



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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**DIPLOMA LEVEL**

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PFM 1: PUBLIC SECTOR ACCOUNTING

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MONDAY 14 JUNE 2021

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO (2) 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**

Transparency and accountability in the usage of public resources is a minimum expectation of key stakeholders in the public sector. Public sector bodies have the responsibility of raising revenue and incurring expenditure in line with the provisions of the law and other applicable benchmarks. While the above is true, the public sector needs to raise enough resources to meet its mandate of providing public goods and services to all target beneficiaries.

Beginning from the first quarter of 2020, many countries have been experiencing the negative impact of covid-19 on their economic performance and trading activities. Business in the public sector cannot continue at the usual pace. Deliberate steps should be undertaken to address the impending crisis which is likely to lead to budget deficits.

The private sector, which is the major source of government revenue, has not been spared by the pandemic and governments across the globe have registered significant decrease in revenue collections.

Public officers will need to do more, to meet budget targets. Innovation on how resources should be raised and spent to the greater benefit of the public must be on top of the public sector agenda. Leadership is now required to address how governments will overcome cash flow deficits in the near future.

You were invited in your capacity as a senior finance expert as one of the facilitators at a public sector financial management held in Livingstone on 15<sup>th</sup> December, 2020. The theme of the workshop was *'Enhancing revenue collection and maximising resource utilisation in the public sector'*. Delegates from different government ministries, departments and bodies needed to be trained on new and improved ways of resource mobilisation and public spending.

Such a presentation required detailed knowledge of public sector financial management systems and the need for ethical behaviour among public sector officers.

#### **Required:**

- (a) State and explain any five (5) functions of a good public sector financial management system. (10 marks)
- (b) Discuss any five (5) ways of improving collections of tax revenue (10 marks)
- (c) Discuss any five (5) challenges faced by the public sector in effectively utilising non-tax revenue (10 marks)
- (d) Discuss the five (5) threats to the ethical principle of objectivity of a public Accountant. (10 marks)

**[Total: 40 Marks]**

## **SECTION B**

**There are FOUR (4) questions in this section. Attempt any THREE (3) questions.**

### **QUESTION TWO**

- (a) Briefly discuss the scope of Public Finance Management (PFM) and state why it is increasingly becoming vital in the Governance process in the public sector. (2 marks)
- (b) Discuss Four (4) subdivisions of the thematic area of Public Finance. (8 marks)
- (c) Briefly explain the ten (10) primary functions of a financial management system. (10 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

Record keeping is a legal requirement in the public sector. If records are not in order, the risk of ineffectively managing public sector entities is increased.

Environmental activists and many other stakeholders are calling for the implementation of the green office which seeks to eliminate the extensive usage of paper in public offices. This idea has not been well received by the public sector partly because of the cost of cyber risk associated with the electronic storage of data.

#### **Required:**

- (a) Explain seven (7) disadvantages of an electronic recording system. (14 marks)
- (b) Explain three (3) exceptional circumstances which may permit the breach of the rule of confidentiality. (6 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) Define Tax revenue and non-tax revenue of the central government. (2 marks)
- (b) Briefly state Four (4) sources of both tax revenue and non-tax revenue and give examples under each type. (8 marks)
- (b) Using Double Entry Accounting, indicate the five (5) fundamental rules of recording accounting entries. (10 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

Accounting regulation promotes uniformity in accounting practice and secures public confidence in the work of accountants. Regulation can also enhance the reliability of public sector accounting information.

#### **Required:**

- (a) State and explain five (5) advantages of global harmonisation of financial reporting standards in the public sector. (10 marks)
- (b) Briefly explain five (5) ways through which Parliament provides legislative control over the spending of public funds. (10 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

Part (a) five (5) functions of a good public sector financial management system

#### **Macro fiscal planning**

Establishes the policies objectives and needs for financial resources and forward-looking strategy for revenue and expenditure. This is an economic framework that links growth of national income, savings and investments and balance of payments to public expenditure.

#### **Budget preparation**

A budget is basically a financial plan or tool used for national economic and fiscal planning and for controlling fund usage of funds.

