



**QUESTION AND ANSWER
FOR
JUNE 2019
DIPLOMA IN PUBLIC SECTOR FINANCIAL
MANAGEMENT PROGRAMME
PAPERS**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 1: PUBLIC SECTOR ACCOUNTING

MONDAY 10 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. 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.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE

- (a) Public Sector Accounting is governed by laws, regulations and financial reporting standards that provide a basis for preparation of Public Sector financial reports.

Required:

Explain the main objectives of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)

- (b) Government expenditure involves the spending of money on roads, education, health, and salaries and loans to public sector employees among others.

Required:

Distinguish between direct expenditure and recoverable advances giving an example of each. (4 marks)

- (c) Public sector accounts are prepared for internal and external users.

Required:

Explain the information needs of internal and external users of public sector accounts including an outline of examples of internal users and external users. (8 marks)

- (d) The government of the republic of Zambia has put in place rules regarding retention of various documents and information including its financial records. An appraisal is required to be carried out to determine those records worth ongoing retention because of their continued utilization and enduring value.

Required:

(i) Discuss factors to be taken into account in appraising the need for retention of financial records. (10 marks)

(ii) Identify financial records that are of archival value, that is, require to be retained in a permanent form. (4 marks)

- (e) An integrated Financial Management system (IFMS) is a computer-based, inter-related set of sub-systems used to plan, process and report on financial resources in a broad spectrum of financial management areas.

Required:

(i) Explain how IFMS is used in the management of Public debt. (4 marks)

(ii) Describe the following in relation to IFMS:

(a) Centralization and decentralization

(b) Distributed databases

(c) Independent units

(6 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions in this section.

QUESTION TWO

Cash Management is a key component of Public Finance Management that the Government is implementing.

Required:

- (i) Define the term Cash Management? Explain the main objective of Cash Management? (2 marks)
- (ii) What are the benefits of Cash Management? (8 marks)
- (iii) Identify situations that affect the smooth collection of cash? Give an example for each situation. (4 marks)
- (iv) When it is clear that revenue targets will not be met, what actions should be taken during cash shortage? (6 marks)

[TOTAL: 20 Marks]

QUESTION THREE

You have been working as senior accountant at the Ministry of Finance and four new accounts officers have just been recruited to the Ministry. As a graduate holder of Diploma in Public Sector Financial Management, you have been requested to brief the new recruits over the following matters as the ministry is preparing for the 2020 budget presentation to Parliament:

- (a) The main functions of a government Financial Management System. (10 marks)
- (b) The role of the legislative framework in the Financial Management System of the government. (4 marks)
- (c) The main processes of the Financial Management System. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Budget Execution is a critical activity in the Budget Cycle conducted to ensure that government plans and objectives are achieved in accordance with the macroeconomic policy framework.

Required:

- (i) Describe the different stages of Budget Execution? (12 marks)
- (ii) Who is responsible for Budget Execution? (1 mark)
- (iii) How can budget appropriations be revised during the year? (2 marks)

- (b) In order to track revenue and expenditure governments use various standard classifications to produce the national budget.

Required:

Briefly explain the various types of classifications used by the Government of Zambia to produce the national budget? Give an example of each classification? (5 marks)

[Total: 20 Marks]

QUESTION FIVE

The regulation of the conduct of professional accountants has been under spotlight in the recent past following adverse audit reports from various ministries. The International Accounting Education Standards Board (IAESB) adopted IES 4 professional values, Ethics and Attitudes.

Required:

Explain the five fundamental principles of professional ethics, giving practical examples of actions that entail breach of the principle by a professional accountant.

[Total: 20 Marks]

END OF PAPER

PFM1 PUBLIC SECTOR ACCOUNTING SUGGESTED SOLUTIONS

SOLUTION ONE

a) Objectives of IPSASB

- Develops accrual-based standards used for the preparation of general purpose financial statements by governments and other public entities.
- Enhance the quality, consistency and transparency of public sector financial reporting worldwide.
- Promoting the adoption and international convergence to IPSASs
- Strengthening public financial management and knowledge globally through increasing adoption of accrual based IPSASs
- Developing other publications for improvement of public sector financial management and decision making. Publications are meant to increase awareness and transparency in the way public resources are to be managed and to ensure governments are able to meet their future commitments.
- Providing guidance on issues and experiences in financial reporting in the public sector.

b) Direct expenditure

This is a type of expenditure charged to a particular Head as approved by parliament and reflected in the Estimates of Revenue and Expenditure for that financial year. This includes personal emoluments, recurrent departmental charges, grants and capital expenditure.

Recoverable advances

This refers to payments which cannot presently be charged to any direct expenditure code allocation. This includes loans, advances, imprest. These are amounts owed to government by individuals or institutions which are repayable over a period of time as outlined by the terms and conditions of service and other circulars issued by government.

c) Internal users and their information needs

Internal users of financial information are individuals with a direct bearing on the operations of government. These include:

- ✓ The president and ministers
- ✓ The National Assembly/parliament
- ✓ Regulatory and oversight bodies, audit institutions etc.
- ✓ Top public administrators such as permanent secretaries, heads of departments
- ✓ Chief executives of parastatals
- ✓ Labour unions

This group's information needs include:

- ✓ Information for smooth running of their operations and this information is required to make governance or administrative decisions
- ✓ Information to provide them with a more comprehensive view of the public sector financial position and financial analysis.
- ✓ Information is required in order to ascertain the various levels of regulatory compliance and whether actual expenditure is in line with budget
- ✓ Information to ascertain the adequacy of safeguards for protection of public resources.

External users and their information needs

External users are individuals or institutions with no direct bearing on the operations of the government. They include:

- ✓ Members of the public
- ✓ Companies doing business with government
- ✓ Foreign countries
- ✓ Financial institutions such as World Bank, IMF, Commercial Banks etc.
- ✓ Creditors, both local and foreign
- ✓ Investors
- ✓ Researchers
- ✓ Political parties, trade unions, civil society organizations

The group's information needs are:

- ✓ Information to determine viability of public sector institutions and the efficiency and effectiveness of management.
- ✓ Financial institutions and investors use financial information to make decisions about doing business with public sector institutions or whether to invest in government bonds or treasury bills
- ✓ Rating agencies use this information to assign credit ratings.

d) i) Appraisal in record retention means determining those records worthy ongoing retention. Factors to be taken into account include:

Legislation and regulations

- Legislation contains requirements for retention and disposal of records. Of particular relevance are laws relating to finance, customs and excise duties, taxation, pensions, social security, employment and audit.

Valuability of information

- Records may provide valuable information of wider research interest. For example, research into political, economic and social activities has demonstrated a clear interest in the long-term preservation of financial records.

Cost of retention

- Cost of retention and availability of resources should be seriously considered as it is a critical factor given the volume of series of financial records and the technological support required for electronic records.

Utility of the records

- The utility of records is dependent on the records' completeness, accuracy, arrangement, physical condition and accessibility. All these factors are linked to the quality of records management including maintenance and use.

Aggregation of financial information

- Aggregation of financial information provide more information in less space. Important to consider if financial records can be stored in summaries only e.g statistics and reports.

(ii) Duplicate financial records

- These should be removed from the system as soon as they are not needed or associated records need to be archived.
- strategic fiscal planning documents
- policy and expenditure guidelines
- approved published budgets
- public accounts committee reports
- audit reports
- financial statements
- statistical reports
- records of exceptional reports

e) i) public debt management

- In the 1980s, most developing countries had unsustainable debts that they never knew how much they owed and to who? Debt financing is a complex issue involving multiple currencies, variable interest rates, restructuring of debt, debt swap and syndicated debt (borrowing from a group of financial institutions whose objective is to spread the risk amongst themselves) among others.
- Dealing with such complex concerns requires highly trained staff and software to manage the debt.
- Debt management has an integral relationship with IFMS as it often provides budget resources to carry out such capital intensive programmes. Working out what money is due for repayment and when, needs to be built into the budget planning and cash flow projections to ensure that funds are available and that penalties for late payment are avoided.
- The accounting function record the transaction that reduce or increase debt, reports on debt transactions and provides consolidated report on debt liability.

- At the same time, actual payment takes place in the cash management system.

ii) centralization and decentralization of usage

Centralization is a feature of Integrated Financial Management System where government agencies typically provided the central department with details of cash commitment and expenditure details along with claims for payment using paper-based forms. The central agency then provided individual agencies with extensive paper reports from the system on their budgets, expenditure and available funds. This was common thing in government systems.

Decentralization on the other hand is newer system in which the individual departments are able to enter their own data directly into the central system. The database is physically controlled and located with the central agency, although departments can access the data and enter their transactions into the central system via tailored computer screens.

Distributed databases

It involves a core system being implemented in the central finance ministry linked to 'feeder' databases operated by line ministries. As the database is distributed, different users can access it without interfering with one another. The central database management system must periodically synchronize the scattered databases to make sure they all have consistent data.

Independent units

In this approach, the ministry of finance allows each line ministry to design its own system, providing it meets certain standards for interfaces and reporting requirements. The use of these standards makes it possible for the line ministries to feed information by disk or other means into the central system operated by the ministry of finance.

SOLUTION TWO

i. Definition of Cash Management and objective of Cash Management

- Cash Management – process of balancing or synchronizing cash inflows (receipts) with cash outflows (payments).
- Main objective – to ensure that the right amount of money is available to meet government's obligations as and when they fall due.

ii. Benefits of Cash Management

- Ensures that obligations are met when they fall due
- Saves money
- Assists in the efficient preparation and execution of budgets
- Improves fiscal performance
- Minimizes idle balances and associated costs such as bank charges and interest rates
- Increases governments' ability to cope with uncertainties
- Contributes to development of securities market
- Increases confidence in government performance

iii. Situations that affect the smooth collection of cash inflow

- a. Changes in the law – changes in mineral royalty law
- b. Emergencies – By elections
- c. Fluctuations in foreign exchange and interest rates – Change from \$1=K5 to K12
- d. Disasters - floods, drought, cholera epidemic

iv. Measures taken during cash shortage

- i. Prioritize expenditure – pay debt before recurrent expenditure
- ii. Convert assets into cash – sell government interest in companies
- iii. Defer/reschedule payment of commitments
- iv. Speed up collection of revenue
- v. Consolidate debt and refinance existing debt
- vi. Borrow

SOLUTION THREE

a) Functions of government Financial Management System include:

i) Macro-fiscal planning

This involves the establishment of policy objectives, needs for financial resources and a forward-looking strategy for revenue and expenditure. For instance, a fiscal plan would comprise statements of government objectives; a resource framework for the plan period and implementation program during the period

ii) Budget preparation

This activity involves allocating resources to various wings of the government in order to achieve objectives of the government. It is a tool for managing national economy, and fiscal planning and controlling the use of funds to ensure government objectives are met.

iii) Budget implementation

It follows budget approval by the legislature. It involves allocation of funds to specific areas and execution of budget in those areas.

iv) Budget monitoring and evaluation

This activity provides feedback to the fiscal planning and policy area. The feedback helps financial managers to adjust planned activities for the forthcoming periods.

v) Cash management

It involves provision of an up to date picture of the amount of cash in government accounts and amount of cash needed. Cash management compares data from cash flow forecasts and fiscal reports to data on cash balances, government bonds, treasury bills and cash deposit maturities.

vi) Debt management

It involves managing all transactions relating to external loans. It serves as the mechanism for calculating the future cost of servicing the debt.

vii) Foreign aid management

Financial Management Systems matches aid agencies to projects and oversees the process of project negotiations and implementation.

viii) Revenue administration

Financial Management Systems are government's tool for execution of tax policies through the levy and collection.

ix) Accounts administration

It involves government assembling and analyzing accounting information to help it to control business, safeguard assets and prepare financial statements that comply with legislation.

x) Auditing

It involves the reviewing of the accuracy and reliability of financial information produced by financial management functions.

b) The role of the Legislative framework

Financial management functions and processes are derived from and must adhere to a legislative and regulatory framework or control structure as follows:

- Legislation and financial instructions help to define the functional areas that govern financial management. Instructions detail controls needed to ensure that transactions are properly authorized and documented and that they do not exceed the amount of money assigned for the purpose.
- Legislation also requires that revenue received by the government is first paid into a fund, and any expenditure from the fund is formally authorized and appropriated.
- Regulation specify the standards and procedures to be followed when carrying out functional processes. Some controls specific to this role are:
 - ✓ Controls at document and transaction level
 - ✓ Controls on access to ensure that only authorized personnel can record, change and report information
 - ✓ Controls over the entire system to ensure that it embodies the established processing standards.

It is therefore very important for an accounting officer to thoroughly understand laws, regulation and controls they need to apply when analyzing financial management system.

c) The main processes of the financial management systems include:

i) budget preparation

This process involves:

- making initial budget allocation to agencies and programmes
- issuing budget call circular containing budget ceilings and guidelines
- receiving and analyzing annual budget submissions
- preparing draft budgets
- finalizing budget

ii) budget implementation and cash management

This process involves:

- preparing expenditure plans
- preparing cash flow forecasts
- release funds to agencies
- receive budget authorization and execute programmes and projects
- process payroll and pensions
- procure goods and services (this will involve sub-processes of requesting goods and services, authorizing expenditure, committing funds, issuing purchase orders, verifying receipt of goods and services, receiving bills/invoices, authorizing payment).
- Monitor cash flows and expected cash requirements (this includes; receiving agency expenditure plans, receiving agency revenue forecasts, preparing overall cashflow forecasts, monitor revenue inflows, monitor maturities of cash and term deposits, receive and process agency request funds etc).
- Issue and redeem government securities etc.

iii) accounts administration and auditing

This process involves:

- administration of payment and receipt system
- administration of general and budget ledger
- carrying out account reconciliation
- develop costs for programmes and projects
- audit government accounts.

