Saving from manufacturing rather than importing =  $K200 - K100 = K100$  per bag

Number of bags which could have been imported if the project was not implemented = 1,580,000

Total savings from manufacturing rather than importing  $K100 \times 1,580,000 = K158,000,000$ .

YEAR	ORIGINAL COST	SAVINGS	OPERATING COSTS	DISPOSAL
0	200			
1-10		158	127	
10				50
Cost of capital 6%	1	7.360	7.360	0.558
PV	(200m)	1162.88	(934.72)	27.9

NPV = K56.06m

b) Payback period

##### Traditional payback

Year	0	(200)	balance
	1	$158 - 127 = 31$	(169)
	2	31	(138)
	3	31	(107)
	4	31	(76)
	5	31	(45)
	6	31	(14)
	7	$31 + 50 = 81$	

Traditional payback period = 6 years +  $14/81 = 6.17$  years

### Discounted payback period

Year	0	(200)	balance
	1	$31 \times 0.943 = 29.233$	170.767
	2	$31 \times 0.890 = 27.59$	143.177
	3	$31 \times 0.840 = 26.04$	117.137
	4	$31 \times 0.792 = 24.552$	92.585
	5	$31 \times 0.747 = 23.157$	69.428
	6	$31 \times 0.705 = 21.855$	47.573
	7	$81 \times 0.665 = 53.865$	

Discounted payback period 6years +  $47.573/53.865 = 6.88$ years

c) The government should proceed with the proposed investment as the NPV is positive and the payback period is less than ten years.

d)

i) Substantial investments

They involve large amount of funds. Such decisions have its effect over a long span of time.

ii) Irreversible decisions

Once approved, they cannot be reversed or withdrawn any time. Withdrawal or reversal of such decisions may lead to considerable financial losses to the investor.

iii) Estimation of future cash inflows

They involve forecasting of future cash inflows over several years for evaluating the profitability of the project. This may be difficult to predict as the future may not always be predictable.

iv) Estimation of the cost of funds.

They also involve estimation of the cost of funds to be used for discounting which may be difficult to measure with considerable accuracy.

e)

i) To finance national government deficits

ii) To obtain foreign exchange e.g. Euro bonds

iii) To secure financing at more favorable terms than the opportunity cost of revenues

iv) To take advantage of benefits attached to the funds e.g. technology

v) To balance the timing of resources with the project gestation and repayment of benefits.

f)

i) Government bonds

These are long term securities issued by the central bank mostly for fiscal or monetary purposes. They are issued by the central bank with medium to long term maturity periods.

ii) Consolidated bonds

The consolidated bond is a consolidation of various debt owed by government to the central bank. The long term bond agreement has a 10 year period with a coupon rate of 6% with an option to roll over for another 10 years.

iii) Treasury bills

These are short term-instruments issued by the central bank through the auction system. The amounts on offer are determined based on the liquidity of the market, the financing requirements of government and the maturities needed to be rolled over.

I would recommend the use of bonds rather than treasury bills because treasury bills are short term instruments. It is important to match the maturity of the loan with the period of the investment. Since the investment is long term the Government should use long term debt finance.

## SOLUTION TWO

<p>Prepare a brief report to the Chairperson of the Teaching Service Commission outlining the following:</p> <ul style="list-style-type: none"> <li>i) The main objectives of financial management in the public sector</li> <li>ii) The major steps a Treasury Profession should take when preparing the cash forecast and objectives of cash forecasting</li> </ul>	
<p><b>a) Objectives of Financial Management</b></p> <ul style="list-style-type: none"> <li>• To ensure regular and adequate supply of funds</li> <li>• To ensure adequate returns to the shareholders that depends upon the earning capacity , market price of the share , and expectations of the shareholders</li> <li>• To ensure optimum funds utilisation. Once the funds are procured , they should be utilised in maximum possible</li> <li>• To ensure safety on investment that is funds should be invested in safe ventures so that adequate rate of return can be achieved</li> <li>• To plan a sound capital structure – There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital</li> </ul> <p><b>b) Major Steps</b></p> <ul style="list-style-type: none"> <li>• Estimate future operating cash inflows and outflows</li> <li>• Generate a pro forma cash position</li> <li>• Identify how to cover any cash deficits or use any cash surpluses. The shortfall or surplus is measured relative to the predetermined minimum desired liquidity or target balance</li> <li>• Review and update cashflow forecasts frequently</li> </ul> <p><b>Objectives of Cash Forecasting</b></p> <ul style="list-style-type: none"> <li>• <b>Liquidity Management:</b> Forecasting government net cash position at different intervals is essential for scheduling investment maturities and anticipating borrowing requirements.</li> <li>• <b>Financial Control:</b> Variance analysis that compares actual cash flows with projects cashflows can help identify problems such as unanticipated inventory changes, delays in Accounts receivables and minimising of payments. Early identification lets government initiate corrective action</li> </ul>	

<ul style="list-style-type: none"> <li>• <b>Meeting strategic objectives:</b> Cashflow forecasts are used to project future funding requirements and support government strategic investment objectives</li> <li>• <b>Capital Budgeting:</b> Forecasts of revenue , expenditures and funding are needed to evaluate proposed capital expenditures</li> <li>• <b>Managing costs:</b> Cash forecasts are used to help minimise excess bank balances , reduce short term borrowing costs and increase short term investment income</li> <li>• <b>Managing currency exposure:</b> Cash flow forecasts attributable to foreign operations are used to assess the degree of foreign currency exposure and provide information for policies designed to control currency risk.</li> </ul>	

## **SOLUTION THREE**

**a)**

**1) Traditional Historical Budgeting**

This is based on historical information and involves an incremental approach. The question to consider is whether there is sufficient historical information on which this method of budgeting can be based. Therefore this type of budget may not be feasible to adopt as Reo does not have any budget or financial statements from which it can extract historical information. In addition the bursar was not qualified so that even if the information is available it will be unreliable.

**2) Incremental Budgeting**

This is based on previous years' budget or actual performance as a basis with incremental amounts added for new budget period. It is doubtful whether Reo has sufficient historical information because it has no budget and no financial statements as a basis for the incremental budget. In addition the bursar was not qualified so that even if the information is available it will be unreliable.

**b)**

**1) Forecasting**

A budget can be used for forecasting. This is an attempt to predict the future in order to prepare for it.

**2) Planning**

This assists managers to implement a long term strategic plans. It encourages managers to anticipate problems, plan for future operations before they arise and ensures reasoned decisions making.

**3) Coordination**

Budgeting facilitates consolidation and coordination and allows the actions of the different parts of the organization to be brought in to a common plan. It also compels managers to examine the relationship between the different parts of an organization when making decisions and it assists in identifying and resolving conflicts.

**4) Communication**

Senior management can use budgets to communicate corporate objectives downwards and ensure that other employees understand them and coordinate their activities to attain them. All managers must have a clear understanding of the role which they are required to play to ensure budgetary compliance. This ensures accountability.

Other suggested solutions equally acceptable include the following objectives:

- Motivation( motivates managers to perform)
- Control ( variation from expected results in order to take remedial action),
- Evaluation (of performance)
- Authorization (gives authority to spend)

c)

Enrollments numbers	2000	2200
		FLEXED BUDGET
Revenue from enrollments:	Km	Km
Female	9	$+2200/2000*9=9.9$
Male	3	$2200/2000*3=3.3$
Grant: 50% of revenue		$50\% *13.2=6.6$
Total Revenue budget		19.8

## SOLUTION FOUR

a) Outline the four (4) major types of indicators relating to public sector organisations (8 marks)	
<ul style="list-style-type: none"> <li>• Output (how much is being produced);</li> <li>• Welfare (the value to the final users);</li> <li>• Performance(how the services are being produced); and</li> <li>• Composite indicators that combine the other three</li> </ul>	
b) What essential in order assess the effectiveness of an indicator. (12 marks)	
<ul style="list-style-type: none"> <li>• The assumption regarding the indicator and the rationale for measuring it</li> <li>• The precision and accuracy of any measurements</li> <li>• Congruence – Many indicators are proxies so it is essential that the indicator changes in line with the actual behaviour</li> <li>• Whether a static measure (a value at the point in time) or a vector ( a value or direction of change ) is more appropriate . Usually a vector will be more informative , but organisations normally use static measures</li> <li>• Whether soft or hard measure is required</li> <li>• If the indicator is going to measure results or behaviour</li> <li>• What are the likely intended and unintended consequences of the measurement system</li> </ul>	