#### **Budget implementation**

Budget implementation takes place after approval from the legislature. At this stage funds are released to spending agencies to be incurred in line with the approved budget.

#### **Budget monitoring and evaluation**

This includes comparing expected results against actual results as far as budget implementation is concerned. Any variances established provide meaningful feedback to the planning and policy function for proactive remedial action.

#### **Cash management**

Cash management provides information on the liquidity position of the government as well as the amount of cash needed. With this information, the public sector should be able to take proactive measures to avoid cash related hick ups in the public sector.

#### **Debt management**

This includes the management of all transactions relating to external loans contracted by the public sector. Debt management information is crucial for assessing the cost of debt servicing and the need to prepare to pay off any maturing loans in the near future.

#### **Foreign aid management**

Ensures that foreign aid projects are implemented in line with stakeholders' expectations.

#### **Revenue administration**

Executes tax and non-tax collection policies within the ambit of the law. Tax administration ensures that the public sector collects the targeted receipts from different sources.

#### **Accounts administration**

Accounts administration helps government to assemble and analyse accounting information in order to aid financial planning, decision making and control in the public sector.

#### **Auditing**

Auditing focuses at ensuring that the financial information prepared and presented, gives a true and fair view of public sector financial affairs.

Part (b)

Enhancing the collection of tax revenue

### **Offer of tax amnesty**

Tax amnesty (offer of limited time to tax clients to clear outstanding tax balances in exchange for forgiveness of tax relating to previous periods) is an effective way of encouraging tax compliance. If many tax payers contribute something towards the national treasury, significant amounts of cash can be raised.

### **Tax sensitisation**

Regular tax sensitization programs should be undertaken and communicated in layman's language (local language) to appeal to the tax clients to pay outstanding taxes. Such promotions or sensitization programs should anticipate push back as many tax payers don't like the idea of paying tax.

### **Publishing testimonies of benefits of tax compliance**

Testimonies of how firms have benefited by being fully compliant with tax legislation can help to shift perceptions on the need to pay the right amount of tax. The public sector should consider offering incentives to fully compliant tax payers.

### **Simplification of tax procedures**

A simple tax system which can be understood by literally anybody will encourage tax compliance and can help to enforce tax provisions. Unnecessary complex procedures should be identified and replaced with simpler processes to help improve service delivery.

### **Introduce account managers for big tax payers**

In the recent past government has expressed concern over the levels of tax compliance for firms in the mining sector. Such concern should lead to the creation of accounting managers for big firms who would proactively engage the big tax payers on tax compliance matters.

### **Create external check which enforce tax compliance**

The informal sector remains untapped grounds as far as tax compliance is concerned. The public sector should work with the local government agencies to ensure that more tax payers are included in the tax payers register for easy enforcement of tax law.

### **Use electronic channels for simple transactions**

Simple taxes can be paid using online platforms even before a return is completed. This could prevent the misallocation of funds meant for tax contribution.

Part (c)

Challenges of effectively utilising non-tax revenue

### **Misappropriation of funds**

Funds meant for capital projects could be used for revenue projects or indeed for other purposes outside the original intention. Such decisions are a draw back on national development because the omitted project will still require resources in future perhaps at a higher cost during times of inflation.

### **Corruption**

Corruption is a cancer to any economy and now takes many facets. Exaggerating invoice values, buying substandard inputs, collusion between public officers and third parties can greatly negate service delivery in the public sector.

### **Lack of budget adherence**

A lack of budget discipline could easily lead to wastage of resources. All expenses outside the budget should not be considered unless there is a necessity to do so.

### **Lack of Follow up**

Projects which are still in progress require follow up to ensure timeous completion and quality control. Finance officers cannot take the back role and claim to authorise payments for projects they have never inspected.

### **Adherence to approved supplier list**

Public sector bodies must come up with an approved supplier list which should reflect the quality of suppliers who should partner with government in the provision of public goods or services.

### **Political interference**

Political interference unfortunately remains a conspicuous constraint in the utilisation of resources in the public sector. If left unchecked, political interference can have a negative effect on workers' motivation and drive. In the end, the service beneficiaries are the ones who take the greater burden if projects don't complete on time due to political interference.