SOLUTION FOUR

(a) Budget Execution

i. Stages of Budget Execution

- (a) **Authorization stage** – Budget is approved by parliament and MPSAs are authorized to spend money consistent with the legal appropriation
- (b) **Release of funds** – funds released consistent with approved warrants
- (c) **Commitment of funds** – future obligation to pay costs incurred, reservation made to put aside an allotment for future expenditure.
- (d) **Verification** – goods delivered/services rendered in accordance with contract. MPSAs have the responsibility to verify that supply was made.
- (e) **Payment** – payment officers make payment through cash, Cheque or electronic transfer.
- (f) **Accounting** – transactions are recorded in the books after reconciliations have been done.

ii. Responsibility for Budget Execution

Controlling officers in MPSAs spending within regulatory control set by the Ministry of Finance

iii. Budget revisions

Budget revisions: during the year – done through virement or variations by declaring savings in one line to supplement another line. Authority to vary funds is authorized the office of the Secretary to the Treasury.

(b) Standard system of classification to produce the national budget.

- 1. **Revenue classification** – taxes, social contribution, grants
- 2. **Administrative classification** – identifies the responsible entity – Head or department - MOH Administration Department
- 3. **Economic classification** – identifies the type of expenditure or revenue – goods & services, PEs, Interest Payments
- 4. **Functional classification** – categories expenditure according to purpose & objectives of government – Public Order & Safety, Health, Education
- 5. **Geographical classification** – categories expenditure according to location where cost/revenue is incurred- Chisamba district
- 6. **Program classification** – categories expenditure according to the programs to be undertaken to meet specific objectives and output – General Administration
- 7. **Activity classification** – identifies costs of activities to be undertaken – cost of travel.

SOLUTION FIVE

i) Integrity

This principle entails that a professional accountant should be straight forward and honest in all professional and business relationships. It also implies fair dealing and truthfulness

Actions that entail breach of principle

When accountant presents false information in accounts with full consent of its falsehood or omits information from accounts knowing very well that users are likely to be misled by such omission.

ii) Objectivity

A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgements. This means an accountant is obliged not to compromise their professional or business judgement because of influence of others especially their supervisors

Actions that entail breach of principle

If a supervisor to an accountant is entitled to a bonus based on a particular performance of the reports and entices the accountant to massage figures with a promise to share bonus with them. The accountant ought to apply all means at their disposal to get themselves out of the situation as prescribed by IES 4.

iii) Professional competence and due care

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional service.

Actions that entail breach of principle

An accountant who shows ignorance of technical knowledge and or advises client wrongly purporting to be reporting the truth.

iv) Confidentiality

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should 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. It further says that confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant.

Actions that entail breach of principle

When a professional accountant discloses information to third parties without consent from business or if such information is used for accountant's own personal gain.

v) Professional behavior

A professional accountant should comply with relevant laws and regulation and should avoid any action that discredit the profession. The principle of professional behavior imposes an obligation on professional accountants to comply with relevant laws and regulations. For instance, in marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute.

Actions that entail breach of principle

If an accountant makes exaggerated claim for services rendered, the qualifications they possess or experience gained.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 2: LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION

FRIDAY 14 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
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SECTION A

This question is compulsory and must be attempted.

QUESTION ONE

Analyse the following scenario and answer the questions that follow.

Pilato Dyonko and Skeleton Zigolo are elected members of parliament for the opposition National Party. They were appointed by the President as Deputy Ministers. As a result, they are often seen campaigning for the ruling party and attending most of its functions. They even vote with the ruling party in the National Assembly. The National Party has written to them expulsion letters since they have "crossed the floor", and a copy to the Speaker to declare their parliamentary seats vacant, has also been dispatched. Crossing the floor, according to article 71 of the Constitution, means that the MPs have either left the party on whose ticket they were elected or have joined another party. The two MPs contemplate applying to the High Court for leave to commence judicial review proceedings against the National Party and the Speaker of the National Assembly once the Speaker makes his ruling.

- (a) Explain in detail what you understand by Administrative Law. (10 marks)
- (b) How can the affected MPs utilise Administrative law to protect themselves from the actions of the National Party and the National Assembly. (20 marks)
- (c) Discuss from the facts in this scenario the three grounds needed to be established for the parties to be granted leave to commence judicial review proceedings. (10 marks)

[Total: 40 Marks]

SECTION B

Answer Three (3) questions from this Section.

QUESTION TWO

Explain each of the following Orders which may be awarded to the complainant under judicial review in Zambia:

- (a) Mandatory Order (5 marks)
- (b) Prohibiting Order (5 marks)
- (c) Quashing Order (5 marks)
- (d) Declaration (5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain the three (3) functions of law in society. (15 marks)
- (b) State the test that was established by the courts in the case of R V City Panel on Take overs and Meggers Ex Parte Data fin Ltd (1987) Q. B 815 to ascertain which bodies would be considered public bodies for the purposes of judicial review. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Explain the two (2) classifications of the Constitution. (10 marks)
- (b) The transition of governments from UNIP to the MMD in 1991 came with the establishment of Government Agencies. Identify the Government Agencies and the Acts of Parliament they are derived from. (8 marks)
- (c) What is the rationale for establishing Government Agencies? (2 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) What are the three (3) organs of government and their functions in the governance of the country? (10 marks)
- (b) Explain the relevance of each of the organs identified above in public sector finance and administration. (10 marks)

[Total: 20 Marks]

END OF PAPER

ZICA PFM2-LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

Administrative law is that branch of law which concerns itself with public law and the establishment of government agencies that perform public functions and quasi-judicial functions. For example the Road Transport and Safety Agency is a quasi-judicial public body which regulates traffic rules, arrests and punishes motorists that have breached traffic rules. These agencies are established by Acts of Parliament to perform public functions, such as collection of revenue on behalf of government, such as the (Zambia Revenue Authority). Administrative law regulates the manner in which public agencies carry out their functions.

(11 marks)

(b)

The actions by the National Party and the National Assembly are expulsion and the pending declaration of the parliamentary seats vacant for the two parliamentarians. Administrative law is applicable to public bodies and in *Sondashi Ludwig v Godfrey Miyanda as secretary General of the Movement for Multi-Party Democracy, 1995* it was held that a political party is a society dealing with private matters and therefore not amenable to judicial review, and the application was dismissed. Therefore courts may inquire into the conduct of a political party if the litigation is commenced by a writ of summons, to establish whether the party had not breached its own rules. If the court were to entertain this matter by way of judicial review, the parties would seek a declaration that they were wrongly expelled and apply for an order of certiorari to quash the party's decision. The MPs can apply for leave to commence judicial review proceedings against the National Assembly because this is a public body to which judicial review is amenable. They can apply for an injunction to prevent the Speaker from declaring their seats vacant as well as damages if he went ahead to declare the seats vacant. The MPs may apply to court for a Declaration and an Order of certiorari to quash the decision of the Speaker to declare the seats vacant, because the MPs did not 'cross the floor'. Crossing the floor involves abandoning the party on whose ticket an MP was elected to Parliament and becoming a card carrying member of another party. Being appointed by the republican President to cabinet or campaigning for other parties, or being involved in activities of the ruling party or any other party, does not constitute crossing the floor, (*Sondashi Ludwig v Godfrey Miyanda as secretary General of the Movement for Multi-Party Democracy, 1995*).

(c)

- i. Illegality –that the decision was made without legal authority, which means that the decision was made outside the confines of the law dealing with the matter at hand.
- ii. Procedural impropriety – that the public body failed to follow procedure as laid down by the statute.
- iii. Irrationality or Wednesbury unreasonableness – that the decision made was so irrational that no reasonable person is expected to make such a decision.

[Total: 40 Mark]

SOLUTION TWO

- (a) Mandatory Order is an order of the court against a statutory body compelling the court to act as required by the statute.
- (b) Prohibiting Order is an order of the court addressed to the public body requiring the body to do or refrain from doing a particular act.
- (c) Quashing Order is an order of the court nullifying the decision of a public body to the extent that it appears as though the decision was never made.
- (d) Declaration is an order of the court recognising a right that is claimed by a party against a public body.

[Total: 20 Marks]

SOLUTION THREE

a)

i. To do justice

Justice means fairness. Laws are enacted to uphold justice and the wellbeing of society. For a law to be accepted by society it seeks to regulate, it should be effective and have an impact on society. Therefore, any law that adversely affects society is likely to be rejected by society as unjust. However, law must not only be able to serve the ends of justice but also be seen to manifestly serve justice as this is the main function of law. Law must be just and fair as it is through law that justice is sought and made available.

ii. To preserve peace and order

According to A.V Dicey, law and order are better than anarchy. Peace comes about because of the existence of laws that describe acts to be wrong and prescribes penalties for doing acts prohibited by law. Law is important for the maintenance of peace and order both of which are important factors to a successful society. Law is intended to bring about regulations which must govern the manner society must live. This is done by providing penalties for breaches of such given law and or regulations. However, this cannot be achieved unless society is made aware of all the laws that regulates it. This is done by publishing all laws in the government gazette hence the old adage that "everyone is presumed to know the law."

iii. Enforcement of morality

Law enforces morality in that, if left without regulations society would degenerate into immoral acts which would even threaten justice, peace and order. Law is therefore important to set rules and regulations that must be followed in order to create an orderly society

b) In R V City Panel on Takeovers and Mergers Ex Parte Data fin Ltd (1987) Q.B. 815 the following test was established to ascertain which bodies would be considered public bodies for the purposes of judicial review:

- i. If a body in question is exercising public law functions, or if the exercise of its functions have public law consequences, then it may be sufficient to bring the body within the reach of judicial review.

- ii. The source of power will be decisive; if a body is set up under statute or by delegated legislation, then the source of power brings the body within the scope of judicial review.

[Total: 20 Marks]

SOLUTION FOUR

- a) Constitutions are classified into two main categories written and unwritten. A written constitution is a formal document or a series of documents containing the fundamental law of the state in a codified or compact and written form having special legal sanctity. The constitution in this form is binding on institutions or organs of the state including parliament. The world's oldest written constitution is the USA constitution of 1776. An unwritten constitution on the other hand is a non-formal set of numerous statutes which are not bound in a single documents through political evolution. In the UK the constitution is not supreme to all other laws. It can be amended just like any other laws hence it has no sanctity. Parliament can make any law without any limit. The laws of this unwritten constitution comprise of statute law, common law and customs. They also consist of constitutional conventions.

- b)
 - i) The Zambia Revenue Authority established under the Zambia Revenue Authority Act Cap 321 of the Laws of Zambia.
 - ii) The Public Procurement Authority established under the Public Procurement Act Cap 308.
 - iii) The Zambia Privatization Agency established under the Zambia Privatization Act Cap 386.
 - iv) The Road Transport Safety Agency under the Road Traffic Act 2002.

- c) The rationale for establishing government agencies was to reduce on the civil service which was very big and expensive to maintain and to bring about efficiency in the public service.

Total [20 marks]

SOLUTION FIVE

(a)

- i) Legislature and its function correctly identified
- ii) Executive and its function correctly identified
- iii) Judiciary and its function correctly identified

(b)

- i) role of the executive in public sector finance and administration correctly discussed
- ii) role of the legislature in public sector finance and administration correctly discussed
- iii) role of the judiciary in public sector finance and administration correctly discussed

[Total: 20 Marks]

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR

TUESDAY 11 JUNE 2019

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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.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A

This question in this Section is Compulsory.

QUESTION ONE

THE CONTRACT MANAGEMENT CHALLENGE

Dick and Mac McDonald opened their first drive-in restaurant in 1941, relying on carhops – waiters who went from car to car – to take orders from patrons parked in the restaurant’s large lot. In 1948, the brothers abandoned their popular format and introduced self-service windows, 15-cent hamburgers, French fries and milk shakes.

They standardized their preparation methods (in what they termed the ‘Speedee Service System’) with exact product specifications and customized equipment. Every hamburger, for example, was prepared with ketchup, mustard, onions and two pickles; the ketchup was applied through a pump dispenser that required just one squirt for the required amount.

Ray Kroc, who held the national marketing rights to the multimixers used in the restaurants to make milk shakes, met the McDonald brothers in 1954. He was so impressed by their restaurant and its potential that he became a national franchise agent for the brothers, and founded the McDonald’s chain.

Like the McDonald brothers’ first restaurant in San Bernardino, California, the McDonald’s chain featured a limited menu, low prices and fast service. From the moment in 1955 when he opened his first McDonald’s, in Des Plaines, Illinois, Kroc made the operating system his passion and his company’s anchor. Whereas many competitors could prepare products that were similar to McDonald’s, most focused on recruiting franchisees, which they promptly ignored, and on identifying the lowest-cost suppliers. Kroc, on the other hand, sought (1) to make sure McDonald’s products were of consistently high quality, (2) to establish a unique operating system, and (3) to build a special set of relationships between the McDonald’s corporation, its suppliers, and its franchisees.

McDonald’s patrolled suppliers and franchisees scrupulously. The meat in McDonald’s hamburgers, for example, had particular specifications: 83 per cent lean chuck (shoulder) from grass-fed cattle and 17 per cent choice plates (lower rib cage) from grain-fed cattle. Fillers were unacceptable. Whereas other restaurants merely accepted what suppliers

provided and complained only when meat was visually inferior, McDonald's routinely analyzed its meat in laboratories.