## SOLUTION FIVE

<p>a) You are Finance Director of the council, prepare a short report to members of council to discuss the validity of this statement, giving examples of legal powers and recommended practice where relevant. Include an assessment of any similar restrictions that apply to borrowing rather than investments.</p>	
<p>Purpose: Report to members of the council regarding approaches to maximising income for the Council from managing its investment portfolio.</p> <p>Date: 2nd June 2016</p> <p><b>Introduction</b></p> <p>This report aims to address the constraints under which we must operate to remain within the law. It also seeks to clarify what our legal powers are regarding investment and borrowing, and what the recommended practices are. This should assist Council in making appropriate choices regarding the wise management of its investments, the risks, and take account of other factors that Members might wish to consider when dealing with public funds.</p> <p><b>Legal powers and restrictions</b></p> <p>Local Authorities are public institutions established by an Act of Parliament under Section 3 of the Local Government Act, Cap 281 of the Laws of Zambia and are Government institutions. The main objective of establishing Councils is to provide services on behalf of Central Government to residents within their areas of jurisdictions. Currently, there are one hundred and five (105) councils spread out in all the districts. In this regard, Local Authorities are a key factor in socio-economic development because their operations are directly linked to community activities. An effective monitoring of their operations is, therefore, inevitable in ensuring sustainable economic and environmental development in the country.</p> <p>The Constitution of Zambia Amendment Act No. 2 (2016) devolves powers to the Local Authorities (LA) in the quest to decentralize the operations of Government as all the Government departments and institutions will now be managed at the local authority level. This therefore, entails that there should be greater accountability on the part of the local authorities as they will now be responsible for a lot of government resources for onward service delivery to the general citizenry. Sioma</p>	

District Council may borrow or invest for any purpose relevant to its functions, or 'for the purpose of the prudent management of its financial affairs'.

As part of the council's compliance, we must annually determine an affordable borrowing limit at an amount to ensure it does not borrow more than it has the revenue capacity to service and repay.

### **Recommended Practice**

There are Treasury Management Practices that range from risk management to corporate governance. As a council, we include these in our Treasury Management Strategy that we review each year. This includes how we manage our risks, where we will invest our money and how we do that in a transparent way. If we, as a council wanted to alter our arrangements to give us greater freedoms about who we would prefer to invest with, the council would need to amend, and agree a new strategy. This can be done, but we would still need to comply with the legal framework.

### **b) Other factors**

Other factors When considering how we invest the council's money there are ethical issues and management of risks that need to be understood. We can use investment to promote causes the council wishes to support such as infrastructure, social housing, renewable energy, or advocate. Often, ethical concerns coincide with sound investment practice, for example companies engaging in unsustainable environmental practices may well be poor investments due to the risk of fines, future regulations restricting their activity or simply exhaustion of natural resources.

Similarly, corrupt practices, complicity with or direct perpetration of human rights abuses or exploitation are likely to have negative financial consequences in the medium and long term, as the business model is unlikely to be sustainable as societal conditions inevitably improve. Moreover, poor behaviour of the kinds described may be correlated with general poor governance; for instance a company, which sanctions covert bribes may itself be at increased risk of major fraud. When considering taking a different approach to investment strategy to maximise income, Council members must understand the potential risks – both in financial terms, and in reputational terms.

### **Borrowing regulations**

Local authorities in Zambia may borrow money in all or any of the following ways

- by loan

<ul style="list-style-type: none"> <li>• by the issue of stock or bonds</li> <li>• by mortgage</li> <li>• by temporary loan or overdraft from a bank or other source</li> <li>• by loan from any other source</li> </ul> <p>The Councils are however not allowed to borrow money or receive grant of money from a foreign government or foreign organisation</p> <p><b>Conclusion</b></p> <p>As Finance Manager to the Council, there are specific duties around stewardship that must be upheld, including ensuring that the council complies with the relevant legislation. Council members must have regard to prudence and stewardship of resources when considering investments.</p>	

**END OF SOLUTIONS**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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PFM 5: PUBLIC SECTOR AUDITS

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THURSDAY 13 DECEMBER 2018

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

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**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**

You are a Senior Manager in the Office of the Auditor General in the Republic of Zambia. You are responsible for the following audits, which were all started without engagement letters:

**1. Pillar Contractors**

Pillar Contractors is a construction company which was established by the Government in 2012. It constructs low-cost bridges in rural areas. In June 2018, the company constructed two (2) bridges on a commercial farm owned by a director in the Office of the Auditor General (OAG).

**2. Chembe Cooperatives**

Chembe Cooperatives keeps and sells pigs. It has twelve (12) piggeries and sells 600 pigs every month. In a final meeting with the Accountant of Chembe Cooperatives, you were informed that each audit team member was given three (3) pigs.

**3. Muchinga Ltd**

Muchinga Ltd is a government owned company which offers waste management services to government ministries. During the year ended 31 December 2017, the company operated without a board, contrary to the State Owned Enterprises Policy and Act. The junior auditor who was assigned to this audit observed that there were a lot of irregularities at the company which mostly bordered on fraud, wasteful expenditure and abuse of authority. He reported this to Muchinga Ltd.'s management and discussed this with one of his friends who works for the Anti-Corruption Commission (ACC). Management, however, appeared not keen to report the matters of fraud and abuse of authority for further investigation which was delaying and preventing the prosecution of offenders.

**4. Serenje University College**

Serenje University College is a partnership between the Government and a church organisation. The Government is a major sponsor of students at Serenje University College and at the same time provides significant grants for its operations. At the time of the audit, the institution had more staff than the approved establishment. There is a high risk of the existence of 'ghost workers'.

The liquidity position of the institution has been worsening, giving rise to its inability to pay statutory obligations, trade payables and contractual obligations. No statutory obligations should be outstanding because the Government funds gross personal emoluments.

**5. Small Rural Health Centre**

The audit team observed that the Government & Donor funded mother's shelter at Small Rural Health Centre was poorly constructed by a local contractor. The

contractor is an influential figure in the traditional council. The monitoring and appraisal of the works was done by an unqualified officer at Small Rural Health Centre. The contractor has been paid in full.

Last year the Public Accounts Committee (PAC) had a number of concerns on the quality of some sections of the Auditor General's report.

**Required:**

- (a) State the main legislative audit mandates for the Office of the Auditor General (OAG) in the Republic of Zambia. (6 marks)
- (b) Explain the roles and responsibilities of the International Organisation of Supreme Audit Institutions (INTOSAI) and the Supreme Audit Institutions (SAI) in public sector auditing. (6 marks)
- (c) Explain the importance of an engagement letter in Public Sector Auditing. (4 marks)
- (d) Identify and evaluate the ethical and other professional issues raised, in respect of:
  - (i) Pillar Contractors. (4 marks)
  - (ii) Chembe Cooperatives. (6 marks)
  - (iii) Muchinga Ltd. (4 marks)
- (e) Suggest audit procedures that might be taken by the audit team in the following audits:
  - (i) Financial and compliance audits for Serenje University college. (7 marks)
  - (ii) Performance audit for Small Rural Health Centre. (3 marks)

**[Total: 40 Marks]**

## **SECTION B**

**Attempt any THREE (3) questions in this section.**

### **QUESTION TWO**

Kasa Fisheries Ltd buys fresh fish from fish farmers, processes it and delivers it to retail outlets. This company was established by the Government of the Republic of Zambia. Kasa Fisheries Ltd was incorporated in 2009 as a Limited Liability Company under the Companies Act, CAP 386 of the laws of Zambia.

You are the Audit Manager in charge of the performance and financial audits of Kasa Fisheries Ltd. The rest of the audit team comprises an Audit Senior and 3 juniors. Although the audit juniors have been with the firm for six (6) months, they have never participated in pre-engagement activities. The Audit Senior usually participates in pre-engagement activities.

The Board of Directors of Kasa Fisheries Ltd is aware of the trend within the public sector and will require Kasa Fisheries Ltd to substantially redesign a number of its governance structures. Current weaknesses in the governance structures are having an adverse effect on the company's performance.

The Chairman of the Audit Committee is a friend to the Managing Director of Kasa Fisheries Ltd. He is a qualified professional accountant with fifteen (15) years post-qualifying experience. The Chairman of the Audit Committee also sits on the boards of seven (7) large private entities. The Audit Committee is made up of three (3) Non-Executive Directors (NEDs). The NEDs are appointed by the Managing Director. The Director of Internal Audit reports to the Board of Directors. The Audit Committee reviews the financial statements on behalf of the Board.