Part (d)

Five threats to objectivity

### **Self-interest threat**

Arises when an official has beneficial interest in a reporting entity where they are part of the group responsible for the preparation and presentation of accounting information. A professional accountant may have financial or other interest including a close relationship with a person working for a reporting entity.

### **Self-review**

Self-review arises where a professional accountant undertakes work which may need to be reviewed by themselves in the near future. Self-review threat is likely to arise in an institution with less members of staff.

**Intimidation threat**

An intimidation threat could arise between an Accountant and their superior where for instance, a superior demands that the junior officer covers his mistakes or fraudulent actions failure to which the junior officer should not expect to receive a positive appraisal.

**Advocacy threat**

A professional Accountant should avoid taking advocacy roles at work. Advocacy tasks such as representing the organisation in deals, court cases should be left to the appropriate persons within an organisational setting.

**Familiarity threat**

Familiarity threat arises when a professional Accountant is more concerned with the needs of the reporting entity rather than the objectivity of their work. Long association within a public sector body would give rise to familiarity threat.



## **SOLUTION TWO**

(a) Meaning of Public Finance Management (PFM)

This basically deals with all aspects of resource mobilization, allocation and expenditure management in government. It is an essential part of public funds governance process. Public finance management includes resource mobilization, prioritization of programs, the budgetary process, efficient management of resources and exercising controls. Rising aspirations of people are placing more demands on financial resources. At the same time, the emphasis of the citizenry is on value for money, thus making public finance management increasingly vital.

(b) The following subdivisions form the subject matter of public finance.

(i) PUBLIC REVENUE

This is the income received by a government. Sources of Public revenue includes taxes levied on the incomes and wealth accumulation of individuals and corporations and on the goods and services produced, exports and imports, non-taxable revenue sources such as fees, charges, fines etc. as well as income from government owned enterprises, central bank and capital receipts in the form of external loans and debts from international financial institutions. Public Revenue is income realized by the government for purposes of financing public administration.

(ii) PUBLIC DEBT (Government debts, National debt and Sovereign debt)

This is the debt owed by a Central Government. It may also refer to the debt of a state, municipal council or local government. By contrast, the annual "government deficit refers to the difference between government receipts and spending on a single year, that is, the increase of debt over a particular year.

Government debt is one method of financing government operations, but it is not the only method. Governments usually borrow by issuing securities, government bonds and bills.

The debt which government owes to foreign lenders or external sources outside the country is known as external debt and that which is owed to local lenders is called domestic debt.

A broader definition of government debt may consider all government liabilities, including future pension payments and payments for goods and services the government has contracted but not yet paid.

(iii) PUBLIC EXPENDITURE

This is spending made by the government on public goods and services such as roads, railway lines, telecommunications etc. Public spending aims at providing maximum welfare to the people while private spending aims at maximizing profit and shareholder wealth.

There are two types of public spending i.e:-

1. Real Spending

This refers to the spending of the government to buy goods and services, for example buying books for schools, buying medicines for hospitals, constructing houses for government employees etc.

2. Transfer Payments

This refers to the payment made to households and private enterprises by government. This may include unemployment benefits, child benefits, state pension, investment grants etc. Transfer payments are so called because they transfer income from one group of people (tax payers) to another group of people.

(iv) CURRENT AND CAPITAL EXPENDITURE

Current expenditure refers to the day to day running expenditure of the public sector and may include salaries for civil servants, cost of medicines and stationery, while Capital expenditure refers to government investment in infrastructure such as roads, schools, hospitals etc.

(c) A Financial Management System can be broken down into ten functions. Together, these functions make up the financial management cycle.

(i) Macro-fiscal planning establishes the policy objectives and needs for financial resources and a forward-looking strategy for revenue and expenditure. It is the first step towards preparing the budget and involves contributions from line ministries as well as from the ministry of finance and other central agencies.