A simple handshake secured every arrangement between McDonald's and a supplier, and it symbolized the way McDonald's revolutionized the entire relationship. Jim Williams, head of Golden State Foods, which supplied McDonald's with meat, contrasted the traditional supplier/restaurant relationship with the changes McDonald's introduced:

'Deals and kickbacks were a way of life. How long you let a guy stretch out his payments was more the determining factor of whether you got the business than the quality of the product you were selling. Kroc brought a supplier loyalty that the restaurant business had never seen. If you adhered to McDonald's specifications, and were basically competitive on price, you could depend on their order. 'When McDonald's first approached the established food processing giants, such as Kraft, Heinz and Swift, the restaurant chain received a cold response. The established suppliers refused to accept McDonald's concepts and specifications and continued to concentrate solely on the retail market. Only small, fledgling suppliers were willing to gamble on McDonald's, and in turn, McDonald's created a whole new set of major institutional vendors. Each McDonald's restaurant ordered 1,800 pounds of hamburger meat per week and 3,000 pounds of potatoes. By meeting McDonald's strict standards and price requests, suppliers were guaranteed future volumes from a burgeoning restaurant chain. A supplier described the novel relationship that developed:

'Other chains would walk away from you for half a cent. McDonald's was more concerned with getting quality. They didn't chisel on price and were always concerned with suppliers making a fair profit. A lot of people look on a supplier as someone to walk on. But McDonald's always treated me with respect even when they became much bigger and didn't have to. That's the big difference, because if McDonald's said "Jump", an awful lot of people would be asking "How high?"' Suppliers grew alongside McDonald's and were thus carefully attuned to the company's needs. As one supplier commented, 'You've got to be deaf, dumb, and ignorant to lose McDonald's business once you have it'.

(Source: *Slack, N. and Lewis, M. (2011). Operations Strategy, 3rd Ed, Pearson Education Limited, Harlow.*)

Required:

- (a) Describe to the management of McDonald's the basics of good contract management and its importance in its dealings with its suppliers. (10 marks)

- (b) Provide a classification of the different types of contracts from which the management of McDonald's could choose from and the basis for such a classification. (10 marks)

- (c) Since McDonald's is a part of a supply chain, state the components of supply chain management and the attributes of good supply chain management that are important for contract management. (5 marks)

- (d) Describe the contract life cycle activities. (5 marks)

- (e) What are the ethical issues that are in this case and how can ethics be managed at McDonald's restaurants world-wide. (10 marks)

[TOTAL: 40 Marks]

SECTION B

Answer Any Three (3) Questions in this section.

QUESTION TWO

- (a) A public policy emanates from the public sector including both the institutions of central and local government and state created agencies such as water or health authorities, commissions and corporations.

Discuss the process and rationale for public policy formulation citing examples of such policies in Zambia. (15 marks)

- (b) Recent policy, legislative and regulatory reforms in most government institutions are focused on enhancing service delivery to all. This requires good practices in contract management which has the capacity to increase revenues and reduce costs.

Outline any five (5) factors that must be taken into account to promote good practices in Contract Management. (5 marks)

[Total: 20 Marks]

QUESTION THREE

One of the key health reforms that was implemented in the health sector in Zambia is the decentralization of health service provision in 1992-1993 and establishment of an autonomous Central Board of Health (CBoH) in 1996 that took over the operational functions of the Ministry of Health (MoH). The functions of the MoH were restricted to policy development, norm setting, and regulation. As an implementing agency, the CBoH contracted hospital and district health boards at provincial and district levels to deliver health services through a nationwide performance-based contracting (PBC) arrangement that covered the entire public health system.

Required:

- (a) Discuss five (5) objectives that the health sector in Zambia considered in decentralizing the health service provision. (10 marks)
- (b) Outline any five (5) benefits of decentralization of government systems. (5 marks)

- (c) The Ministry of Health reserved functions like policy development, norm setting and regulation at Headquarters. Explain the major implications of centralization.

(5 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) The public sector, like the private sector, is managed by people who are known as managers. These managers have to follow certain functions as they manage the entities. Describe three (3) functions of management. (3 marks)
- (b) Public policy gives guidelines of how the public sector should be governed. State the stages of public policy making process (12 marks)
- (c) Describe five (5) similarities between private and public administration. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

The public sector achieves most of its works by outsourcing most of it to contractors. As such they have to sign contracts with many different organizations. These contracts have to be overseen by officers in the public sector. State ten (10) characteristics of good contract management.

[Total: 20 Marks]

END OF PAPER

PFM3 GOVERNANCE AND MANAGEMENT IN THE PUBLIC SECTOR SUGGESTED SOLUTIONS

SOLUTION ONE

- a) Describe to the management of McDonald's of the basics of good contract management and its importance in its dealings with its suppliers.

The Basics of Good Contract Management

Best practice in Contract Management requires that the management of contracts should take into consideration the following items:

- Optimizes delivery of large capital projects.
- Specifies management techniques and processes for all types of contracts.
- Encourages achievement of value for money and continuous improvement.
- Identifies savings and additional revenue opportunities.
- Enhances risk management.
- Provides clear and complete records for audit.
- Encourages communication between all parties to contracts.
- Failure to implement adequate contract management could result in a number of negative consequences to the company.

The Importance of Good Contract Management

Good practice contract management has the capacity to increase revenue opportunities, decrease costs and enhance service delivery.

There are strong punitive measures for managers who are found to have been negligent or purposely fraudulent in their duties.

As the competences of managers and the resources at their disposal increase, it is essential that they strengthen their efforts to make compliance central to strategic objectives.

While in the past contracts may have been viewed as simple agreements to protect the parties from worst-case scenarios, contracts are now increasingly seen as vehicles for achieving value for money and fostering good relationships with partner and stakeholder organizations.

Since contracts are often managed manually and by multiple managers without an enterprise-wide approach, a multitude of rules and complex decision making can lead to inflexibility, poor planning, extended lead times and below par service delivery.

It is important to consider all transactions and record all types of contracts in use including those that may not have any formal written documentation. Once identified and classified the appropriate level of management intervention can then be applied.

- b) Provide a classification of the different types of contracts from which the management of McDonald's could choose from and the basis for such classification.

Classification of Contracts

Basis for Classification

To facilitate good contract management it is useful to classify contracts or groups of contracts according to the level of management intervention required.

Such a classification system should take into account the following:

- Contract type or nature.
- Strategic importance of the goods and services being purchased or sold.
- Contract value.
- Contract duration.
- Contract complexity.

Types of Contracts

- Purchasing agreements
- Sales agreements
- Service agreements (internal and external)
- Insurance policies
- Warranties
- Loans
- Leases
- Non-disclosure agreements
- Collaboration agreements.

- c) Since McDonald's is a part of a supply chain, state the components of supply chain management and the attributes of good supply chain management that are important for contract management.

Supply Chain Management

Supply Chain Management can be split into the following components:

- Demand management

- Acquisition management
- Logistics management
- Disposal management
- Supply chain performance

Attributes of Good Supply Chain Management

The attributes of good supply chain management that are important for contract management are:

- Achieving value for money.
- Promoting open and effective competition.
- Achieving the highest standards of ethics and fair dealing.
- Supporting preferential procurement.
- Delivering on government's social and economic policies.
- Education of buyers and suppliers.
- Measuring performance.

d) Describe the contract life cycle activities.

Contract Life Cycle Activities

- Planning

This refers to planning and budgeting activities. During this time, strategic objectives are converted into approved budgets and operational plans. Budgets and operational plans will have sufficient detail to identify the need for contracts to carry out the approved operations.

- Creation

This is where the contract author will decide on the most appropriate wording to give effect to the intended outputs and outcomes. This involves preparing the first draft of the contract documentation.

- Collaboration

This is the drafting and negotiating process which includes internal and external reviews to ensure that the contract will give legal effect to the requirements of all parties to the contract. Internal review may include review by the following stakeholders; Legal, Finance, Risk management, Audit and Insurance.

External review will include one or more rounds of negotiation to arrive at a mutually agreeable set of terms and conditions that give effect to the requirements of all parties.

- Execution

This is the act of signing the contract, making it legally enforceable and formalizing the terms of the contract.

- Administration

The goal of contract administration is to monitor delivery under the contract to ensure that it achieves its original objectives and includes tracking and auditing of contract terms like pricing and discounts, timeliness of payments and/or receipts, performance in delivering agreed service level or specification of goods and services and amendments.

- Closeout/Renewal

Contract closeout is a very important stage and one that often receives the least amount of attention. Regardless of whether a contract is being closed or renewed, a review process should be undertaken to various levels of detail depending on the classification of the contract.

This review will focus on performance under the contract and consider at least the following:

- Actual quantities, prices, total values vs budgeted quantities, prices, total values.
- Actual timeliness of delivery under the contract vs contracted timeframes.
- Actual service levels or specifications of goods and services vs those contracted.
- Review of procurement or sales methods.
- Future budgets.
- Change of supplier, buyer or other stakeholder.
- Outsourcing opportunities.
- Risk strategies.

e) What are the ethical issues that have been mentioned in this case and how can ethics be managed at McDonald's restaurants world-wide.

Ethical Issues

The following ethical issues are highlighted in the case:

- Whereas many competitors could prepare products that were similar to McDonald's, most focused on recruiting franchisees, which they promptly ignored, and on identifying the lowest-cost suppliers.
- A simple handshake secured every arrangement between McDonald's and a supplier, and it symbolized the way McDonald's revolutionized the entire relationship.
- 'Deals and kickbacks were a way of life. How long you let a guy stretch out his payments was more the determining factor of whether you got the business than the quality of the product you were selling.
- When McDonald's first approached the established food processing giants, such as Kraft, Heinz and Swift, the restaurant chain received a cold response. The established suppliers refused to accept McDonald's concepts and specifications and continued to concentrate solely on the retail market. Only small, fledgling suppliers were willing to gamble on McDonald's.
- Other chains would walk away from you for half a cent. McDonald's was more concerned with getting quality. They didn't chisel on price and were always concerned with suppliers making a fair profit. A lot of people look on a supplier as someone to walk on.

How to Manage Ethics at the Workplace

The following are some points to consider in managing ethics at the workplace like a McDonald's restaurant:

- Understand the benefits of ethical conduct.
- Focus on ethical conduct.
- Develop a code of ethical conduct.
- Promote the process.
- Link ethics to other management practices.
- Demonstrate ethical practices.
- Allocate roles and responsibilities.
- Identify and model industry benchmarks.

SOLUTION TWO

(a) There are three major stages involved in the policy making process and these include:

- I. The Policy Formulation Stage: This is the stage where the policy makers take decisions as to what is to be done and how it is done. Areas where policies can be formulated include: Healthy care facilities, Educational policies, Electricity supply, Durable roads etc.
- II. Policy Implementation Stage: It is the ability of an organization or government to bring together men and materials in a cohesive organizational unit and motivate them in such a way as to carry out the stated objectives of such an organization or government.
- III. Feedback and Evaluation Stage: This is the stage of comparison between the intended outcome of policy and actual achievement on the basis of experience gained during the implementation stage.

(b) Best practice in Contract Management requires that the management of contracts take into account the following:

- I. Optimises delivery of larger capital projects;
- II. Specifies management techniques and processes for types of contracts;
- III. Encourages achievement of value for money and continuous improvement;
- IV. Identifies savings and additional revenue opportunities;
- V. Enhances risk management;
- VI. Provides clear and complete records for audit; and
- VII. Encourages communication between all parties to contracts.

Note: Candidates state any five factors.

SOLUTION THREE

(a) The following are some of the objectives of decentralizing the health service provision.

- i) To decongest the functions of the Ministry of Health from the Ministry headquarters to various parts of the country.
- ii) To provide health services and facilities to every corner of the country.
- iii) To involve health workers in operational decisions at lower levels of the ministry.
- iv) To tap human, financial and material resources in all parts of the country.
- v) To take care of peculiar needs and problems of each part of the country in the provision of health services.

(b) Below are some of the benefits of decentralization of government systems:

- i) It leads to a competitive climate in the organization;
- ii) It relieves the management of too much work load;
- iii) It makes jobs at the lower level of the organization to be more attractive and interesting.
- iv) It encourages initiative at lower levels where the employees are allowed to participate in the decision making process.
- v) Decisions made closer to the actual situation are likely to be more realistic.
- vi) Facilitates better co-ordination and control systems.
- vii) Promotes motivation, efficiency and output

(c) The major implications of centralization are:

- i) The reservation of decision making power with regard to planning, organizing, directing and control at the top level.
- ii) The other major implication of centralization depends on the philosophy of management.

SOLUTION FOUR

- a) There are four functions of management that span across all industries. They **include: planning, organizing, leading, and controlling**. You should think about the four functions as a process, where each step builds on the others.

1. Planning and Decision Making – Determining Courses of Action

Looking ahead into the future and predict possible trends or occurrences which are likely to influence the working situation is the most vital quality as well as the job of a manager.

Planning means setting an organization's goal and deciding how best to achieve them. Planning is decision making, regarding the goals and setting the future course of action from a set of alternatives to reach them.

The plan helps to maintain the managerial effectiveness as it works as a guide for the personnel for the future activities. Selecting goals as well as the paths to achieve them is what planning involves.

Planning involves selecting missions and objectives and the actions to achieve them, it requires decision-making or choosing future courses of action from among alternatives. In short, planning means determining what the organization's position and the situation should be at some time in the future and decide how best to bring about that situation.

Planning helps maintain managerial effectiveness by guiding future activities.

For a manager, planning and decision-making require an ability to foresee, to visualize, and to look ahead purposefully.

2. Organizing – Coordinating Activities and Resources

Organizing can be defined as the process by which the established plans are moved closer to realization.

Once a manager set goals and develops plans, his next managerial function is organizing human and other resources that are identified as necessary by the plan to reach the goal. Organizing involves determining how activities and resources are to be assembled and coordinated.

The organization can also be defined as an intentionally formalized structure of positions or roles for people to fill in an organization.

Organizing produces a structure of relationships in an organization and it is through these structured relationships that future plans are pursued.

Organizing, then, is that part of managing which involves: establishing an intentional structure of roles for people to fill in the organization.