The Director of Internal Audit has excellent IT skills but lacks skills in accounting and auditing. During the year ended 30 June 2018, she designed and participated in the implementation of a risk management system. She is currently the Secretary of the global Institute of Internal Auditors.

You have called a meeting with the audit team to give them guidance and advice on pre-engagement activities and other governance issues.

#### **Required:**

- (a) Describe the objectives of a performance audit. (4 marks)
- (b) Explain the type and content of communication expected with those charged with governance during the pre-engagement stage. (7 marks)
- (c) Identify and explain six (6) weaknesses in the governance structure of Kasa Fisheries Ltd. (9 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Assume today's date is 15 February 2018.

You are a senior member in the audit team working on the financial audit of Nakase Youth Centre, for the year ended 31 December 2017. Nakase Youth Centre was established by the Ministry of Youth, Sport and Child Development in 2015. It offers skills training programmes aimed at empowering youths with viable skills to link them to job creation. It also enables people meet socially, provide conference facilities and a place for farmers to sell their produce to the local community, every Tuesday.

In October 2017, the Government released K90,000 for sinking two (2) new boreholes and rehabilitating three (3) old ones to increase the provision of clean drinking water for the centre. This was one of the recommendations made by health inspectors during a recent cholera outbreak. The centre was also putting in place more proactive measures aimed at preventing any possible future outbreaks of cholera.

On 10 February 2018, one of the junior auditors assigned to the audit of the K90,000 funding for the boreholes was approached by two (2) police officers. The police officers wanted copies of all the payment vouchers and supporting documentation relating to expenditure on the boreholes. A whistleblower reported the Youth Coordinator to the police for misappropriation of the funds. The junior auditor is confused on how to respond to the request from the police officers.

Nakase Youth Centre has an internal audit department headed by an accountant. The internal audit function is mainly responsible for assessing the adequacy and effectiveness of control systems. The Head of Internal Audit has given you their report on the alleged misappropriation which has already been discussed by the Board.

The Board wants the financial statements for the year ended 31 December 2017 to be finalised by 28 February 2018. You have discussed the matter with the Board Secretary and she has advised that, in the interest of time, you should rely on the internal auditor's work.

#### **Required:**

- (a) Explain the code of ethics that govern the public sector auditors in their day to day work. (6 marks)
- (b) Discuss how you, as a Public Sector Auditor, will determine whether and to what extent you will use the work of internal auditors of Nakase Youth Centre. (10 marks)
- (c) Suggest the action(s) to be taken regarding the request for information by the police. (4 marks)

**[Total: 20 Marks]**



#### **QUESTION FOUR**

You are a Senior Auditor in the National Audit Office and you are currently auditing the financial statements of Tulikwata Project, for the year ended 30 June 2018. Tulikwata Project is a government initiative which supplies and installs IT equipment and software to Government owned primary schools. You have been auditing Tulikwata Project since 2000 when it was formed.

The audit is nearing completion and the time taken on this year's audit has significantly reduced due to the use of a number of Computer Assisted Audit Techniques (CAATs), mainly data analysis software. The new Project Director is happy with the reduced time and wants you to use the same audit methodology next year.

You have provided management with a draft representation letter containing the necessary representations and you have asked management to print the letter on their headed paper, review the representations, and sign the document to confirm them. However, the new Project Director has refused to sign the letter and has informed the Auditor General that it is the duty of the Office of the Auditor General to perform the audit and bear full responsibility for whatever audit opinion is formed.

#### **Required:**

- (a) Define computer-assisted audit techniques (CAATs). (4 marks)
- (b) Explain data analysis software. (3 marks)
- (c) Define written representation letter and explain the necessary contents. (7 marks)
- (d) Recommend the action(s) that should be taken if management of Tulikwata Project refuses to provide the required written representation letter. (6 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

You are a manager in the Office of the Auditor General and you are responsible for auditing Sekulu Ltd, owned by the Government, which manufactures wooden window frames and doors. The company uses a rare type of timber which is highly protected by the forestry department. Sekulu Ltd.'s budgetary controls have generally been assessed as weak.

The Office of the Auditor General was requested to carry out the financial audit for the year ended 31 January 2018 and to investigate a possible fraud which may have been carried out by the Stores Officer and an unqualified Accountant, who considered themselves lowly paid. It is alleged that the two colluded and were able to divert timber supplies to a private company. The diverted supplies were paid for by Sekulu Ltd, while the private company paid the Stores Officer and the unqualified Accountant. Goods received notes (GRNs) were raised to facilitate the fraud.

In December 2017, the two fled to Europe with some company documents and it is proving difficult to find reliable evidence. Management believes that this could have happened in November 2017 when there was a ban on supplies of timber to private companies. Deliveries of timber are recorded at the gate by security. At the end of each month an inventory count is conducted for the timber and the stores records are adjusted at the year

end. The fraud involved one supplier, who was the unqualified Accountant's best friend. He has strong political connections.

The Stores Officer was responsible for receiving and raising goods received notes (GRNs), while the unqualified Accountant was responsible for maintaining and reconciling supplier accounts, including making all purchase ledger payments.

**Required:**

- (a) Define fraud and explain three (3) fraud risk factors generally present when fraud exists, giving appropriate examples from the scenario. (7 marks)
- (b) Explain whether a compliance audit could have been used to detect the fraud. (3 marks)
- (c) Explain the importance of audit evidence in any type of audit. (2 marks)
- (d) State four (4) audit procedures to be carried out to determine whether fraud has been carried out by the Stores Officer and the unqualified Accountant. (4 marks)
- (e) Describe the impact on the auditor's report if the auditor is unable to obtain sufficient appropriate evidence. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **PFM 5: PUBLIC SECTOR AUDITS - SOLUTIONS**

### **SOLUTION ONE**

#### **a) Main legislative audit mandates:**

The main legislative audit mandates for the Office of the Auditor General (National Audit Office) in the Republic of Zambia are:

1. Article 249 of the Constitution of the Republic of Zambia (amendment) NO. 2 of 2016. This deals with the appointment, powers and duties of the Auditor General for audit of public funds and other resources.
2. Public Audit Act 2016. This replaced Chapter 378 of the Public Audit Act 1980. It states among other things that it is the duty of the Auditor General to audit the accounts of every state body and other public institution.
3. The Public Finance Management Act 2017 covering Financial Regulations. This sets the regulatory framework within which public funds and other resources are to be raised and spent.

#### **b) Roles and responsibilities of the International Organization of Supreme Audit Institution(INTOSAI):**

The International Organization of Supreme Audit Institution is a global association. It superintends over national Supreme Audit Institutions which belong to this association.

The main roles and responsibilities of INTOSA include:

- Promoting the development of member institutions and the transfer of knowledge between them.
- To help improve public sector auditing worldwide.
- Responsible for the issuance and development of auditing standards namely the International Standards of Supreme Audit Organizations (ISSAIs).

#### **The roles and responsibilities of Supreme Audit Institutions (SAI):**

Supreme Audit Institutions are national bodies responsible for accountability of the use of public funds by those entrusted to superintend over public funds.

The main roles and responsibilities of SAIs include:

- To carry out audits of state organs, state institutions, provincial administration, local authorities and any institutions financed from public funds.
- To conduct financial and value for money audits, including forensic audits in the public sector.
- Ascertain that public funds have been applied for the purpose for which the funds were given.
- Make recommendations to the Director of Public Prosecution on possible prosecution of violators of misapplication and misappropriation of public funds.

#### **c) Importance of an Engagement Letter in Public Sector Audits:**

An engagement letter is basically the written contractual terms between the Auditor and the Auditee. In the private sector, the auditor/auditee relationship is normally

contractual. Certain preconditions must be present before the relationship can be established.

In the public sector, the appointment of public sector auditors, the engagement portfolio, the auditor's responsibilities and powers, and perhaps even the form of report to be issued may be set out in law and regulation or the audit mandate. Nonetheless, the use of engagement letters may be beneficial when an entity is being audited for the first time or when there have been changes in the structure of the audited entity or in key entity personnel responsible for communication with public sector auditors. Use of such engagement letters is normal practice in many Supreme Audit Institutions (SAIs) nowadays.