(ii) Budget preparation involves allocating resources to achieve the objectives of government. It is a management tool for national economic and fiscal planning and for controlling the use of funds to ensure that the stated objectives can be met. The budget preparation process is most successful when linked to a longer term macro-fiscal plan.

(iii) Budget implementation follows approval of the budget by the legislature, when funding allocated to specific areas and items of expenditure can take place.

(iv) Budget monitoring and evaluation provides a method of feedback to the fiscal planning and policy area. Linking budgeting to accounting enables financial managers to receive the feedback needed to adjust planned activities to expected resources.

(v) Cash management is an integral part of financial management. It provides an up-to-date picture of the amount of cash in government accounts and the amounts of cash needed. Cash management compares data from cash flow

forecast and fiscal reports to data on cash balances, government bonds, treasury bills and cash deposit maturities. In many countries, cash management tends to occur at a high level involving the central bank (or similar body).

- (vi) Debt management involves managing all transactions relating to external loans. It also serves as the mechanism for calculating the future cost of servicing the debt.
- (vii) Foreign aid management matches aid agencies to projects and oversees the process of project negotiations and implementation.
- (viii) Revenue administration executes tax policies through the levy and collection of revenues (including taxes, duties etc) as stipulated by these policies. It also involves the valuation and collection of non-tax revenues; such as stamp duties or charges for government services.
- (ix) Accounts administration is the means by which government assembles and analyses accounting information to help it to control business, safeguard assets, prepare financial statements and comply with legislation.
- (x) Auditing is the means of reviewing the accuracy and reliability of financial information produced by financial management functions.

### **SOLUTION THREE**

#### Part (a)

Explain seven disadvantages of an electronic recording system

- Increased risk of loss of records due to system failure or hacking activities
- Need to employ the service of an IT savvy person (company) to help implement the electronic recording system.
- Increased risk of security breaches. Abused security protocols could go unnoticed due to lack of technical IT knowledge on the part of system users.
- Unauthorised alteration or deletion of records could easily take place where system security measures are weak.
- Public embarrassment remains a great concern because electronic information can easily be shared with masses on internet or social media.
- Where the system is deliberately slowed down by third parties, consumers will need to wait for a long time to be served after the service is restored.
- Confidentiality concerns remain a key reason for push back on the implementation of electronic record systems.
- Lack of audit trail as records are hidden in electronic files could also be another reason for not adopting an electronic record system.

#### Part (b)

When the rule of confidentiality may be breached;

The rule of confidentiality can only be broken if a professional Accountant:

- Has obtained express consent from their client or employer to give information to a third party
- Is obliged to provide information to third parties under a given law
- Has a public duty to provide information to a third party i.e. if they aware of illegal actions being undertaken by their client or employer
- Is defending themselves in the courts of law

## **SOLUTION FOUR**

(a) Tax Revenue definition

This is income earned by Government through taxation.

Non-Tax Revenue definition

This is income earned by Government from sources other than tax revenue.

(b) Sources and examples of Tax revenue

- (i) Income tax through Pay as you Earn (PAYE). This is tax on the earnings of individuals.
- (ii) Corporation tax. This is tax charged on the profits or earnings of business enterprises.
- (iii) Sales tax which is a tax on sales i.e. turnover tax.
- (iv) Value Added Tax (VAT) – This is tax on supply of goods and services.
- (v) Property Transfer Tax which is charged on the sales value of a property at the point of sale.
- (vi) Customs duties which are taxes levied on imported goods (import duties) or on exported goods (export duties).
- (vii) Royalty tax which is tax on the extraction of minerals.
- (viii) Road Taxes i.e. taxes related to motor vehicles.

Sources and examples of Non-Tax Revenue

- (i) Fuel levy which is income earned by Government when motorists purchase fuel.
- (ii) Ground Rent which is income charged on properties owned by individuals and organisations.
- (iii) Fees, fines and charges.
- (iv) Passport fees collected by Passport office by the ministry of Foreign Affairs.
- (v) Fees collected by Vehicles Examination and Licensing Department.
- (vi) Interest on Bank deposits.
- (vii) Dividends which is income earned on Government investments in companies.