It is intentional in the sense of making sure that all the tasks necessary to accomplish goals are assigned to people who can do the best.

The purpose of an organization structure is to create an environment for best human performance.

The structure must define the task to be done. The rules so established must also be designed in the light of the abilities and motivations of the people available.

Staffing is related to organizing and it involves filling and keeping filled, the positions in the organization structure.

This can be done by determining the positions to be filled, identifying the requirement of manpower, filling the vacancies and training employees so that the assigned tasks are accomplished effectively and efficiently.

The managerial functions of promotion, demotion, discharge, dismissal, transfer, etc. Are also included with the broad task "staffing." staffing ensures the placement of the right person at the right position.

Basically organizing is deciding where decisions will be made, who will do what jobs and tasks, who will work for whom, and how resources will assemble.

3. **Leading** – Managing, Motivating and Directing People

The third basic managerial function is leading. The skills of influencing people for a particular purpose or reason is called leading. Leading is considered to be the most important and challenging of all managerial activities.

Leading is influencing or prompting the member of the organization to work together with the interest of the organization.

Creating a positive attitude towards the work and goals in among the members of the organization is called leading. It is required as it helps to serve the objective of effectiveness and efficiency by changing the behavior of the employees.

Leading involves a number of deferment processes and activates.

The functions of direction, motivation, communication, and coordination are considered a part of leading process or system.

Coordinating is also essential in leading.

Most authors do not consider it a separate function of management.

Rather they regard coordinating as the essence of managership for achieving harmony among individual efforts towards accomplishing group targets.

Motivating is an essential quality for leading. Motivating is the function of management process of influencing people's behavior based on the knowledge of what cause and channel sustain human behavior in a particularly committed direction.

Efficient managers need to be effective leaders.

Since leadership implies fellowship and people tend to follow those who offer a means of satisfying their own needs, hopes and aspirations it is understandable that leading involves motivation leadership styles and approaches and communication.

4. Controlling – Monitoring and Evaluating activities

Monitoring the organizational progress toward goal fulfillment is called controlling. Monitoring the progress is essential to ensure the achievement of organizational goal.

Controlling is measuring, comparing, finding deviation and correcting the organizational activities which are performed for achieving the goals or objectives. Controlling consist of activities, like; measuring the performance, comparing with the existing standard and finding the deviations, and correcting the deviations.

Control activities generally relate to the measurement of achievement or results of actions which were taken to attain the goal.

Some means of controlling, like the budget for expenses, inspection records, and the record of labor hours lost, are generally familiar. Each measure also shows whether plans are working out.

If deviations persist, correction is indicated. Whenever results are found to differ from the planned action, persons responsible are to be identified and necessary actions are to be taken to improve performance.

Thus outcomes are controlled by controlling what people do. Controlling is the last but not the least important management function process.

It is rightly said, "planning without controlling is useless". In short, we can say the controlling enables the accomplishment of the plan.

All the management functions of its process are inter-related and cannot be skipped.

The management process designs and maintains an environment in which personnel's, working together in groups, accomplish efficiently selected aims.

All managers carry out the main functions of management; planning, organizing, staffing, leading and controlling. But depending on the skills and position on an organizational level, the time and labor spent in each function will differ.

b) Public policy gives guidelines of how the public sector should be governed.

State the stages of public policy making process.

The steps involved in policy making process include problem identification, agenda setting, policy formulation, budgeting, implementing and evaluation. A breakdown in any of these steps may end up compromising the quality of results achieved.

There are several steps in the policy-making process and why each one is important.

Problem identification

At this stage, stakeholders raise concerns regarding a policy or issue that affects the public or organization. The problem is then defined in clear terms and mass media, parties or interest groups raise it in relevant forums for consideration.

Agenda setting

The problem identified is pushed through various organs in order to get discussed. This push for discussion eventually leads to allocation of time for discussion by relevant authorities.

Policy formulation

Solutions or policies are then made in order to deal with the problem that was raised and discussed. Inaction or defeat of a proposal at this stage is still regarded as policy making.

Budgeting

Once a policy is authorized, relevant authorities can then allocate resources or money toward its implementation. This is called budgeting since it involves resource allocation for many policies.

Implementation

Executives in charge of putting policies into action are then given the opportunity to implement the requirements set out in the policy.

Evaluation

Here various stakeholders examine the policies against the results produced in order to know if the policy is working or not. According to the results of evaluation, improvement or change of policy may be recommended.

c) Describe five similarities between private and public administration

- Both are regulated and affected by political laws and regulations.
- Both are used to improve effectiveness and productivity of an organization.
- Both have to fight for influence and funding.
- Both must operate as cost-effectively as possible.
- Both answer to higher authorities and are held responsible for their actions.
- Both work within a set of rules determined by the authorities above them.

This list contains only some of the main similarities found. A more detailed study may well reveal a much broader range of similarities.

Public administration can be defined as the organization and management of the government, government offices and public sector companies, the work required is often paper and computer based and requires a lot of administrative work. Private administration is the organization and administrative work within a private sector company.

- Similarities

Both public and private administration will involve similar tasks and work such as filing, document authenticating and editing and meeting arranging. The administrative nature of the role will be similar in most companies, whether public or private. Both require some form of service to a company and its consumers (a government's consumers being the general public) and both value good organization.

[Total Marks 20]

SOLUTION FIVE

State ten characteristics of good contract management,

Top 10 Characteristics of good contract management:

1. Make sure that you begin with a thorough investigation of both the business and legal background for the contract and the proposed transaction and business relationship in which the contract is to be used. Appropriate representatives of the company should be interviewed to determine how the relationship has evolved and what, if any, commitments may have already been made by the parties. This is also the time to give special consideration to the actual and potential impact on the company's existing obligations and business relationships.
2. Working with the appropriate representatives of the company, you should identify the steps that need to be taken in order to comply with the requirements of any contract review and signature authority policies and procedures that have been established by the company. For example, does the contract need to be reviewed and approved by senior management and/or the board of directors and, if so, what needs to be done in order to expedite review and consideration.
3. Once you have a good understanding the scope of the proposed business relationship you should identify the contracts and related documents required to document the relationship and complete any immediate transaction and then proceed with collecting and reviewing examples of the necessary contracts to expedite the drafting process and isolate specific questions that the company will need to answer in order for the contract to be complete and accurate.
4. If warranted by the complexity of the proposed transaction, you should prepare a time and responsibility schedule for drafting, review, discussion, revision and completion of all required items and activities. For example, a time and responsibility schedule is often useful for a financing transaction that must pass through several stages over an extended period of time including preparation of a business plan, presentations to potential capital providers, preparation of financing documents and satisfaction of closing conditions.

5. Taking into account discussions with company representatives regarding your role, you should participate in the negotiation of the essential terms of each contract and, if appropriate and useful, prepare a term sheet or letter of understanding to be sure that the parties are in agreement regarding the essential terms before time and effort is spent on contract preparation. If you are not to be directly involved in negotiations you should, at a minimum, provide company representatives with a list of questions that will need to be answered in order for the contracts to be completed so that the representatives can discuss them with their counterparts from the opposite party.
6. Once background information has been collected and preliminary agreement has been reached on the essential terms, you should prepare the initial draft of each of the required contracts and related documents or, in cases where the opposite party is responsible for drafting, review the initial draft of such items prepared by the opposite party; discuss and negotiate necessary changes in the initial drafts and make sure that revised drafts are circulated for review and finalization. The timing of the drafting and revision process is crucial since delays can push the relationship off track and jeopardize realization of the business opportunities anticipated by both parties.
7. Once the documentation is finalized you should prepare for the closing of the transaction, including pre-closing meetings and preparation of closing checklists and memoranda. If certificates and/or consents from outside parties are required in order for the contracts to be finalized and become effective they must be planned for well in advance and may themselves require time-consuming negotiations.
8. Once all conditions to consummation of the proposed business relationship have been satisfied or waived, you should oversee completion of the closing of the transaction at which time all contracts and related documents are executed and exchanged and any required performance at the closing (e.g., cash payments) is completed.
9. Once the closing is completed you should make sure that all of the closing documents are organized and that copies are delivered to all interested parties. This is also the time for you to make sure that the files relating to the transaction that have been opened during the process described above are organized so that they can be easily accessed in the future should questions arise.

10. Working with company representatives, you should establish a plan for ongoing review of the performance of each of the parties under the terms of the contract, at least in those cases where the contract is long-term and calls for continuous performance over an extended period of time. As part of the plan you should calendar any dates identified in the contracts that may require follow up action, such as performance milestones and option elections.

[Total: 20 Marks]

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 4: PUBLIC SECTOR FINANCIAL MANAGEMENT

FRIDAY 14 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

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

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A: COMPULSORY

This question is compulsory and must be attempted.

QUESTION ONE

Nyanga Local Government Agency has recently implemented Treasury Single Account (TSA) whose objective was to manage the government resources efficiently. It has now, full information about cash resources, as it can plan and implement budget execution in an efficient, transparent, and reliable manner.

With this intervention, the Local Government Agency will be able to predict its cash resources more accurately. This will remove the existence of uncertainty regarding whether the Local Government will have sufficient funds to finance programmed expenditures. However, despite this improvement, the recent Auditor General's report revealed that the Treasury Department does not have a risk management unit in place and is solely dependent on Internal Audit reviews which are done on a quarterly basis.

The Director Treasury Services' response to the issues raised by the Auditor General were non availability of funds to implement the operationalization of the risk management unit and as a Local Government, establishment of the risk management unit was not a priority.

The priority of the Nyanga Local government is on improving cash flows and investing in profitable projects. In this regard, it is also considering expanding a health clinic that would provide specialist medical services. The expansion project will take five years. The commencement of the project is dependent on management accepting one of the two contracts Y or Z.

Contract Y

The capital costs are payable to the contractor as follows:

K500,000 at the commencement of the project and K300,000 at the end of each of years 1 to 3.

The cash inflows accruing to the council for the additional specialist medical services are estimated at K300,000 in year 1 , K400,000 in year 2 and K600,000 in each of the years 3 to 5. (All these figures are before deduction of the contractors share in Contract Z)

Contract Z

The capital outlay is estimated to be K200,000 at commencement of the project and K400,000 at the end of each years 1 to 3. The contractor will share half of the cost in return for a fee of K425, 000 payable to the clinic at the end of year 4, together with the contractor receiving 25% of the additional cash inflows resulting from the provision of the extra specialist services during each of the years 1 to 4 inclusive. The contractors 50% share would apply to each outlay.

The K800,000 unutilized capital which the District Council would have at its disposal by accepting Contractor Z could be invested in a Fitness Centre which is estimated to generate

cash inflows of K250,000 during each of the years 1 and 2 and K150,000 during each of the years 3 and 4. The contractor would not receive any share from these cash flows.

Assume all cash flows arise at the end of each year.

Ignore Taxation.

Required:

- (a) Explain to the Director Treasury Services the objective of risk management planning process; (2 marks)
- (b) Describe the stages of the planning process of risk management; (6 marks)
- (c) Briefly outline the responsibilities of the Officer in Charge of Risk Management Department; (6 marks)
- (d) Advise management at Local Government Agency whether to accept contract Y or contract Z in each of the following situations:
 - (ii) Ignoring the discounting of cash flows, and
 - (iii) Where cost of capital is 10% (18 marks)
- (d) Discuss the advantages and disadvantages of the payback period; (8 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions in this section.

QUESTION TWO

MX Steel fabricator is a government owned manufacturing company established in the year 2002 and governed by the Board of Directors. The Board of Directors was appointed by the Government to oversee the operations of the company. This development cheered the members of staff due to new and improved conditions of service introduced by the Board of Directors. However, their happiness has been short lived management is now struggling to pay salaries and wages to its employees.

Some members of staff feel that the finance manager is to blame for the cash flow challenges the company is facing. However, other members of staff feel that excessive spending by senior management of the company is the cause of the cash flow challenges faced by the company.

The Board of Directors has asked management of MX Steel to call for an emergency meeting to address the cash flow challenges. The finance manager and the workers representative have been invited to this meeting. In particular, the finance manager has been requested to highlight the budget preparation process and present a report on possible cash management strategies to be employed by MX Steel Fabrications to improve the cash flow position of the company.

Assume you are the finance manager of MX Steel Fabrications.

Required:

- (a) Explain the functions of the government budgetary process. (12 marks)
- (b) Discuss the possible cash management strategies to be employed in order to improve the cash flow position of the company. (8 marks)

[Total: 20 Marks]

QUESTION THREE

The Government of country X is currently facing various economic challenges since they won presidential and general elections and assumed office 15 months ago. Country X has experienced a sporadic rise in prices of most goods and services in the last few months. There has been a general decline in export of goods and the number of tourists entering the country has also declined in the recent past. Unemployment levels are also very high since the government came into power. In addition the government inherited poor infrastructure in the country from the previous regime.

The government of country X is under pressure from the general populace as it had promised improved standards of living for the people and job creation in order to reduce unemployment during the general elections campaigns.

The President of X, during a recent press conference announced some cabinet reshuffles in which a new minister of finance was appointed. In his speech, the President instructed all newly appointed ministers to work hard and do their best so as to fulfil the campaign promises. The President mandated the newly appointed minister of finance to try and stabilize the economy by controlling economic indicators such as inflation through monetary policy instruments with the help of the relevant government institutions. She concluded by thanking the cooperating partners of country X who have assisted the country financially through loans. She re-emphasized the importance of non-tax revenues as a source of finance for the country because this will help minimize the heavy tax burden currently placed on the tax payer.