**d) Ethical and professional issues:**

Ethical and professional issues	Explanation
<p>(i). Pillar Contractors Construction of two (2) bridges at a commercial farm owned by a director in the office of the Auditor General (National Audit Office).</p>	<p>This may bring into question the integrity and professional behavior of the director in the office of the Auditor General (National Audit Office). Employees in the Office of the Auditor General are required to act honestly, in good faith and in the public interest. In addition, they must comply with applicable laws and regulations, and avoid any behavior that might discredit the Office of the Auditor General.</p> <p>The construction of the two (2) bridges could be an illegal transaction since it is possible that the commercial farm may not be located in a rural area. It is also possible that commercial farms are not the target group. The transaction should be investigated further and appropriate action taken where necessary.</p> <p>If the director is part of the audit team, he should be removed immediately since the self-interest and self-review threats could be significant.</p>
<p>(ii). Chembe Cooperatives Each audit team member was given three (3) pigs.</p>	<p>The independence and objectivity of the audit team members could have been compromised. Auditors must act in an impartial and unbiased manner, and be free from circumstances that may compromise (or may be seen as compromising) professional judgment.</p> <p>The audit team should not have accepted the gifts since three (3) pigs to each individual are significant.</p> <p>This issue must be addressed using the Office of the Auditor General's policies on ethical misconduct and appropriate action taken. The work undertaken by the audit</p>

	team should be reviewed by an independent senior person in the Office of the Auditor General. Ethics should be a factor in staff recruitment, performance appraisal and professional development.
(iii). Muchinga Ltd Use of junior auditor.	<p>The issues border on competence, and confidentiality and transparency. Auditors are required to:</p> <ul style="list-style-type: none"> <li>• Acquire and maintain knowledge and skills appropriate for the role. To act in accordance with applicable standards, and with due care</li> <li>• Protect information in an appropriate way, balancing this requirement with the need for transparency and accountability</li> </ul> <p>Unfortunately, the junior auditor failed to perform both requirements. This clearly shows that the audit was poorly planned. Reporting such issues to Management could result in tipping off offence. A senior auditor should review the work done and seek legal advice on the appropriate action to take.</p>

**e) Audit procedures:**

- i. Financial and compliance audit for Serenje University College
  - o Grants
    - Obtain documentation relating to the grant and confirm that it should be classified as revenue
    - Agree receipt of the grant to bank statements
  - o Over-employment and possibility of 'ghost workers'
    - Obtain a list of employees from the human resource (HR) department and compare with the approved establishment
    - Discuss the reasons for any variance with management
    - Carryout physical spot check on the existence of employees by visiting employment locations and verifying that all employees or a sample of employees on the payroll register for that location actually turn up to work (or can supply evidence for their non-attendance)
    - Make a comparison of the employees on the HR register with the employees on the payroll register, to identify discrepancies where the employees on the payroll register are not on the HR register. With IT systems for both registers, it may be possible to make a 100% comparison of the registers.

- Statutory obligations:
  - Agree funding for gross emoluments to the bank statement
  - Match the funding and the actual remittances to Zambia Revenue Authority (ZRA)
  - Discuss any differences with management
- Trade payables:
  - Vouch selected amounts from the trade payables listing and accruals to supporting documentation such as purchase orders and suppliers' invoices
  - Perform a confirmation of accounts payables for a sample
  - Obtain selected suppliers statement and reconcile these to relevant suppliers' accounts
- Contractual obligations
  - Obtain copies of approved contracts
  - Review compliance with agreed conditions

**ii. Performance audit for Small Rural Health Centre:**

Performance audit focuses on whether interventions, programs and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvements. The audit procedures include:

- Economy
  - Obtain a copy of the contract and board minutes of the meeting where the contract was approved
  - Assess whether the contract price paid is reasonable by using experts if necessary
- Efficiency
  - Carry out a physical inspection of the Mothers' Shelter
  - Compare the resources used and the output (an expert may be required)
- Effectiveness
  - Compare the quality of the Mothers' Shelter with the specifications in the contract details, using an expert if necessary
  - Inquiry of a sample of mothers about the impact of the Mothers' Shelter

## **SOLUTION TWO**

### **a) Objectives of a performance audit:**

According to ISSAI 3000 and the Fundamental Principles of Performance Auditing (as stated in ISSAI 300) performance auditing by a supreme audit institution (SAI) is an independent, objective and reliable examination of whether government undertakings, systems, operations, programs, activities or organizations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Hence, performance auditing seeks to provide new information, analysis or insights and where appropriate, recommendations for improvement.

Economy means minimizing the cost of resources used for an activity, having due regard to quality.

Efficiency means making good use of the available resources.

Effectiveness is concerned with meeting the set objectives.

The aim of a performance is simply to answer key audit questions and to provide recommendations for improvements.

### **b) Type and content of communication expected with those charged with governance during the pre-engagement stage:**

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body.

In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role.

The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the audit, including that:

1. The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
2. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The auditor shall communicate with those charged with governance:

1. The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting

practice that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;

2. Significant difficulties, if any, encountered during the audit;
3. Unless all of those charged with governance are involved in managing the entity:
  - Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and
  - Written representations the auditor is requesting; and
4. Other matters, if any, arising from the audit that in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

**c) Weaknesses in the governance structures for Kasa Fisheries Ltd:**

A corporate governance practice common in the private sector is the use of audit committees to provide strengthened oversight of the financial and ethical integrity and of publicly held companies. Because this oversight responsibility is essential to effective governance, public sector entities also may look to the audit committee to play a similar role. Moreover, depending on the specific circumstances of these entities, audit committees operate within a variety of governance arrangements. Notwithstanding, many public sector entities have found alternative means to fill the audit committee's role.

Every public sector organization should evaluate its governance structure to determine whether an audit committee is appropriate for its particular situation. In some public sector entities, audit committees are formed as subcommittees of the legislative branch or board of directors.

The weaknesses in the governance structures for Kasa Fisheries Ltd are:

1. The Chairman of the Audit Committee is a friend to the Managing Director of Kasa Fisheries Ltd. The Chairman of the Audit Committee may lack the required independence.
2. The Chairman of the Audit Committee also sits on the boards of seven (7) of large private entities. The Chairman of the Audit Committee may not dedicate sufficient time to Kasa Fisheries.
3. The Non-Executive Directors (NEDs) are appointed by the Managing Director. This brings into question the independence of the NEDs. Independence is a critical requirement for the NEDs; otherwise the NEDs may fail to perform according to the stakeholders' expectations.
4. The Director of Internal Audit reports to the Board of Directors. The ideal position is for the Director of Internal Audit to report to the Audit Committee. The Board of Directors may not adequately address the issues raised by internal auditors.
5. The Director of Internal Audit has excellent IT skills. If the Director of Internal Audit lacks appropriate experience and skills in accounting and auditing, she may not be effective.
6. The Director of Internal Audit designed and participated in the implementation of a risk management system. She is faced with a significant



self-review threat and may not reveal deficiencies she may identify in the system later for fear of embarrassing herself.

## **SOLUTION THREE**

### **a) Code of ethics for the public sector auditors:**

The International Standards of Supreme Audit Institutions (ISSAI), are issued by the International Organization of Supreme Audit Institutions, INTOSAI. The Code of Ethics is a comprehensive statement of the values and principles, which should guide the daily work of auditors. ISSAI 30 is a prerequisite for the functioning of Supreme Audit Institutions. ISSAI 30 is addressed to Head of the Supreme Audit Institutions (SAIs), Executive officers, individual auditors and all individuals working for or on behalf of the SAI who are involved in audit work.

The independence, powers and responsibilities of public sector auditor places high ethical demands on the SAI and the staff they employ or engage for audit work. A code of ethics for auditors in the public sector should consider the ethical requirements of civil servants in general and particular requirements of auditors, including the latter are professional obligations.

Due to national differences of culture, language, and legal and social systems, it is the responsibility of each SAI to develop its own Code of Ethics, which best fits its own environment. Preferably these national Codes of Ethics should clarify the ethical concepts.

The INTOSAI Code of Ethics is intended to constitute a foundation for the national Codes of Ethics. Each SAI has the responsibility to ensure that all its auditors acquaint themselves with the values and principles contained in the national Code of Ethics and act accordingly.

### **b) Use of the work of internal auditors:**

It will be important to determine:

1. Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and
2. If so, the planned effect of the work of the internal auditors on the nature, timing or extent of our procedures.

In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, we shall evaluate:

1. The objectivity of the internal audit function;
2. The technical competence of the internal auditors;
3. Whether the work of the internal auditors was carried out with due professional care; and
4. Whether there is likely to be effective communication between the internal auditors and us.