- (c) A double entry accounting system consists of a chart of accounts where every financial transaction is recorded into at least two of the accounts, once as a debit and once as a credit. This is done to add an additional layer of verification to further ensure the accuracy of the accounting. The five fundamental rules may be summarized as follows:-
- (i) Assets Accounts:-
    - Debit increases in assets.
    - Credit decreases in assets.
  - (ii) Capital Account:-
    - Debit decreases in capital
    - Credit increases in capital
  - (iii) Liabilities Accounts:-
    - Debit decreases in liabilities
    - Credit increases in liabilities
  - (iv) Revenues or Incomes Accounts:
    - Debit decreases in incomes and gains
    - Credit increases in incomes and gains.
  - (v) Expenses or Losses Accounts:
    - Debit increases in expenses and losses
    - Credit decreases in expenses and losses.

## **SOLUTION FIVE**

Part (a)

Advantages of adopting IPSASs

### **Improved investor confidence**

The adoption of IPSASs can improve foreign investment in the country if investors appreciate the level of transparency attributed to the implementation of IPSASs

### **Reduced training costs**

If local experts can be trained to transfer knowledge of IPSASs to learners, there would be no need to send public sector workers abroad to learn how to apply IPSASs in their daily accounting work.

### **Transfer of labour**

If IPSASs are adopted by a good number of countries, accounting labour could easily be transferred from one country to another. Expatriates will only need to sit for the legal and tax accounting papers in the country of admission.

### **Uniform accounting practices**

Comparison between financial information from different countries would be facilitated through the adoption of IPSASs. This could result in the efficient allocation of resources on a global scale.

### **Reduced perceived investment risk**

IPSASs would compel preparers of accounting information to be more communicative. Adequate information and disclosure can greatly reduce loss of stakeholder's interest in an entity if they intend to transfer scarce resources to that entity.

### **Reliable reporting**

Since IPSAS are based on accruals accounting, public sector obligations and resources can be accurately measured. IPSASs would minimise cases of overstating assets and understating liabilities.

## Part (b)

### Parliamentary control over spending of public resources

- Public finance committee: scrutinises the finance bill and the appropriation bill on behalf of parliament
- Appropriation committee: Responsible for passing the appropriation bill into the appropriation act in order to authorise spending estimates submitted by various sub-committees.
- Public accounts committee: Provides recommendation to parliament on actions to be taken on audit findings in the auditor general's report/on any other special audit report.
- The auditor general office: Assist parliament in fulfilling its mandate of controlling the usage of public resources.
- Concept of appropriation: entails that national revenue is availed to the executive for the finance of public expenditure.
- Executive control: determines monetary policies, appoints auditor general at all tiers of government, issues budgetary guidelines etc.
- Department control: measures which are instituted in the spending agency
- Support of payment vouchers with source documents: all payments are to be duly signed with associated documentation.

**END OF SOLUTION**





PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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**DIPLOMA LEVEL**

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PFM 2: LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION

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FRIDAY 18 JUNE 2021

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

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## SECTION A

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

### **QUESTION ONE (COMPULSORY)**

- (a) On Wednesday, December 18, President Edgar Lungu confirmed Zambia's first 3 cases of the second wave of the coronavirus disease (COVID-19). The patients are John Mbuzi's 3 children who tested positive after returning from South Africa.

On Friday, December 23, the Minister of Health Bobo Lubambo announced that it had implemented a mandatory 14-day self-quarantine law for travellers coming from acute affected countries including South Africa.

Additionally, the Zambian government announced that schools were to remain closed for an unspecified duration.

Following the above, John Mbuzi's three (3) children were forced to be quarantined in a hotel on the basis that their one bedroomed house was not safe for them all. The government went ahead to state that, John Mbuzi was to meet all the bills that would come from the hotel were his children were kept.

Even though John Mbuzi and his wife tested negative, the government made a law that the two should not stay together neither do they have to be in contact. It was further stated in that law that should the two be found having conjugal rights, that would amount to an offence.

John Mbuzi and his wife are not happy about this law and what it ought to achieve and has come to you on whether they can challenge the law that was passed.