Required:

- (a) Describe the policies that the government of country X and the ministry of finance can implement to try and reduce the prices of commodities. (6 marks)
- (b) Explain any six non-tax revenues that country X can use as a source of finance. (14 marks)

[Total: 20 Marks]

QUESTION FOUR

Gama Water Utilities is a state owned water utility company whose main purpose is to provide clean and safe drinking water in the city. It is governed by a Board of Directors appointed by the minister in charge of water affairs. The utility company has grown considerably in terms of revenue generation over the last ten years. This is largely due to the increasing demand for water supply caused by a fast growing city population.

The growth in size of the water utility company has prompted management to re-structure its finance department to ensure proper accountability of public revenue. The rapid growth in revenue at Gama Water Utilities has prompted the board of directors to plan a restructuring of the company. The finance and administration departments are among the targets of the re-structuring program. Particularly the internal audit section is of great concern to the board as the recent external audit report indicated weaknesses in internal controls at Gama Water Utilities. Other departments included in the re-structuring include human resource and information technology department.

An external consultant has been engaged to ensure the implementation of a successful internal control system (ICS) for the company. He will work together with the chief internal auditor to ensure the successful implementation, operation and monitoring of the ICS for a six months period. The chief internal auditor will assist the external consultant in this regard.

Required:

- (a) Briefly explain the functions of an internal control system at Gama Water Utilities. (6 marks)
- (b) Discuss the basic requirements that the external consultant should fulfill in order to set up a successful internal control system at Gama Water Utilities. (14 marks)

[Total: 20 Marks]

QUESTION FIVE

Nkeyema Republic undertook two Public Expenditure Financial Accountability (PEFA) assessments in 2013 and 2016. The objective of the PEFA assessments is to improve performance of public expenditure management systems. The assessments focus on: Budget reliability, Transparency of Public Finances, Management of assets and liabilities, Policy based fiscal strategy and Budget predictability and control in budget execution, Accounting and Reporting, External scrutiny and audit.

The Secretary to the Treasury of Nkeyema Republic noted that management of assets and liabilities, predictability and control in budget execution and accounting and reporting have improved from the scores of the last PEFA assessment. During a senior management meeting, one senior manager, who recently joined the Ministry as an expatriate argued that there was no need to continue with Public Financial Management (PFM) reforms as they were a waste of resources.

Required:

- (a) Explain the Objectives of Public Financial Management reforms; (4 marks)
- (b) Clearly identify and explain the role of Government in the economy. (10 marks)
- (c) Discuss the three critical elements needed for a successful Public Financial Management system. (6 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

$$P_0 = \frac{D_0(1 + g)}{(r_e - g)}$$

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>Periods</i> (n)	<i>Discount rate (r)</i>										
	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	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

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

PSFM 4 PUBLIC SECTOR FINANCIAL MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

1. (a) Explain to the Director Treasury Services the objective of risk management planning process

Objective of risk management

The objective of the risk management planning process is to develop the overall risk management strategy for the Treasury Department and to decide how it will be executed and how it will be integrated in the overall Treasury Department implementation plan.

1. (b) Describe the stages of the planning process of risk management

Stages of the planning process

The planning process begins with the creation of a team,

Develop:

Timeline ,

costs,

Outline of the risk management plan,

Methodology,

The process and

Templates that will be used in the development of the risk management framework.

1. (c) Briefly outline the responsibilities of the Officer in Charge of Risk Management Department

Responsibilities of the Officer in Charge of Risk Management Department

- Solicit support from senior management for the risk management framework
- Determine acceptable levels of risk, in consultation with stakeholders
- Develop and approve the risk management plan
- Promote the risk management process
- Facilitate communication
- Approve risk responses when necessary
- Regularly report risk status to management and key stakeholders

(d)

Contract Y

	0	1	2	3	4	5	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Capital Out lay	(500)	(300)	(300)	(300)			(1,400)
Inflow		300	400	600	600	600	2,500
Net	(500)	Nil	100	300	600	600	1,100
D.F @ 10%	1.0	0.909	0.826	0.751	0.683	0.621	
Present value	(500)	0	82.60	225.30	409.80	372.60	590.30

Contract Z

	0	1	2	3	4	5	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Capital Out lay	(200)	(400)	(400)	(400)			(1,400)
Contract Fee					(425)		(425)
Net clinic Inflow		225	300	450	450	600	2,025
Fitness inflow		250	250	150	150		800
Net	(200)	75	150	200	175	600	1,000
D.F @ 10%	1.0	0.909	0.826	0.751	0.683	0.621	
Present value	(200)	68.175	123.90	150.20	119.525	372.60	634.40

Wk1: 75% of inflows from the clinic year 1 -4. Year five not adjusted.

Advise to Management:

- i. Without Discounting Y has a greater value and should be accepted
- ii. After Discounting Z has greater value and should be accepted

<p>1. (e) Discuss the advantages and disadvantages of the payback period;</p> <p>Advantages</p> <p>Simple to use and easy to understand</p> <p>This is among the most significant advantages of the payback period. The method needs very few inputs and is relatively easier to calculate than other capital budgeting methods. All that you need to calculate the payback period is the project's initial cost and annual cash flows. Though other methods also use the same inputs, they need more assumptions as well. For instance, the cost of capital, which other methods use, requires managers to make several assumptions.</p> <p>Quick Solution</p> <p>Since the payback period is easy to calculate and need fewer inputs, managers are quickly able to calculate the payback period of the projects. This helps the managers to make quick decisions, something that is very important for the companies with limited resources.</p> <p>Preference for Liquidity</p> <p>Payback period is crucial information that no other capital budgeting method reveals. Usually, a project with a shorter payback period also has a lower risk. Such information is extremely crucial for businesses with limited resources.</p> <p>Useful in case of Uncertainty</p> <p>The payback method is very useful in the industries that are uncertain or witness rapid technological changes. Such uncertainty makes it difficult to project the future annual cash inflows. Thus, using and undertaking projects with short PBP helps in reducing the chances of a loss through obsolescence.</p> <p>Disadvantages</p> <p>Ignores the time value of money: The most serious disadvantage of the payback method is that it does not consider the time value of money. Cash flows received during the early years of a project get a higher weight than cash flows received in later years. Two projects could have the same payback period, but one project generates more cash flow in the early years, whereas the other project has higher cash flows in the later years. In this instance, the payback method does not provide a clear determination as to which project to select.</p>

Neglects cash flows received after payback period: For some projects, the largest cash flows may not occur until after the payback period has ended. These projects could have higher returns on investment and may be preferable to projects that have shorter payback times.

Ignores a project's profitability: Just because a project has a short payback period does not mean that it is profitable. If the cash flows end at the payback period or are drastically reduced, a project might never return a profit and therefore, it would be an unwise investment.

Does not consider a project's return on investment: Some companies require capital investments to exceed a certain hurdle of rate of return; otherwise the project is declined. The payback method does not consider a project's rate of return.

The payback method is a handy tool to use as an initial evaluation of different projects. It works very well for small projects and for those that have consistent cash flows each year. However, the payback method does not give a complete analysis as to the attractiveness of projects that receive cash flows after the end of the payback period. And it does not consider the profitability of a project nor its return on investment.

SOLUTION TWO

2. (a) Explain any five functions of the government budgetary process.

Redistribution of wealth function.

When more tax is collected from one tax payer than from another, and both receive the same value in collective services equal to the capita cost for rendering such services, then redistribution of wealth automatically takes place. The goal is to leave less money in the pocket of the wealthier tax payer and more in the pocket of the less wealthy tax payer.

ii) Economic regulation function

Public financing through the public budget is an important stabilizing instrument which may be utilized to combat fluctuations within the economy. In other words if private expenditure tends to rise too high and causes inflation, public expenditure should be cut back and at the same time money in circulation in the private sector should be restricted by higher taxes or public borrowing. This is done through budgeting.

iii) The budget is a policy statement

It declares the goals and specific objectives a government wishes to achieve by means of expenditure concerned. It is public policy expressed in amounts of money and actual embodiment of policy and implied policy objectives.

iv) The budget is an operating programme

The budget serves as an operating programme on which the administrative authority may base operational plans for each function which has to be carried out to deliver certain services to the public in order to ensure that the broad goals and concrete objectives of the authorities may be realized efficiently and effectively.

v) The budget as a source of information.

The budget is the most decision making instrument in the public sector by which rational decisions may be promoted and made. The budget document should explain clearly the goals of that particular budget and the government policy regarding it. It should also contain clear and intelligent information on the objectives, aims, activities, resources and the finances in order that members of the legislature may be in a position to debate them meaningfully and eventually to make decisions on them that will be acceptable to the community.

vi) The budget as an integrating and coordinating instrument.

vii) The budget as a control instrument

2. (b) Discuss the possible cash management strategies to be employed in order to improve the cash flow position of the company.

The following are some of the cash management strategies we can use to improve the cash flow position of MX Steel Fabricators.

i) Make financial projections.

Forecast both expenses and anticipated revenues for at least the coming year. This will help us predict when we are likely to have cash and when we are likely to need it. We should also maintain a cash reserve if possible.

ii) Create contingency plans. Have several budget projections, including best case and worst case scenarios, and think about how we might respond in the event sales don't take off as expected or there is some unforeseen problem, we will be better prepared.

iii) Keep a lead on spending.

Avoid excessive spending. Implement cash management models to ensure we hold minimum cash balances. These would help us check our spending by setting minimum cash balance beyond which our cash should not drop.

iv) Keep inventory low.

Avoid overstocking inventory as cash is tied up in the inventory. We need to stock only what we know we can sell in the short term. We can use inventory management control models for this purpose such as the economic order quantity.

v) Lease, don't buy.

Another good way to conserve cash is to lease equipment instead of buying it. Although leasing can be more expensive in the long run, it can help us avoid laying out a lot of capital all at once for things like office furniture, computers and copiers.

vi) Delay hiring employees.

Try to improve the productivity of current employees (without burning them out), we can use independent contractors and consider outsourcing certain non-essential functions. Employees are expensive and so you should put off adding permanent hires as long as you can- or at least you are earning the revenue to support them.

vii) Speed up customer payments. Try to get customers to pay on time or early, if possible. Offer incentives like discounts or late fees, and adopt more effective collection techniques.

viii) Delay payments to suppliers. We can do this by negotiating longer credit terms with our suppliers, even if it will be expensive in the long run because we might lose discounts.

ix) Avoid being wasteful. Recycle and re-use what we can- for example boxes, computer discs and file folders. The savings may not be large on any given item, but they can add up over time.

SOLUTION THREE

3. (a) Describe the policies that the government of country X and the ministry of finance can implement to try and reduce the prices of commodities

i) Monetary policy.

This is achieved through the central bank reducing or increasing the policy rate. When the government believes that inflation is too high, it will use contractionary policy to decrease the money supply and raise interest rates. When interest rates are high, borrowers have to pay more for the money they borrow. This reduces money supply and hence reduces the demand for goods and services and consequently reduces price inflation.

ii) Fiscal policy.

This relies on the government's power of spending and taxation. Both taxation and government spending can be used to reduce or increase the total supply of money in the economy. When the economy is experiencing inflation as in country X, the government will decrease spending or increase taxes or both. Because such contractionary measures reduce spending by businesses and consumers, prices come down and inflation reduces.

3. (b) Describe the policies that the government of country X and the ministry of finance can implement to try and reduce the prices of commodities

NON-TAX REVENUES.

These include:

- i) **Fees.** A fee is charged by public authorities for rendering a service to the citizens. Unlike taxation there is no compulsion involved. Examples include charges for issuing of passports, driving licenses etc.
- ii) **Fines or penalties.** These are imposed as a form of punishment for breach of law or non-fulfilment of certain conditions or for failure to observe some regulations. These are compulsory payments.
- iii) **Surplus from public enterprises in country X.** Profits earned from public enterprises. Examples include profits from government owned companies.
- iv) **Special assessment and betterment levy.** It is a kind of special charge levied on certain members of the community who are beneficiaries of certain government activities or public projects. For example. Due to a public park in a locality or due to the construction of a road people in that locality may experience an appreciation in the value of their property or land. Thus due to public expenditure some people may experience unearned increments in their asset holding.
- v) **Grants and gifts.** These are voluntary contributions by individuals or institutions to the government. These are significant source of revenue during war and emergency. A grant to country X will be an important source of revenue to it .Grants from foreign countries are known as foreign aid.
- vi) **Deficit financing.** This means an excess of public expenditure over public revenue.

This excess may be met by borrowings from the market, borrowings from abroad or by the central bank creating currency.

SOLUTION FOUR

4. (a) Briefly explain the functions of an internal control system at Gama Water Utilities.

The functions of an internal control system are:

- i) Ensure that business objectives are achieved with an effective and efficient management.
- ii) Ensure compliance with laws and regulations.
- iii) Safeguard business assets.
- iv) Prevent, reduce and identify errors and irregularities.
- v) Ensure reliable and complete bookkeeping.
- vi) Ensure timely and reliable financial reporting.

4. (b) Discuss the basic requirements that the external consultant should fulfill in order to set up a successful internal control system at Gama Water Utilities.