In determining the planned effect of the work of the internal auditors on the nature, timing or extent of our procedures, we shall consider the nature and scope of specific work performed by the internal auditors.

In order for us to use specific work of the internal auditors, we shall evaluate and perform audit procedures on that work to determine its adequacy for our purposes.

To determine the adequacy of specific work performed by the internal auditors for our purposes, we shall evaluate whether:

1. The work was performed by internal auditors having adequate technical training and proficiency;
2. The work was properly supervised, reviewed and documented
3. Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
4. Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
5. Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

If we use specific work of the internal auditors, we shall include in the audit documentation the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by us on that work.

**(c) Request for information by the police:**

As Auditors, we are subject to the fundamental principles of professional ethics. Among these is that of confidentiality whereby as auditors, we should not disclose to third parties any information that comes to our attention by virtue of our position as auditors.

There are exceptions to this rule and these are voluntary and obligatory disclosures. Examples include disclosures in public interest (voluntary disclosures) and money laundering disclosures (obligatory disclosures).

In the case of Nakase Youth Centre, we should first find out under what statutory authority the information is demanded. Unless we are satisfied that such authority exists we should decline to give any information unless we get the authority of the client. If no authority is given then we should not disclose and we may need to seek legal advice.

It should be remembered that tipping off is an arrestable offence and this is where as auditors without lawful authority or reasonable excuse we act in such a manner as to impede with intent the arrest or prosecution of a client whom we know or believe to have committed an arrestable offence.

## **SOLUTION FOUR**

### **a) Computer Assisted Audit Techniques (CAATs):**

CAATs are the applications of auditing procedures using the computer as an audit tool. CAATs may be used in performing various auditing procedures, including the following:

1. Tests of details of transactions and balances
2. Analytical review procedures
3. Tests of computer information system controls

The two most commonly used CAATs are:

1. Audit software – Audit software consists of computer programs used by the auditors, as part of their auditing procedures, to process data of audit significant from the entity's accounting system. It may consist of generalized audit software or custom audit software. Audit software is used for substantive procedures.
2. Test data – Test data techniques are used in conducting audit procedures by entering data (e.g. a sample of transactions) into an entity's computer system, and comparing the results obtained with pre-determined results. Test data is used for tests of controls.

### **b) Data Analysis Software:**

Data analysis software is the most popular audit software. This software has the ability to extract data from commonly used file formats and the tables of most database systems. Thus, these systems can be used during the audits of almost any application on any technology platform. The audit software can perform a variety of queries and other analyses on the data. Some of the features are: data queries, data stratification, sample extractions, missing sequence identification, statistical analysis and calculations.

This software also can perform operations after combining and joining files and tables. The list of features grows with each version of this software and a recent added feature is Bedford analysis.

Today, in most large and medium-sized enterprises, there are few business processes that are not driven by computers. Performing audits without using information technology is hardly an option.

### **c) Written representations:**

ISSAI 1580 – *Written Representations* provides guidance in this area. Written representations are written statements by management provided to the auditor to confirm certain matters or support other audit evidence.

They do not include the financial statements, assertions or supporting books and records.

The three areas in which written representations are necessary are:

1. To confirm management's responsibilities – the auditor shall request management to provide written representations on the following matters
  - That management has fulfilled its responsibility for the preparation and presentation of the financial statements as set out in the terms of

the audit engagement and whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework

- That management has provided the auditor with all relevant information agreed in the terms of the audit engagement and that all transactions have been recorded and reflected in the financial statements
- 2. Where they are required by other ISAs – other ISAs require written representations on specific issues but if the auditor considers it necessary to obtain representations in addition to these to support other audit evidence, the auditor shall request these other written representations.
- 3. To support other audit evidence – if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to try to resolve the matter. If the matter cannot be resolved, the auditor shall reconsider the assessment of the competence, integrity and ethical values of management, and the effect this may have on the reliability of representations and audit evidence in general.

If the auditor concludes that written representations are not reliable, the auditor shall take appropriate actions, including determining the impact on the auditor's report.

**d) Written representations not provided:**

If management does not provide written representations, we shall:

- Discuss the matter with management
- Re-evaluate the integrity of management and evaluate the effect this may have on the reliability of representations and audit evidence in general
- Take appropriate actions, including determining the impact on the auditor's report.

## SOLUTION FIVE

### a) Meaning of fraud:

Fraud is an intentional act by one or more individuals among management, those charged with governance, employees or third parties involving the use of deception to obtain an unjust or illegal advantage. Fraud may be perpetrated by an individual, or colluded in, with people internal or external to the business.

It is distinguished from error, which is when a material misstatement is issued by mistake, for example, in the misapplication of an accounting policy.

ISSAI 1240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* gives guidance in this area.

Three (3) conditions generally present when fraud exists are:

1. Incentives/Pressures – these include **weak budgetary controls**, increased public expectations, misuse of power and authority etc.
2. Opportunities – these include closed environment with **strong political network** and ties, fragmented and non-integrated IT-infrastructure, non-recording of certain assets etc.
3. Attitude/Rationalizations – these include generally **lower salary levels** in the public sector, disregard of implications for government breaches, tolerance of unacceptable behavior in situations where it may be difficult to dismiss or replace employees etc.

### b) Compliance audits, importance of audit evidence, and recommended audit procedures:

Compliance audit focuses on whether the activities of the entity have been conducted in accordance with the applicable authorities. It considers whether activities, financial transactions and information comply, in all material respects, with the 'authorities' that govern the audited entity. 'Authorities' may be rules, laws and regulations, budgetary resolutions, policy or an established code. Although a compliance audit may act as a deterrent to fraud, it is not usually designed to detect fraud. The auditor, however, should consider the risk of fraud throughout the compliance audit. Non-compliance with applicable authorities is one of the main causes of fraud. The primary responsibility for the prevention and detection of fraud lies with the entity's management.

### c) The importance of evidence in an audit:

Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. According to ISSAI 1500 *Audit Evidence*, the objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

### d) Audit procedures to determine existence of fraud by the stores officer:

- Ascertain the specific level of authority and duties for the two employees, focusing on areas of high level of discretion

- Check the controls over completeness of receipts of timber and assess whether a goods received note (GRN) could be raised without receipt of the goods
- Check GRNs raised in November 2017 against the records at the gate
- Reconcile the stores records for timber to the physical inventory count for the month of November
- Ask Management and staff if they had any suspicions or know of any ways in which inventory could have been diverted to the private company
- Review payments made in November 2017 to the supplier in question
- Compare the current year transactions with the supplier to the previous year to confirm reasonableness.

**e) The impact on the auditor's report if the auditor is unable to obtain sufficient appropriate evidence is as follows:**

- If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion;
- If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, an opinion shall be disclaimed.

**END OF SOLUTIONS**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

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MONDAY 10 DECEMBER 2018

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

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**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 is a compulsory question and must be attempted.**

### **QUESTION ONE**

Below is a Livingstone City Council trial balance as at 31 December 20x7

	<b>DR</b>	<b>CR</b>
	<b>K</b>	<b>K</b>
Cash and cash equivalents	8 900 000	
Trade and other receivables (less than one year)	54 678 690	
Other financial assets (less than a year)	345 000	
Revaluation reserve		7 800 000
Accumulated surpluses		47 173 090
Trade and other receivables (more than one year)	45 300 000	
Other financial assets (more than one year)	50 000	
Inventory as at 1 January 20X7:	600 000	
Investment property	1 800 000	
Provision for depreciation Investment property		900 000
Property, plant and equipment	90 000 000	
Provision for depreciation Property, plant and equipment		9 000 000
Intangible assets	3 695 000	
Short term Trade and other payables		16 045 600
Short term Borrowings		5 000 000
Long term Trade and other payables		15 000 000
Long term Borrowings		64 500 000
Rates, levies and charges		15 000 000
Fees and charges		4 300 000
Rental income		2 140 000
Interest received		500 000
Sales revenue		900 000
Other income		670 000
Revenue Grants		21 000 000
Capital Grants as at 1 January 20X7		13 240 000
Salaries and wages	10 500 000	
Materials and services	6 540 000	
Finance costs	760 000	
	<b>223 168 690</b>	<b>223 168 690</b>

**Additional information:**

1. The accounting policies are as follows:
  - (a) Revenue grant is to be treated as a credit in the statement of financial performance.
  - (b) Capital grants are treated as deferred income and 10% is transferred to statement of financial performance annually.
  - (c) Depreciation policy:
    - Investment property 20% on cost
    - Property plant and equipment 10% on cost
2. As at 31 December 20X7 closing Inventory was K200,000.00.
3. Sales revenue of K100,000.00 was posted to Rental income in error.
4. A transfer from Revaluation Reserve of K800,000.00 should be made to Accumulated Surplus.