- i) **Ensure acceptance and commitment on the part of the board and management.** Every internal control system has to have the support of and commitment of the board and management.
- ii) **Define clear requirements and take a systematic approach to the internal control system.** The organization has to define basic principles on how the ICS is to be operated and maintained. A uniform approach ensures that all staff work along the same lines and that results are comparable or has the same impact.
- iii) **Proceed step by step.** An ICS has to be tailored to the individual organization. Initially the organization should test procedures for setting up, modifying and assessing the internal control system in a pilot project covering clearly defined areas of its business. Roll out can then take place according to priorities and the availability of resources.
- iv) **Clearly define roles and responsibilities.** Responsibilities for specific controls should be clearly assigned to one department or individual to ensure that controls are not forgotten or duplicated. Staff training is a key element in ensuring the effectiveness of the ICS. Everyone has to understand that they are part of the ICS and must therefore be able to recognize significant new risks or changes in the risk situation so that corresponding controls can be implemented. Make substantial resources available during the process of implementation.
- v) **Permanently adapt the ICS to changes in the environment.** The business environment in which the organization operates is constantly changing. New risks emerge and existing ones change. Controls must be adapted accordingly. The ICS will only remain effective if risks are assessed on an ongoing basis and action is taken as necessary.
- vi) **Effectiveness of the ICS monitored by the Board and Management.** The internal control system must be monitored on an ongoing basis to ensure that controls are actually carried out and are effective. The board must ensure that the ICS is in permanent operation, updated on an ongoing basis and monitored by management.
- vii) **Realize that there is no such thing as absolute security.** An ICS always involves

weighing up the risks to which an organization is exposed and the effort and expense to which it is willing to go to address these risks. For reasons of costs and benefits, it is impossible to implement controls to minimize all risks. A residual risk always remains. What is important is that the organization's board and management know and understand this risk.

SOLUTION FIVE

5. (a) Explain the Objectives of Public Financial Management reforms

- The maintenance of aggregate fiscal discipline is the first objective of a PFM system: it should ensure that aggregate levels of tax collection and public spending are consistent with targets for the fiscal deficit, and do not generate unsustainable levels of public borrowing
- Secondly, a PFM system should ensure that public resources are allocated to agreed strategic priorities, in other words that allocative efficiency is achieved
- Thirdly, the PFM system should ensure that operational efficiency is achieved, in the sense of achieving maximum value for money in the delivery of services
- Finally, the PFM system should follow due process and should be seen to do so, by being transparent, with information publicly accessible, and by applying democratic checks and balances to ensure accountability.

5. (b) Clearly identify and explain the role of Government in the economy.

The role of Government is to provide the legal framework and services needed for the effective operation of a market economy. In the context of economic development with five parts: i.e.

- Providing a legal and social framework for economic activity-
- Providing public goods
- Regulating economic activity
- Reallocating resources; and
- Stabilising the economy

5. (c) Discuss the three critical elements needed for a successful Public Financial Management system.

- Leadership – a strong political and technical commitment, clear communication and coordination of reform, and a widening group of reform leaders who manage fears, expectations and differences of opinion.
- Policy space for developing appropriate reforms – a thorough understanding of the context, a focus on the functionality of the system and not just the form, and teams and organizations that experiment and take risks, interrogating both the problem and the proposed solutions.
- Adaptive, iterative and inclusive processes – where monitoring, learning and adaptation are key.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 5: PUBLIC SECTOR AUDITS

THURSDAY 13 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

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

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE

The Office of the Auditor General is mandated to carry out audits of all public institutions in the country. It has been observed that the same observations and recommendations are made each year in the Auditor General's Reports concerning increased misuse and misapplication of public funds.

Following the establishment of new districts around the country three years ago, there is concern that the trend of misuse and misapplication of public funds may be experienced in these newly established councils just like is the case with the existing councils. The Ministry responsible for local government has decided that consultants should be engaged to hold workshops with the controlling officers of the newly established councils on the importance of transparency and accountability in the use of public funds and the importance of internal control systems.

You work for a consultancy firm that has been engaged to run these workshops in all the new districts around the country. The lead consultant in your firm has asked you to prepare the materials that you will use in these workshops.

You have been provided with the following information about one of the old district councils.

The main source of funds for this Council are the grants received from the central government. In addition, the council collects different levies from residents. The council maintains financial records and prepares financial statements annually which are subject to audit by the Office of the Auditor General. The council has an internal audit department which carries out financial audits. Due to understaffing, the financial statements for the previous two years have not been audited by the internal auditors.

The council received a grant of K12.0 million for the construction of ten dams, one each in all the ten villages under this council. This is part of a grant from a donor received by the ministry. The council as a sub recipient signed an agreement committing to adhere to the grant conditions. The maximum amount that was supposed to be spent on each dam is K1.2 million but the average cost of each of the five constructed dams amounted to K1.8 million totaling K9.0 million. The balance of K3 million from the grant was spent on paying salaries to council employees who were in arrears.

The following information was established concerning the dams constructed:

1. Only three of the dams met the design specifications and were going to be commissioned for use. The works on the other two dams were substandard.
2. The award of the contract to build the dams was not done through competitive bidding contrary to the grant conditions and agreement. Award was through single sourcing and the basis for doing so was that the contractor selected was going to be cheaper because he is based within the district and needed no mobilization funds.

A review of the previous working papers of the last audit of this council revealed that the risk of material misstatement was assessed to be high. During the audit it was established that the controls over large volumes of inventory were poor and that there has been no inventory count at the year-end for many years.

Required:

- (a) (i) Explain the principle of accountability in the public sector. (4 marks)
- (iii) Explain how the Office of the Auditor General enhances accountability of those charged with use of public funds. (4 marks)
- (b) Using the information in the scenario, explain the meaning of value for money audits. (9 marks)
- (c) (i) Explain the meaning of financial statement assertions in the audit of public sector financial statements stating their use by the auditor. (4 marks)
- (ii) State and explain four (4) financial statement assertions relating to the figure of inventory. (6 marks)
- (d) (i) State the action your firm will take in view of the fact that risk has been assessed to be above the tolerable risk level. (3 marks)
- (ii) Explain four (4) matters that the Office of the Auditor General will consider in deciding the extent of the use of the work of internal audit. (6 marks)
- (e) Distinguish between tests of control and substantive tests in the audit of financial statements. (4 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions in this section.

QUESTION TWO

- (a) Public sector auditors give a reasonable assurance when carrying out an assurance engagement. In the case of a review engagement auditors give a limited assurance.

Required:

Explain the meaning of reasonable assurance and limited assurance in public sector audits. (6 marks)

- (b) The Department of Technical Training is responsible for overseeing technical colleges in the country. The department is funded by the government and operates autonomously under the Ministry of Education.

An audit committee has recently been appointed by the department. The committee comprises seven members as follows:

1. The Head of the institution who is chairman of the committee.
2. The three executive directors responsible for the three directorates in the department.
3. A representative from the Ministry of Education.
4. An independent member nominated by the Engineering Institute of Zambia.
5. The Director of Audits at the Office of the Auditor General.

The audit of the Department of Technical Training by the Office of the Auditor General for the year is about to commence. You have been assigned to lead a team of three auditors to undertake the audit.

There is a tight schedule and you are expected to complete the audit within a month of commencement. You are of the view that you will not have any problems meeting this deadline because the Finance Manager of the Department of Technical Training is your close friend. He worked for the Office of the Auditor General before joining the department.

The Finance Manager has informed you that he will ensure that the audit team gets the support they need and as was the case the previous year, the department will pay each audit team members a sum of K5,000.00 after the audit from the approved entertainment budget.

Required:

- (i) Identify and explain four (4) threats to the independence of the audit team and state suitable safeguards that should be applied. (6 marks)

(ii) Discuss the composition of the audit committee of the Department of Technical Education. (4 marks)

(iii) Discuss the importance of including non-executive directors in the audit committee of the Department of Technical Education. (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Write brief notes on each of the following in relation to public sector auditing:

- (i) Professional judgement (2 marks)
- (ii) Professional skepticism (2 marks)
- (iii) Objectivity (2 marks)
- (iv) Confidentiality (2 marks)
- (v) Computer Assisted Audit Techniques(CAATs) (2 marks)

(b) The government is responsible for providing social services to the people. In most cases, governments do not have sufficient funds to enable them provide all the necessary services. The international community does assist governments with funds through donor agencies.

Due to the poor rainfall in the southern part of Zambia there is a critical shortage of safe drinking water. This has adversely affected the people who depend on growing vegetables and livestock rearing. Most households have not been able to carry out their growing of cash crops and the livestock population has dropped.

The Swedish government gave the Zambian Government a grant of K2.0 million for the purpose of sinking boreholes in each of the twenty villages in the Mumbwa District of Central Province.

The agreement between the Zambian Government and the Swedish government includes the following terms:

1. The management of the funds for this project shall be in the hands of the Mumbwa District Council.
2. The council is required to maintain separate financial statements on the use of the funds and the financial statements shall be subject to a financial audit by the Office of the Auditor General and a compliance audit by private external auditors appointed by the donor.
3. The boreholes should be of 12" diameter and should not be less than 100 meters deep.

The public sector auditors in the Office of the Auditor General use sampling techniques in selecting samples for testing. Based on the result of the sample conclusions are drawn on the whole population resulting in sampling risk.

Required:

- (i) Explain the meaning of statistical and non-statistical sampling. (2 marks)
- (ii) Explain sampling and non-sampling risks in public sector auditing. (4 marks)
- (iii) Suggest the compliance audit work that should be performed in the audit of the council. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Governments in the world collect taxes from the citizens and use these funds for national development and running the government systems.

In most jurisdictions, there are three arms of government as follows:

1. The executive arm of government which is responsible for public expenditure.
2. The legislature which is responsible for passing laws and appropriating public funds through the annual budget.
3. The judiciary responsible for interpreting laws passed by the legislature.

In order to enhance transparency and accountability in the use of public funds, an international body the International Organizations for Supreme Audit Institutions (INTOSAI) recommends that governments should establish Supreme Audit Institutions whose role is to audit the use of public funds.

s 249 of the Constitution of Zambia provides for the establishment of the Office of the Auditor General by the president and ratified by parliament. Further, the Auditor General may only be removed from office on the grounds specifically contained in the constitution.

The Public Accounts Committee of the legislative arm of the Zambian Parliament which provides oversight on the use of public funds by the executive.

Required:

- (a) Explain the reasons why the appointment, duties and rights of the Auditor General are enshrined in the Zambian Constitution. (4 marks)
- (b) Explain how independence of the Supreme Audit Institution in Zambia is achieved. (5 marks)
- (c) Using the information in the scenario explain, the accountability triangle in the management of public funds. (6 marks)
- (d) Explain the composition of the public accounts committee and explain why this committee hears the responses of controlling officers mentioned in the audit reports. (5 marks)

[Total: 20Marks]

QUESTION FIVE

The Zambian government owns 70% of the shares of Precious Stones Ltd. The company is involved in the mining of emeralds on the Copperbelt and sells the emeralds by auction once a year.

Over the past three years the company has been audited by independent external auditors. The auditors have issued unmodified audit opinions. The current year audit is almost complete. There was a disagreement between the auditors and management on the valuation of inventory of precious stones. In the year under review it has been discovered that inventory is grossly overvalued at an amount of K5.0 million instead of K2.3 million. Investigations have revealed that in the last three years Precious Stones Ltd used the services of experts to carry out the valuation of inventory. It has since transpired that the Chief Executive Officer of Precious Stone Ltd owns shares in a company in which the expert company has majority shares. It was for this reason that this company was given the contract to value inventory of Precious Stones Ltd.

The auditors have concluded that the wrong valuation of inventory gives rise to material uncertainty with regards the going concern ability of Precious Stones Ltd. They have indicated that they intend modifying the current year audit opinion.

The intention by the auditors to modify the current year audit opinion has reached the government ministry responsible for the operations of Precious Stones Ltd. It has been decided that the Office of the Auditor General performs an independent audit of the financial statements of Precious Stones Ltd. It has been suggested that the Office of the Auditor General should engage an expert to carry out a valuation of the inventory.

Required:

- (a) Explain the justification that the Office of the Auditor General should carry out its own audit of the financial statements of Precious Stones Ltd despite the fact that the financial statements have been audited by independent private auditors. (4 marks)
- (b) Explain the meaning of the unmodified audit opinions previously issued by the external auditors of Precious Stones Ltd. (2 marks)
- (c) Explain the possible forms of modifications that the external auditors of Precious Stones Ltd may give. (6 marks)
- (d) Explain four (4) matters that the Office of the Auditor General should consider in appointing experts to carry out inventory valuation. (6 marks)
- (e) State the impact, if any, of the work of the expert on the audit report. (2 marks)

[Total: 20 Marks]

END OF PAPER

PFM 5: PUBLIC SECTOR AUDITS SUGGESTED SOLUTIONS

SOLUTION ONE:

a) i. The principle of accountability in the public sector:

Accountability in the public sector is the principle that those entrusted with receiving and using public funds should do so in the public interest.

This principle works as follows:

Parliament which represents the people appropriates funds to spending agencies through the annual budgets.

Once the budget is approved and funding released, the spending ministries and agencies should spend the money in accordance with the approved budget. The ministries are agents or stewards of the people to whom the funds belong. The agent or principle is required to spend funds in the best interest of the people and not for personal gain.

Through public sector auditing parliament provides oversight to the spending agencies and holds them accountable for the ways they administer public funds.

ii. The OAG enhancing accountability:

The Office of the Auditor General is the Supreme Audit Institution in Zambia. This is an independent office and is a constitutional office and is not under any ministry or spending agency.

The Office of the Auditor General conducts audits of all ministries and other agencies that receive and spend public funds. The objective of the OAG is to establish how funds are spent and it reports to the president and parliament on its findings of the audits performed.

The very existence of the OAG acts as a deterrent to misuse of public funds because the spending ministries and other agencies know that they will be subject to audit and made accountable for the use of the funds appropriated to them.

b) Meaning of value for money audits:

The public sector auditors perform value for money audits when they perform performance audits of entities.

There are three aspects considered when performing value for money audits as follows:

Economy:

Economy relates to the amount that the entity spends for goods and services that it procures.

Has the organization paid the best price for the goods/services? It is important that the users of public funds should pay the best price and not pay excessively.

Using the information in the question, the budgeted cost of constructing one dam is K1.2 million but the actual average cost is K1.8 million. Could it be that more was paid than should have been paid for building the dams? The public sector auditors in carrying out a performance audit will examine whether or not the council paid the best and economical price for goods and services.

Efficiency:

Efficiency in value for money audits relates output to the level of inputs. Has the entity obtained the maximum output from a given level of input?

The grant was supposed to be sufficient to build 10 dams but only three dams were completed and commissioned.

The public sector auditors in performing a value for money audits will wish to establish the cause of a lower than expected output from the given input of resources.

Effectiveness:

Effectiveness in public sector audits refers to meeting the desired objectives. In this case the objective was to build a dam in each of the ten villages.

Clearly in this case the objective was not met by the council in question because only five of the intended ten dams were built. Further, of the five only three that were built were commissioned for use.

c) i. Meaning of financial statement assertions:

Financial statement assertions are the claims that management of public sector entities make in the figures contained in the financial statements.

For example, using the figure of inventory appearing under current assets in the statement of financial position, management is making a claim that the inventory represented by the figure of inventory existed at the period end. The financial statement assertion is existence.

Use of financial statement assertions by the auditor:

The objective of the public sector auditor is to express an opinion on the financial statements of the entity subject to audit.

In order to form an opinion, the auditor is required to obtain sufficient appropriate audit evidence. In doing this the aim of the auditor is to confirm that the assertions that the management makes through the figures contained in the financial statements hold.

Depending on the assertions being made the auditors will design suitable audit procedures with a view to designing suitable audit procedures to test those assertions.

ii. Financial statement assertions relating to inventory:

Valuation – This is a claim that the inventory that existed at the period end has been appropriately valued in line with the provision of IAS 2 *Inventories* at the lower of cost and net realizable value.

Existence – Is a claim that the inventory recorded in statement of financial position existed at the period end.

Rights and ownership – Is a claim by management that the inventory that existed at the period end belonged to the client company and the company has the right to enjoy the benefits arising from owning the inventory.

Cut-off – This is a claim by management that inventory has been correctly accounted for at the period end. Inventory received up to the period end has been accounted for in the current year and inventory received after the period end accounted for in the next accounting period.

Completeness – This is the claim by management that all inventory belonging to the client entity has been included in the final figure for inventory.

d) i. Action to take when risk is above tolerable limit:

The action that the auditor will take in the event that audit risk is above tolerable limits depends on the type of engagement being considered.

In private sector audits the appropriate action that the auditor will take when risk is assessed to be above tolerable limit is to decline or resign from the engagement unless the risk can be reduced to acceptable levels.

In the case of the public sector auditing, risk levels will help the auditor determine the riskier areas that will require more attention. It is unlikely that in the public sector that the public sector auditor will decline or resign from an engagement when risk is considered high. Public sector auditors perform audits in the public interest and should carry out the audit regardless of the risk levels.

ii. Matters to consider in determining extent of use of work of internal audit:

- The competences and skills of staff in the internal audit department.
- The extent to which the work performed by internal audit was properly supervised reviewed and documented.

- Adequate evidence is obtained upon which conclusions are made and that the conclusions reached are consistent with the evidence gathered.
- Observations and recommendations of the internal audit are acted upon by those responsible.
- The objectivity of the internal auditors will be considered particularly the reporting lines.

e) Tests of control:

These are tests that are performed by the public sector auditor with the objective of establishing the effectiveness of the controls subject to test. The objective of the public sector auditor is to conclude on the effectiveness of the controls and decide on the other audit procedures to be undertaken.

Substantive tests:

Substantive tests are procedures undertaken by the auditor with the objective of detecting material misstatements in the figures contained in the financial statements. Auditors are required to perform substantive procedures on all material figures in the financial statements.

SOLUTION TWO

a) Meaning of reasonable assurance:

Reasonable assurance is the high level of assurance that the auditor gives in an assurance engagement. It is arrived at after performing audit tests on classes of transactions, account balances and disclosures. The form of assurance is positive in that the practitioner states that the financial statements show a true and fair view.

Meaning of limited assurance:

A limited assurance on the other hand is one in which the practitioner performs work based on limited work which is less than that performed in an assurance engagement. Limited assurance takes a negative form with the practitioner stating that nothing has come to his attention that suggests that the financial statements do not show a true and fair view.

b) i. Threats and safeguards to the audit team:

Finance Manager:

The fact that the Finance Manager of the Department of Technical Training is a close friend of the auditor poses a threat of independence due to self-interest and familiarity.

Safeguard:

A different person who does not have a close relationship with the Finance Manager should be assigned to this audit.

Finance Manager former employee of OAG:

The fact that the Finance Manager recently worked for the OAG may bring about an intimidation threat to staff who are assigned to this audit. He probably knows the audit systems and junior staff of the audit team may feel intimidated.

Safeguard:

Assigning more experienced audit team members would be appropriate in this case.

Payment of K5 000.00 to audit team members:

The promised payment of K5 000 to each of the audit team members after completion of the audit will create a self-interest threat to the audit team members and this will compromise their objectivity.

Safeguard:

The offer of the payment should be declined by the audit team.

OAG Director on audit committee:

The membership to the audit committee of the Director in charge of audits in the OAG is an ethical issue in that he will be taking a management role in the audited entity. This gives rise to a self-interest threat to the independence of the public

sector auditor. It is likely that the working papers of the audit of the Department of Technical Training will be reviewed by him.

Safeguard:

The Director should not accept appointment to the audit committee of the Department of Technical Education. If he is already a member he should resign from the audit committee.

ii. Composition of the audit committee of the Department of Technical Education:

The composition of the audit team of the Department of Technical Training is not balanced and not in line with best practice as follows:

- The Head of the institution who is chair of the committee may not be objective in that among other duties the committee will review the financial statements and the internal controls of the department. He may want to defend the status quo.
- The same applies to the three directors who each head a directorate of the department. They are unlikely to criticize themselves when they are sitting as an audit committee. They have a self-interest to protect themselves.
- The representative from the Ministry and the independent member are the only ones who are independent and likely to bring positive contributions.

The audit committee should be more balanced with more independent members than is currently the case.

iii. Importance of independent audit committee members:

- The independent non-executive directors in the audit committee will be more objective in that they are independent of the institution.
- The non-executive directors are unlikely to be intimidated by any member of the executive and so will contribute freely in the deliberations of the committee.
- The independent non-executive committee members will work in the interest of the shareholders and will take the executive board members to task over how they are running the department on behalf of the shareholders.

SOLUTION THREE

a) Brief notes:

i. Professional skepticism:

This is the requirement that the auditor should remain alert during the course of the audit and look out for evidence that contradicts other evidence.

ii. Professional judgement:

This is the use of skills and knowledge that the auditor possesses in making decisions during the course of the audit. For example making conclusions from available evidence is a matter of professional judgement.

iii. Objectivity:

This is one of the fundamental principles that public sector auditors are supposed to observe.

Objectivity requires that the auditor should not be biased or influenced by others in the performance of their duty.

iv. Confidentiality:

Confidentiality requires that the public sector auditor should not disclose to third parties information that comes to them during the course of their work without the consent of the client. Public sector auditors come across confidential information during the performance of their work and they are required to observe confidentiality.

v. Computer Assisted Audit Techniques:

CAATs are the use by the auditor of technology and computers in performing audits.

There are two types of CAATs namely audit software and test data. With increased use of IT auditors are increasingly making use of CAATs to perform audits and the use may include using CAATs in performing substantive tests and also making use of CAATs in extracting samples for testing.

b) i. Statistical sampling:

Statistical sampling is the random selection of the sample items and uses probability theory to evaluate the sample results including the measurement of sampling risk.

In statistical sampling, each sampling unit in the population stands an equal chance of being selected.

An example of statistical sampling is random sampling or systematic sampling.

Non-statistical sampling:

This is any other sampling method other than statistical sampling. This method removes probability theory and is dependent on the judgment of the auditor.

ii. Sampling risk:

This is the risk faced by public sector auditors that the conclusions reached based on results of a sample may be different from the results that would have been reached if the entire population was subject to the same audit procedures.

Erroneous conclusions could be reached in the following two situations:

- The auditor concludes that controls are operating effectively when in fact they are not or in the case of substantive tests that material misstatement do not exist when in fact they do.
- The auditor concluding that the controls are not operating effectively when in fact they do and in terms of substantive testing the auditor concludes that a material misstatement exists when in fact not.

Non-sampling risk:

This is the risk that the auditor arrives at a wrong conclusion for reasons other than sampling.

For example the auditor adopts inappropriate audit procedures and because of that is unable to detect material misstatements.

iii. Compliance audit procedures:

- Establish that the size of all the boreholes sunk are of 12" diameter as per agreement.
- Confirm that the depth of the boreholes is the agreed 100 meters and that the correct casing pipes have been used.
- Confirm that the boreholes were sunk at designated and agreed places and not in other locations.
- Confirm that the expenditure per borehole is within the agreed budget.

SOLUTION FOUR

a) Why appointment, duties & rights of head of AOG in constitution:

The objective of the Office of the Auditor General is to perform audits of all institutions that receive and spend public funds.

Parliament appropriates funds to the executive and other agencies and funds are supposed to be spent in accordance with the approved budget.

In order for the Auditor General to perform the duty of checking on how spending agencies use public funds, the Auditor General should not fear that he/she will be victimized. It is for this reason that the appointment of the Auditor General is enshrined in the constitution. This way he is assured of tenure of office and so should perform his work without fear.

The duties of the Auditor General are also in the constitution to avoid any dispute when performing their duty. The constitution clearly specifies the institutions that are supposed to be subject of audit by the OAG.

In order to perform the work effectively, the Auditor General needs to have rights which are enshrined in the constitution. If the rights were not in the constitution then information would be unjustifiably withheld from the Auditor General making his work difficult.

b) Independence of the OAG in Zambia:

- The office of the Auditor General does not belong to any ministry and so has some independence to enable it perform its duties objectively.
- The Auditor General reports to the president and parliament and publishes its reports for public scrutiny.
- Removal of the Auditor General can only be done in line with constitutional provisions.
- The Auditor General and his officers are protected from prosecution for work that they do in their official capacity.

c) The accountability triangle:

The accountability triangle comprises three elements as follows:

Parliament- Which is the legislature appropriates funds to government and other government agencies through the annual approved budgets. Parliamentarians are representatives of the people and perform this function on behalf of the people.

Parliament, further gives oversight on how the executive and other agencies spend public funds. Public funds are held in trust in public interest.

The executive & other government agencies – These are stewards or agents of the general citizenry of the country. They are required to use public funds for the benefit of the general citizenry. They are required to spend funds in accordance with the approved budget by parliament.

The Supreme Audit Institution (SAI) – This is an independent body which is independent and not under any spending agency.

The OAG has been conferred with the responsibility by parliament to check on spending agencies and hold them accountable for the use of public funds. The auditor after auditing the public agencies reports to the president and parliament on their findings.

d) Composition of the public accounts committee:

The public accounts committee comprises of members of parliament who are the representatives of the people. The committee comprises of members who do not hold executive positions such as that of a minister.

It is for this reason that the committee is to a large extent independent and objective in the performance of its functions.

Why committee hears responses from controlling officers:

The Public Accounts Committee is a committee of parliament. Parliament is responsible for the appropriation and conferring of responsibilities of funds to spending agencies through the annual budget.

Parliament also confers responsibility to the Auditor General to check on how the spending agencies execute the responsibility that has been conferred on them. Parliament receives the report of the Auditor General, it hears the controlling officers and give them an opportunity to respond to the finding of the Auditor General.

SOLUTION FIVE

a) OAG audit of financial statements of Precious Stones Ltd:

The Office of the Auditor General has the mandate to audit government ministries and other agencies that receive and spend public funds.

The external audit that is performed by private auditors is with a view to forming an opinion on the financial statements. The scope of such audits is limited to matters that relate to the financial statements.

The government owns 70% shares in Precious Stones Ltd. These are public funds that were invested in Precious Stones Ltd. The OAG is the 'external auditor' of public institutions.

The scope of the OAG is much wider than that of private sector external auditors.

Conclusion:

The OAG is mandated by the constitution to audit all government ministries and other agencies that spend public funds. Despite the fact that private external auditors have audited the financial statements of Precious Stones Ltd the company is still subject to public sector audits.

b) Meaning of unmodified audit opinion:

An unmodified audit opinion is given by the auditor when the auditor has concluded that the financial statements have been prepared in accordance with the relevant financial reporting framework. In other words the auditor concludes that the financial statements show a true and fair view.

Guidance on the form and format of the Unmodified audit opinion is ISSAI 1700 *Forming an opinion and reporting on financial statements*.

c) Forms of modifications:

ISSAI 1705 *Modifications to the opinion in the independent auditor's report* gives the public sector auditors guidance on modified audit opinions.

The auditor issues a modified opinion when he has an issue of concern. The form of modification that the auditor will use depends on two factors namely the materiality of the matter of concern and the pervasiveness of the matter on the financial statements.

There are three forms of modifications which result in modified opinions as follows:

The qualified opinion:

A qualified opinion is issued under two situations as follows:

- The auditor has obtained sufficient appropriate audit evidence and has a matter of concern which is material but not pervasive to the financial statements.
- There has been a limitation of scope and the matter is material but not pervasive to the financial statements.

The wording of a qualified opinion is that 'Except for (the matter of concern) the financial statements show a true and fair view'.

The adverse opinion:

An adverse opinion is issued when the matter of concern is material and pervasive to the financial statements. An adverse opinion is issued when the auditor has obtained sufficient appropriate audit evidence and concludes that the financial statements have not been prepared in accordance with the relevant financial reporting framework.

The wording of the adverse opinion is that 'The financial statements do not show a true and fair view'.

The disclaimer of opinion:

A disclaimer of opinion is issued by the auditor when there has been a limitation of scope and the auditor has not obtained sufficient appropriate evidence and he concludes that the matter of concern is both material and pervasive to the financial statements.