**Required:**

Using the information above prepare the following in accordance with IPSAS 1:

- (a) Statement of Financial Performance for the year ended 31 December 20X7. (16 marks)
- (b) Statement of Financial Position as at 31 December, 20X7. (24 marks)

**[Total: 40 Marks]**

## **SECTION B**

**Attempt any THREE (3) questions in this section.**

### **QUESTION TWO**

- (a) You are Chief Accountant in the Ministry of Finance for Republic of Kutwa and the Accountant General has asked for advise on the application of International Public Sector Accounting Standards (IPSAS). He has provided you with the following information:
- (i) The Civil service Commission of country ABC has eight (8) members. They are not remunerated but paid K350 to cover expenses. How should IPSAs 20 be applied? (2 marks)
  - (ii) Lunga District Council sold an accounting software to Lunga Secondary School for K200,000 on 1 March 2015. A deferred payment option is being offered by the Local Authority to pay in 12 months' time. The financial year of Lunga district ends on 31 December. The Accountant General seeks clarification what the local authority will recognise and account for the sale in the books of accounts. (2 marks)
  - (iii) Public Sector entities may incur expenditure in the construction of major capital projects. Government recently borrowed K2,000,000,000 for construction of office blocks in the new districts. The government incurred K30,000 interest on borrowing. With reference to IPSAs 5 guide the Accountant General on the recognition of such costs. (2 marks)
  - (iv) The Minister of Finance presented the 2018 national budget to parliament on 27 September 2017. This was debated and approved on 15 December 2017. On 31 December 2017, the national budget was made available to the public. With reference to the relevant IPSAS, what are the requirements for an entity that makes its budget publicly available? (2 marks)
  - (v) The Government Financial Statements for the Year ending 31 December 2017 are indicating that there are no liabilities for pension payments. With reference to relevant IPSAS what are requirements for an entity to recognise a liability. (2 marks)

(b) Below are the balances of the consolidated fund for the Government of Dream Design for the year ended 31 December 2016?

	<b>K'000</b>	<b>K'000</b>
<b>Details</b>	<b>DR</b>	<b>CR</b>
Tax Paid by individuals		37,456
Tax paid by other companies		41,765
Miscellaneous Taxes from individuals		3,000
General Taxes on Goods and Services		5,813
Excise duty		2,467
Customs and other import duties		556
Taxes on imports		7,121
Levies		124
Programme and Project Grants		138
Property income		71
Revenue from sales of goods and services		23
Fines, Penalties and Forfeiture		21
Miscellaneous non tax revenue		3
Bilateral loans received		260
Multilateral loans received		230
Loans from external commercial utilities		589
Loans from domestic commercial utilities		24
Proceeds from sale of shares in private companies		7,260
Bilateral loan repayments	133	
Multilateral loan repayments	11	
External Commercial Institution loan repayments	67	
Domestic and Commercial Institution loan repayments	17	
Salaries and Wages – Established	1,878	
Salaries and Wages – Non Established Posts	518	
Salary related allowance	33	
Non salary related allowance	128	
Gratuities	44	
End of Service Benefits	10	

Employer Pension Contribution	367	
Office consumables	3,169	
Utilities	372	
General Cleaning	83	
Rentals	50	
Travel and Transport	1,837	
Repairs and Maintenance	50	
Training, Seminars and conference	3,325	
Consultancy expenses	3,001	
Special Services	192	
Other Charges and Fees	2,570	
Emergency fees	26	
Additions to infrastructure	126,237	
WIP- Construction of buildings	10,796	
Interest on domestic loans	688	
Interest on external loans	587	
Subsidies on utility	1,338	
Subsidies on Petroleum product	822	
Employer social benefits in cash	1,270	
Equity investments: Public corporations	1,350	

Cash and Cash equivalents as at 1/1/2016                      K57, 543,000

Cash and Cash equivalents as at 31/12/2016                      K3, 494,000

**Required:**

- (a) Prepare a statement of cash flow on the consolidated fund for the year ending December 31, 2016. (10 marks)

**[Total: 20 marks]**

### **QUESTION THREE**

You have been requested to conduct a performance measurement of the Government of Zambia for the year ended 31 December 20X4 and is based on the published Financial Report for the year 20X4. Below is an extract from the GRZ Financial Report for the year ended 31 December 20X4:

#### **GOVERNMENT OF THE REPUBLIC OF ZAMBIA FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 20X4 - EXTRACT**

##### **STATEMENT OF BUDGET EXECUTION**

<b>REVENUE</b>	<b>Approved</b>	<b>Actual</b>
	<b>(ZMW'million)</b>	<b>(ZMW'million)</b>
Income Tax	14,514	12,752
Customs and Excise	3,946	3,958
Fuel Levy	759	795
Value Added Tax	6,445	10,126
Fines	35	53
Licences	631	622
Commissions	25	21
Fees of Court and Office	371	327
Other revenue	684	996
Bilateral Grants	289	-
Multilateral Grants	1,253	-
Program Grants - General Budget Support	-	145
Program Grants - Sector Budget Support	-	146
Bilateral External Borrowing	312	1,710
Multilateral External Borrowing	7,802	7,349
Domestic Borrowing	2,199	2,543
<b>TOTAL REVENUE</b>	<b>39,265</b>	<b>41,543</b>
<b>PAYMENTS</b>		
Personal Emoluments	16,204	15,404
Use of Goods and Services	19,758	12,583
Financial Charges	5,300	4,435
Social Benefits	259	172
Grants and Other Payments	7,237	6,048
Constitutional & Statutory Expenditure	-	17
Non-Financial Assets	1,369	471
Payment of Arrears and Debt Service	391	400
<b>Total Expenditure</b>	<b>50,518</b>	<b>39,530</b>
<b>Net Surplus/(Deficit)</b>	<b>(11,253)</b>	<b>2,013</b>

**Required:**

- (a) Explain the purpose of the above statement. (2 marks)
- (b) Calculate variances and variance percentages between the approved budget and actual performance. (12 marks)
- (c) Comment on the performance of the Government during the year ended 31 December 20X4 using the variances calculated in (b) above. (6 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

- (a) In accordance with the conceptual framework for reporting published by the International Public Sector Accounting Standards Board (IPSASB).

Define the following:

- (i) Assets (2 marks)
- (ii) Liabilities (2 marks)
- (iii) Revenue (2 marks)
- (iv) Expense (2 marks)
- (v) Ownership Contribution (2 marks)
- (vi) Ownership distribution (2 marks)

- (b) **IPSAS 1** presentation of financial statements identifies a complete set of financial statements (under accrual basis) as a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statements and accounting policies and notes to the financial statement.

**Required:**

- (i) Identify eight (8) major disclosures that must be made in respect of the Public Sector in preparation of financial statements. (8 marks)

**[Total: 20 marks]**

### **QUESTION FIVE**

The Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities establishes the concepts underlying general purpose financial reporting for public entities.