The wording of a disclaimer of opinion is, 'We are unable to form an opinion.. .'.

d) Matters to consider in appointing experts:

- The independence of the expert with both the public sector auditor and the entity subject to audit.
- The qualifications of the expert and whether he is a member of the relevant professional body of the profession he belongs to.
- Whether he has performed similar work elsewhere by obtaining relevant references.

e) Impact of the work of the expert on the audit report:

The public sector auditor is responsible for the audit opinion that he issues. Despite the fact that he may engage experts to perform some aspects of the audit work the auditor is not required to mention this in the audit report.

END OF SUGGESTED SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

MONDAY 10 JUNE 2019

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

INSTRUCTIONS TO CANDIDATES

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

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A

This is a compulsory question and must be attempted.

QUESTION ONE

The Appropriation Act No. 1 of the 2017 budget for the Government of Country X was passed by parliament on 15 of December 2017. The Ministry of Justice of Country X prepares a statement of comparison of approved budget and expenditure (Statement C) as part of financial statement in accordance with International Public Sector Accounting Standards (IPSAS 1) presentation of financial statements. The approved estimates of the annual expenditure of the Ministry of Justice is shown below. Also shown is the actual expenditure of the 1 Quarter (January to March 2018).

	Approved Estimates K'000	Actual Expenditure K'000
Personal Emoluments	68,280	54,475
Non-Personal Emoluments	23,416	53,534
Overtime	4,088	5,294
Electricity charges	5,480	6,294
Water Charges	6,480	5,159
Telecommunications	1,886	4,957
Postal Charges	6,500	8,039
Stationery	9,076	8,262
Travel Allowance	60,500	19,285
Maintenance of Office vehicles	40,400	20,822
House Rentals	1,936	4,453
Maintenance Equipment	18,000	7,655
Insurance	1,956	2,057
Training and Conferences	80,000	91,376
New Building	180,000	75,000
	507,998	366,662

Required:

- (a) Prepare quarterly comparative statement of Authorised provision and Actual expenditure (Statement C) for the quarter ending 31 March 2018. (16 marks)
- (b) During the review of the comparative statement of Authorised provision and Actual Expenditure (Statement C) by the Internal Auditor it was revealed that the annual appropriated amounts for some budget lines were overspent. It was proposed to management that a supplementary budget should be prepared and laid before parliament.

State and Explain circumstances that may give rise to the request of supplementary estimate (8 marks)

- (c) The Government of country X uses cash basis Internal Public Sector Accounting Standards (IPSASs) of accounting to prepare the financial statements. The Ministry of Finance of Country X held a stakeholders meeting to discuss the current weaknesses in their reporting framework. During the meeting, one of the weaknesses that was noted was that cash basis of accounting does not reflect the assets and liabilities of the country. The stakeholders have insisted that the Government considers transitioning to accrual based IPSAS of accounting.

Required:

You are Director of Finance in the Ministry of Finance, prepare a presentation to stakeholders outlining what information cash basis IPSAS provides to readers and key factors that are likely to affect adoption work of moving from cash basis to accrual based IPSASs. (16 marks)

[Total: 40 Marks]

SECTION B

Attempt any THREE (3) questions in this section.

QUESTION TWO

IPAS 2 *Cash Flow Statements* requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flow statements are significant to both internal and external users of financial statements.

You are required to:

Describe the benefits of Cash Flow Information to:

- (a) Internal users of financial statements (10 marks)
- (b) External users of financial statements. (10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Explain the following terms used as guiding principles in the International Public Sector Accounting Standards (IPSAS) 13 – Leases and 32 - Accounting for Public Private Partnership.
 - (i) Service Concession Arrangement (2 marks)
 - (ii) Lease (2 marks)
 - (iii) Recognition of Revenue (2 marks)
 - (iv) Economic life of an Asset (2 marks)
- (b) IPSAS 14 provides guidance on how to handle events that occur after the end of the reporting period but before the date on which the financial statements are authorised for issue. Outline the main elements of this IPSAS Accounting treatment and give examples of such events. (6 marks)
- (c) The Office of the Auditor General of Country Z in the annual accounts of the financial year ending 2017, raised a number of queries regarding financial mismanagement at the Ministry of Agriculture. The audit queries raised were regarding misapplication of funds, misappropriation of funds, unretired imprest, delays in preparation of bank reconciliation and misrepresentation of financial statements.

You have been appointed as Director Finance in the Ministry of Agriculture and the Controlling Officer has requested that you prepare a memo to his office explaining the following:

- (i) Public Accountability. (2 marks)
- (ii) Mechanisms of ensuring public accountability in the public sector. (2 marks)
- (iii) Three corporate governance principles commonly used in public sector financial management. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Describe any seven reasons why Performance and Financial Management would be significant in a transition towards IPSAS. (14 marks)
- (b) Explain any two ways in which each of the following assist in performance management in the public sector in Zambia: The auditor general, the accountant general and the secretary to the treasury. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) The Financial Report of Country Y was presented to Parliamentary committee for discussion. However the Members of Parliament could not proceed to discuss the report because they could not comprehend certain terminology and they felt certain entities should not be included in the financial report.

You are Treasury Advisor at the Ministry of Finance, and the Accountant General has requested that you make a presentation to the Accountants outlining:

- (i) The qualitative characteristics of information to be included in the General Purpose Financial Report (GPFs) of public sector entities. (16 marks)
- (ii) Key Characteristic of a Public Sector Reporting Entity. (4 marks)

[Total: 20 Marks]

END OF PAPER

PFM6 SUGGESTED SOLUTIONS

SOLUTION ONE

(a)	STATEMENT C- COMPARATIVE OF APPROVED BUDGET AND ACTUAL EXPENDITURE FOR THE QUARTER ENDING 31ST MARCH 2018			
		Approved Estimates K'000	Actual Exp. K'000	Variance K'000
	Personal Emoluments	68,280	54,475	13,805
	Non-Personal Emoluments	23,416	53,534	(30,118)
	Overtime	4,088	5,294	(1,206)
	Electricity charges	5,480	6,294	(814)
	Water Charges	6,480	5,159	1,321
	Telecommunications	1,886	4,957	(3,071)
	Postal Charges	6,500	8,039	(1,539)
	Stationery	9,076	8,262	814
	Travel Allowance	60,500	19,285	41,215
	Maintenance of Office vehicles	40,400	20,822	19,578
	House Rentals	1,936	4,453	(2,517)
	Maintenance Equipment	18,000	7,655	10,345
	Insurance	1,956	2,057	(101)
	Training and Conferences	80,000	91,376	(11,376)
	New Building	180,000	75,000	105,000
		507,998	366,662	141,336

1b	State and Explain circumstances that may give rise to the request of supplementary estimate.
	<ul style="list-style-type: none"> i. When the head of the department considers the budget of existing activities for the financial year to be insufficient he/she shall prioritize the activities and ensure that only critical activities are carried out. However, if the prioritization will affect the output the minister shall apply for supplementary estimate. ii. Introduction of activities that are considered to be of public interest during the implementation of the budget. iii. General increase in cost of activities. iv. Unforeseen natural occurrence such

1c	You are Director of Finance in the Ministry of Finance, prepare a presentation to stakeholders outlining what information cash basis IPSAS provides to readers and key factors that will be likely to affect adoption work of moving from cash basis to accrual based IPSASs.
	<p>Information Cash Basis IPSAS provides:</p> <ul style="list-style-type: none"> i. Information about the sources of cash raised during the period. ii. The purposes for which it was used iii. Cash balances at the reporting date. <p>Key Factors that are likely to affect adoption work of moving to accrual based IPSASs:</p> <ul style="list-style-type: none"> i. The level of political commitment to the adoption of accrual accounting ii. The capability of existing information systems iii. The completeness and accuracy of existing information particularly in relation to assets and liabilities iv. Any change to the basis of accounting for budgeting v. The capacity and skills of the people and organizations responsible for implementing the changes.

SOLUTION TWO

IPAS 2 Cash flow statements

Information about the cash flows of an entity is useful in assisting users to predict

- (a) The future cash requirements of the entity,
- (b) Its ability to generate cash flows in the future, and
- (c) Its ability to fund changes in the scope and nature of its activities.
- (d) A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.
- (e) A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
- (f) It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.
- (g) Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.
- (h) Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows.
- (i) assessing the entity's compliance with legislation and regulations (including authorized budgets where appropriate), and
- (j) Making decisions about whether to provide resources to, or enter into transactions with, an entity.

SOLUTION THREE

3a.	Explain the following terms used as guiding principles in the International Public Sector Accounting Standards (IPSAS) 13 – Leases and 32 - Accounting for Public Private Partnership
	<ul style="list-style-type: none"> i. Service Concession Arrangement: This is a binding arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement. ii. Lease : This is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. iii. Recognition of Revenue : All revenues are recognized evenly over the term of the arrangement. Revenues are recognized as reduction of liability. iv. Economic Life of an Asset : The period over which an asset is expected to yield economic benefits or service potential to one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.

3b	Outline the main elements of this IPSAs , Accounting treatment and giving examples of events.
	<ul style="list-style-type: none"> i) Elements: <ul style="list-style-type: none"> Adjusting Events: Those that provide information concerning conditions which existed at the reporting date Accounting Treatment: Financial Statements are adjusted to reflect these events. Example of Event: Settlement after the reporting date, of a court case that confirms that the entity had a present obligation at the reporting date. ii) Element <ul style="list-style-type: none"> Non-Adjusting events: These give information about conditions that did not already exist at the reporting date. Accounting Treatment: Financial Statements are not adjusted to reflect these events, but if material they should be disclosed in the notes. Examples of Event: Decline in market value of an investment that reflects circumstances that have arisen after the reporting date. The announcement of major government reorganization.

3c	<p>Prepare a memo to his office explaining the following:</p> <p>i. Public Accountability</p> <p>ii. Mechanisms of ensuring public accountability in the public sector</p> <p>iii. Three corporate governance principles commonly used in public sector financial management</p>
	<p>i) Public Accountability is the ability to call public officials to answer for their actions and inactions and to show evidence that public funds are utilized for public interest.</p> <p>ii) Mechanisms for ensuring public accountability</p> <ul style="list-style-type: none"> • Disclosure – making information available to stakeholders; • Organisational structure – Defines clearly the authority and responsibilities of office holders; • Reporting – provision of financial, administrative and other relevant reports to government and other stakeholders; • Transparency – making information available at no or low cost to stakeholders; • Predictability – adherence to law and regulations that are clear and known in advance, uniformly and effectively enforced. <p>iii) The principles of corporate governance are as follows:</p> <ul style="list-style-type: none"> • Standards of Behaviour: These are leadership, codes of conduct, objectivity, integrity and honesty. • Organisational Structures and Processes: These include statutory accountability, accountability for public money and communication with stakeholders. - Compliance with legal rules. • Control: They include Risk Management, Internal Audit, Audit Committees and external audit process; - Effective systems of risk management must be established; - Effective internal audit function must be established; - There must be independent review of controls by Audit Committees. • External Reporting - Need for timely publishing of financial statements and results of operations; - Need for responsibility accounting, responsibility for approval of budget, authorization of use of funds, maintenance of effective framework of Internal control; Adherence to applicable accounting standards; - External Auditors should ensure objectivity and professionalism in their work.

SOLUTION FOUR

(a) Part a

Point
Assessing whether IPSAS are useful
Assessing whether IPSAS are easier to use than IFRS
Better presentation of results
Improving public sector accountability
Helps improve transparency
Increases stakeholder confidence
Provides motivation for developing blueprints for transition
Any other valid point (2 marks up to a maximum of ...)

(b) Part b

Point
The auditor general Auditing of financial statements helps make people accountable for their performance Strengthens accountability and transparency in the public sector
The accountant general Financial policies development for improved financial performance Helps with timely coordination of government accounts
The secretary to the treasury Ensuring implementation of recommendations of Parliamentary Committee on Public Accounts Releasing of funds from the consolidated Fund for appropriation by controlling officers
Any other valid point (1 mark up to a maximum of ...)

SOLUTION FIVE

Outline :

- i. The qualitative characteristics of information to be included in the General Purpose Financial Report (GPFs) of public sector entities.**
- ii. Key Characteristic of a Public Sector Reporting**

The qualitative characteristics of information to be included in the General Purpose Financial Report (GPFs) of public sector entities.

- i. Relevance:** Information is relevant if it is capable of making a difference in achieving the objective of financial reporting. Information has to be of confirmatory value, predictive value or both.
- ii. Faithful Representation:** This is attained if information is complete, neutral and free from material error.
- iii. Neutrality:** The financial report should not influence a users' assessment of the discharge of accountability by the entity or a decision or judgement that is to be made in a particular way.
- iv. Free from Material error:** Free from material error means there are no errors or omissions that are individually or collectively material in the information presented and the process used to produce the reported information.
- v. Understandability:** Information should be presented in a manner that responds to the needs and knowledge base of users and the nature of the information presented. Information should be classified, characterized and presented clearly and concisely.
- vi. Timeliness:** Information should be made available to users before it loses its capacity to be useful for accountability and decision making purposes.
- vii. Comparability:** Information must enable users to identify similarities in, and differences between, two or more sets of information. Information about the entity's financial position, financial performance, cash flows compliance with approved budgets and relevant legislation is important for accountability purposes and useful as inputs for decision making purposes.
- viii. Verifiability:** Information must assure users that information in the GPFs faithfully represents the economic and other phenomena that it purports to represent. It must also assure users that appropriate recognition, measurement or representation method has been applied without material error or bias.

Key Characteristic of a Public Sector Reporting

- i.** It is an entity that raises resources from, or on behalf of, constituents and/ or uses resources to undertake activities for the benefit of, or on behalf of, those constituents
- ii.** There are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision making purposes.

END OF SOLUTIONS