#### **Required:**

Explain the following aspects of the Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector entities:

- (a) Qualitative characteristics of information included in the GPFRs of public sector entities. (12 marks)
- (b) Pervasive constraints on information contained in the GPFRs. (3 marks)
- (c) Elements of financial statements. (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**



**PFM6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES – SOLUTIONS**

**SECTION A**

**This is a compulsory question and must be attempted.**

**SOLUTION ONE**

<b>Livingstone City Council</b>	
<b>Statement of Financial Performance for the Year Ended 31st December 20X7</b>	
	<b>20X7</b>
	<b>ZMW</b>
<b>REVENUE</b>	
Rates, levies and charges	15,000,000.00
Fees and charges	4,300,000.00
Rental income (W5)	2,040,000.00
Interest received	500,000.00
Sales revenue (W4)	1,000,000.00
Other income	670,000.00
Amortization of capital grant (W1)	1,324,000.00
Revenue Grants	21,000,000.00
<b>TOTAL REVENUES</b>	<b>45,834,000.00</b>
<b>EXPENSES</b>	
Salaries and wages	10,500,000.00
Materials and services (W3)	6,940,000.00
Depreciation (W2)	9,360,000.00

Finance costs	760,000.00
<b>TOTAL EXPENSES</b>	<b>27,560,000.00</b>
<b>SURPLUS(DEFICIT) FOR THE YEAR</b>	<b>18,274,000.00</b>
ATTRIBUTABLE TO OWNERS OF THE CONTROLLING ENTITY	18,274,000.00
<b>Livingstone City Council</b>	
<b>STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 20X7</b>	
	<b>20X7</b>
	<b>ZMW</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	8,900,000.00
Trade and other receivables (less than one year)	54,678,690.00
Other financial assets (less than a year)	345,000.00
Inventory at 31st December 20X7	200,000.00
<b>TOTAL CURRENT ASSETS</b>	<b>64,123,690.00</b>
<b>NON-CURRENT ASSETS</b>	
Trade and other receivables (more than one year)	45,300,000.00
Other financial assets (more than one year)	50,000.00
Investment property (W9)	540,000.00
Property, plant and equipment (W10)	72,000,000.00
Intangible assets	3,695,000.00

<b>TOTAL NON-CURRENT ASSETS</b>	<b>121,585,000.00</b>
<b>TOTAL ASSETS</b>	<b>185,708,690.00</b>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Short term Trade and other payables	16,045,600.00
Short term Borrowings	5,000,000.00
<b>TOTAL CURRENT LIABILITIES</b>	<b>21,045,600.00</b>
<b>NON-CURRENT LIABILITIES</b>	
<b>Capital Grants</b>	<b>11,916,000.00</b>
Long term Trade and other payables	15,000,000.00
Long term Borrowings	64,500,000.00
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>91,416,000.00</b>
<b>TOTAL LIABILITIES</b>	<b>112,461,600.00</b>
<b>NET ASSETS</b>	<b>73,247,090.00</b>
<b>NET ASSETS/EQUITY</b>	
Revaluation reserve (W6)	7,000,000.00
Accumulated surpluses (W7,W8)	66,247,090.00
<b>TOTAL NET ASSETS/EQUITY</b>	<b>73,247,090.00</b>

## Workings

W1	Amortization of capital grant	
	Grant amount	13,240,000.00
	10% thereof	1,324,000.00
	Net grant	<b>11,916,000.00</b>
W2	Depreciation	
	Investment property at cost	1,800,000.00
	20% thereof	360,000.00
	property plant and equipment at cost	90,000,000.00
	10% thereof	9,000,000.00
	Total depreciation	<b>9,360,000.00</b>
W3	Materials and services	
	Opening inventory	600,000.00
	Purchases	6,540,000.00
	Closing inventory	(200,000.00)
	Total materials and services	<b>6,940,000.00</b>
W4	Sales revenue	900,000.00
	Add misposting to rental income	100,000.00
		<b>1,000,000.00</b>
W5	Rental income	2,140,000.00
	less misposting of sales	(100,000.00)
		<b>2,040,000.00</b>

W6	Transfer to Accumulated Surpluses	
	Revaluation reserve	7,800,000.00
	Transfer to Accumulated Surpluses	(800,000.00)
		<b>7,000,000.00</b>
W7	Transfer from Revaluation reserves	
	Accumulated surpluses	47,173,090.00
	Transfer from revaluation reserves	800,000.00
		<b>47,973,090.00</b>
W8	ACCUMULATED SURPLUS	
	AS PER W7	47,973,090.00
	SURPLUS FOR YEAR	18,274,000.00
		<b>66,247,090.00</b>
W9	Investment Property at cost	1,800,000.00
	less accumulated depreciation b/f	(900,000.00)
	less depreciation charge for year	(360,000.00)
	NBV	<b>540,000.00</b>
W10	Property plant and equipment at cost	90,000,000.00
	less accumulated depreciation b/f	(9,000,000.00)
	less depreciation charge for year	(9,000,000.00)
	NBV	<b>72,000,000.00</b>

## SECTION B

### SOLUTION TWO

(a)

You are Chief Accountant in the Ministry of Finance for Republic of Kutwa and the Accountant General has asked for advise on the application of International Public Sector Accounting Standards (IPSAS). He has provided you with the following information.

i. The Civil service Commission of country ABC has eight (8) members. Members are not remunerated but paid K350 to cover expenses. How should IPSAs 20 be applied.

IPSAS 20 requires the disclosure of transactions between related parties (including transactions that are carried out at arm's length). A party may be related to an entity in numerous ways. Some related party relationships are easy to identify while others may be difficult. The governing body comprising 8 members constitute key management personnel of an entity and hence are related parties. Compensation or remuneration of key management personnel and information about such compensation or remuneration should be disclosed.

ii. Lunga District Council sold an accounting software to Lunga Secondary School for K200,000 on 1<sup>st</sup> March 2015. A deferred payment option is being offered by the Local Authority to pay in 12 months' time. The financial year of Lunga district ends on 31<sup>st</sup> December. The Accountant General seeks clarification what the local authority will recognise and account for the sale in the books of accounts.

IPSAS 9 stipulates that where there are several components to a transaction (e.g entity sells goods and services together) then the revenue recognition rules should be applied to each component separately that is revenue attributable to the sale of goods will be recognised immediately whilst the revenue associated with provision of services will be deferred and recognised over the period during which the service is performed. In this case the sale of software will be deferred and recognised over the period during which the service is performed. The period for recognition is for nine months with the three months deferred.

iii. Public Sector entities may incur expenditure in the construction of major capital projects. Government recently borrowed K2,000,000,000 for construction of office blocks in the new districts. The government incurred K30,000 interest on borrowing. With

reference to IPSAs 5 guide the Accountant General on the recognition of such costs.
Borrowing costs shall be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalised as part of the costs of that asset.
iv. The Minister of Finance presented the 2018 national budget to parliament on 27 <sup>th</sup> September 2017. This was debated and approved on 15 <sup>th</sup> December 2017. On 31 <sup>st</sup> December 2017, the national budget was made available to the public. With reference to the relevant IPSAS, what are the requirements for an entity that makes its budget publicly available?
IPSAS 24 is a public sector specific standard that establishes two requirements for entities that make their budgets publicly available. The requirements are: <ul style="list-style-type: none"> <li>• A comparison of the budget amounts to the actual amounts resulting from execution of the budget ; and</li> <li>• A reconciliation of these actual amounts in the financial statements. Disclosure is required of the reasons for material differences between the budget and actual amounts</li> </ul>
v. The Government Financial Statements for the Year ending 31st December 2017, are indicating that there are no liabilities for pension payments. With reference to relevant IPSAs what are requirements for an entity to recognise a liability.
IPSAS 25 Employee Benefits sets out the required accounting requirements for the different benefits that make up an employee's complete remuneration package. Employee benefits include all forms of consideration given by an employer in exchange for services rendered. The principle underlying all of the detailed requirements of the standard is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable to the employee.
<b>Total</b>

(b)

Statement of Cash flow for the year ending December 31<sup>st</sup> 2016

Details	Notes	K'000
<b>Cash flow from operating activities</b>		
Taxes	1	98,302
Grants	2	138
Non-tax revenue	3	118
<b>Total Receipts</b>		<b>98,558</b>
<b>Cash Payments for operating activities</b>		
Compensation of employees	4	2,978
Goods and Services	5	14,675
Interest	6	1,275
Social Benefits	7	1,270
Government Subsidies	8	2,160
<b>Total Payments</b>		<b>22,358</b>
<b>Net Cash flow from operating activities</b>		<b>76,200</b>
<b>Cash flow from investing in non- financial Assets</b>		
Acquisition of non-Financial Asset	9	(137,033)
<b>Net Cash flow from investment in non-current assets</b>		<b>(137,033)</b>
<b>Cash flow from investing in financial assets</b>		
<b>Acquisition of financial assets</b>		
Shares and other equity	10	(1,350)
Advances		
<b>Total Acquisition of Financial Assets</b>		<b>(1,350)</b>
Disposal/Recovery of Financial Assets		
Proceeds from sale of shares	11	7,260
<b>Total Disposal/Recovery of Financial Assets</b>		<b>7,260</b>
<b>Net cash flow from investments in Assets</b>		<b>5,910</b>
<b>Cash flow from Financing Activity</b>		
Inflow	12	1,103
Outflow	13	(228)
<b>Net cash flow from financing activities</b>		<b>875</b>



Net changes in stock of cash		(54,048)
Cash and cash equivalent at the beginning		57,543
Cash and Cash equivalent at the end		3,495
<b>One mark for presentation</b>		
<b>One mark for outlining the notes</b>		
<b>Total</b>		

<b>Notes</b>	<b>K'000</b>
<b>1. Taxes</b>	
<b>Direct Tax</b>	
Tax paid by individuals	37,456
Tax paid by other companies	41,765
Miscellaneous taxes from individuals	<u>3,000</u>
	<b><u>82,221</u></b>
<b>Indirect Tax</b>	
General Taxes on goods and services	5,813
Excise duty	2,467
Customs and Other Import duties	556
Tax on Imports	7,121
Levies	<u>124</u>
	<b><u>16,081</u></b>
<b>Total Taxes</b>	<b><u>98,302</u></b>
<b>2. Grants</b>	
Programme and project grants	<b>138</b>
<b>3. Non-Tax Revenue</b>	
Property Income	71
Revenue from sales of goods and services	23
Fines, penalties and forfeiture	21
Miscellaneous Non Tax Revenue	<u>3</u>
	<b><u>118</u></b>

<b>4. Compensation of employees</b>	<b>K'000</b>
Salaries and wages – Established	1,878
Salaries and wages – Non Established	518
Salary related allowances	33
Non-salary related allowances	128
Gratuities	44
End of service benefit	10
Employers Pension Contribution	<u>367</u>
	<b><u>2,978</u></b>
<b>5. Goods and Services</b>	
Materials and Consumables	3,169
Utilities	372
General cleaning	83
Rentals	50
Travel and Transport	1,837
Repairs and Maintenance	50
Training, seminar and conference	3,325
Consultancy Services	3,001
Special Services	192
Other charges and fees	2,570
Emergency services	<u>26</u>
	<b><u>14,675</u></b>
<b>6. Interest</b>	
Interest paid on domestic loans	688
Interest paid on external loans	<u>587</u>
	<b><u>1,275</u></b>
<b>7. Social Benefits</b>	
Employer social benefit in cash	<b>1,270</b>
<b>8. Government Subsidies</b>	
Utility	1,338
Petroleum Products	<u>822</u>
	<b><u>2,160</u></b>

<b>9. Non - Financial Assets</b>	<b>K'000</b>
Infrastructure, Plant and Equipment	126,237
WIP- Constructing of buildings	10,796
	<b>137,033</b>
<b>10. Financial Assets (Equity Investments)</b>	
Investment in Public Co-operations	<b>1,350</b>
<b>11. Proceeds from sale of shares</b>	<b>7,260</b>
<b>12. Loan Received</b>	
Bilateral Loans Received	260
Multilateral Loans Received	230
Loans from External Commercial Institution	589
Loans from Domestic Commercial Institution	24
	<b>1,103</b>
<b>13. Loan Repayment</b>	
Bilateral Loans	133
Multilateral Loans	11
External Commercial Institution	67
Domestic Commercial Institution	17
	<b>228</b>

### SOLUTION THREE

a)

- i. The Statement of Budget Execution shows a comparison between the approved budget and the actual performance.
- ii. Reporting against budget is commonly the mechanism for demonstrating compliance with legal requirements relating to public finances.

b)

<b>GOVERNMENT OF THE REPUBLIC OF ZAMBIA</b>				
<b>FINANCIAL REPORT FOR THE YEAR ENDED 31ST DECEMBER 20X4 - EXTRACT</b>				
<b>STATEMENT OF BUDGET EXECUTION</b>				
<b>REVENUE</b>	<b>Approved</b>	<b>Actual</b>	<b>VARIANCE</b>	<b>VARIANCE %</b>
	<b>(ZMW' million)</b>	<b>(ZMW' million)</b>	<b>(ZMW' million)</b>	
Income Tax	14,514	12,752	(1,762)	-12%
Customs and Excise	3,946	3,958	12	0%
Fuel Levy	759	795	36	5%
Value Added Tax	6,445	10,126	3,681	57%
Fines	35	53	18	51%
Licenses	631	622	(9)	-1%
Commissions	25	21	(4)	-16%
Fees of Court and Office	371	327	(44)	-12%
Other revenue	684	996	312	46%
Bilateral Grants	289	-	(289)	-100%
Multilateral Grants	1,253	-	(1,253)	-100%
Program Grants - General Budget Support	-	145	145	100%
Program Grants - Sector Budget Support	-	146	146	100%

Bilateral External Borrowing	312	1,710	1,398	448%
Multilateral External Borrowing	7,802	7,349	(453)	-6%
Domestic Borrowing	2,199	2,543	344	16%
<b>TOTAL REVENUE</b>	<b>39,265</b>	<b>41,543</b>	2,277	6%
<b>PAYMENTS</b>				
Personal Emoluments	16,204	15,404	800	5%
Use of Goods and Services	19,758	12,583	7,175	36%
Financial Charges	5,300	4,435	865	16%
Social Benefits	259	172	87	34%
Grants and Other Payments	7,237	6,048	1,189	16%
Constitutional & Statutory Expenditure	-	17	(17)	100%
Non-Financial Assets	1,369	471	898	66%
Payment of Arrears and Debt Service	391	400	(9)	-2%
<b>Total Expenditure</b>	<b>50,518</b>	<b>39,530</b>	10,989	22%
<b>Net Surplus/(Deficit)</b>	<b>(11,254)</b>	<b>2,013</b>	13,267	118%

c)

- i. The total revenue recorded was 6% above budget whilst total expenditure recorded was 22% below budget. As a result of this overall performance the Government recorded a surplus of K2, 013m compared to a budgeted deficit of K11, 254m.
- ii. The major variances in terms of Revenue were recorded in respect of Income tax which was below budget by 12%, Value added tax which was above budget by 57%, no multilateral grants were received, bilateral external borrowing was 448% above budget, and domestic borrowing was 16% above budget.
- iii. On the expenditure side, the major variances were recorded in respect of Use of goods and services which were 36% below budget, grants and other payments were 16% below budget.

## SOLUTION FOUR

a) In accordance with the conceptual framework for reporting published by the International Public Sector Accounting Standards Board (IPSASB). Define:	
<b>i. Assets</b>	Resource controlled by an entity as a result of past events and from which future economic benefits or service potential expected to flow to the entity. Measurement bases of an asset are; Historical cost, market value, replacement cost, net selling price and value in use.
<b>ii. Liabilities</b>	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity. Measurement bases of liabilities are: Historical cost cost of fulfilment, market value, cost of releases and assumption price.
<b>iii. Revenue</b>	Increase in the net financial position of the entity, other than increase arising from ownership of contributions. This includes money accruing to the Republic/ Public Enterprises by way of taxes, licenses , import fees, fines , levies and charges, sale of government property and shares, loans , donations and grants raised from within or outside Zambia or nay other income due to the Republic/Public Enterprise
<b>iv. Expense</b>	Decrease in the net financial position of the entity, other than decreases arising from ownership distributions. Expenses arise from exchange and non-exchange transactions, other events such as unrealised increases and decreases in the value of assets and liabilities and consumption of assets through depreciation and erosion of service potential and ability to generate economic benefits through impairments.
<b>v. Ownership Contribution</b>	Are inflows of resources to an entity, contributed by external

parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity? Ownership contribution may take the form of an initial injection of resources at the creation of the entity or subsequent injection of resources, including those where an entity is restructured.

**vi. Ownership distribution**

Outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity. Ownership distribution may be a return on investment; full or partial return of investment; or in the event the entity being wound up or restructured, a return of any residual resources.

b) Identify eight (8) major disclosures that must be made in respect of the Public Sector in preparation of financial statements.

Disclosures made in respect of the public sector shall include :

- Assets by major class, showing separately the investment in other sectors;
- Liabilities by major class;
- Net assets/equity;
- Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;
- Revenue by major class;
- Expenses by major class;
- Surplus or deficit;
- Cash flows from operating activities by major class.

## **SOLUTION FIVE**

a)

The qualitative characteristics of information included in GPFRs of public sector entities are:

- i. Relevance
- ii. Faithfull representation
- iii. Understandability
- iv. Timeliness
- v. Comparability
- vi. Verifiability

b)

The pervasive constraints on information included in the GPFRs are:

- i. Materiality
- ii. Cost- benefit
- iii. Achieving an appropriate balance between the qualitative characteristics

c)

The elements of financial statements include:

- Assets
- Liabilities
- Equity
- Expenses
- Revenue

**END OF SOLUTIONS**