#### **Required:**

- (i) Explain the two (2) initial conditions that John Mbuzi and his wife should have to take such an action before the High Court. (2 marks)
- (ii) Explain to John Mbuzi and his Wife the grounds they need to prove for the above law to be overturned. (30 marks)
- (b) Explain the rationale behind the creation of administrative agencies. (4 marks)
- (c) Write notes on the jurisdiction of the following Courts:
- (i) The Industrial Relations Court (2 marks)
- (ii) The Subordinate (Magistrate) Court (2 marks)

**[Total: 40 Marks]**

## **SECTION B**

**There are FOUR (4) questions in this section. Attempt any THREE (3) questions.**

### **QUESTION TWO**

- (a) Define Judicial Precedence and explain how it is applied by the courts. (10 marks)
- (b) Explain the modes of adopting a Constitution in Zambia. (7 marks)
- (c) List three (3) functions of law in society (3 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Explain the roles of the Speaker of the National Assembly. (8 marks)
- (b) Identify the four (4) origins of Administrative Law. (8 marks)
- (c) Identify any two (2) Administrative Agencies? (4 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) Discuss the following sources of Administrative Law:
  - (i) Constitution (3 marks)
  - (ii) Acts of Parliament (3 marks)
  - (iii) Statutory Instruments (3 marks)
- (b) Discuss the roles that the three (3) arms of Government play in the governance system. (6 marks)
- (c) The margin between Constitutional and Administrative Law is almost unseen as the two operate hand in hand, indicate the difference between the two. (5 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) The Concept of Separation of Powers is bound by three limbs that act as Checks and balances. State these limbs, and in brief highlight whether the theory of checks and balance is as effective in practice. (16 marks)
- (b) Discuss any two (2) remedies available under Judicial Review. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SUGGESTED SOLUTIONS**

#### **SOLUTION ONE**

**(a)(i)** Firstly, a person seeking leave for Judicial Review before the court should satisfy the following grounds; That they have the locus stand or sufficient interest in the matter.

Secondly, they need to show that the decision was made by a public body. This nowadays is subjective as we may have a private body **performing public functions**.

#### **(ii) ILLEGALITY**

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

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

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

#### **IRRATIONALITY**

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

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

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

### **PROCEDURAL IMPROPRIETY**

The couple must also prove that there was procedural impropriety. A decision suffers from procedural impropriety if in the process of its making the procedures prescribed by statute have not been followed or if the "rules of natural justice" have not been adhered to.

#### **Statutory procedures**

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

#### **Breach of natural justice**

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

**(b)** 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.

**(c)**

- i. The Industrial Relations Court. The industrial relations Court has original and exclusive jurisdiction in all industrial relations matters, involving the inquiry and making decisions in collective disputes, interpreting the terms of collective agreements and adjudicating upon any matter affecting the collective rights, obligations and privileges of employees, employers and representative organizations.
- ii. Subordinate (Magistrate) Courts. These are lower Courts and Courts of the First instance, and are graded as the First, second, and the third class. They can decide all matters except for offences of treason, murder, aggravated robbery election petitions, and all matters that involve the interpretation of the Constitutions and are presided over by Resident Magistrate. Unlike the High and Supreme Courts, the Subordinate Courts only have jurisdiction in the districts where they are established and have a monetary jurisdiction of less than ZMW 100, 000.

## **SOLUTION TWO**

**(a)** Also known as judge made law or case law, judicial precedence is law made by judges when interpreting statutes. Precedents made by superior courts are binding while the ones made by inferior courts are just persuasive. When a judge makes a decision, it mainly has two effects; firstly, it gives effect to whatever enactments of law that may exist. Secondly, it lets society be aware of the consequences of breaching a particular law or acting in certain manner. It follows therefore that precedents are applied by the courts to state the position of the law. For instance, the case of **Christine Mulundika and 7others V The People** already set a precedent in 1997 that in an instance where one's rights as guaranteed by the constitution have been infringed, they can petition the High Court to make a declaration that indeed one's rights have been infringed. Henceforth, the law enforcement authorities are aware of how to handle matters concerning fundamental rights and the individuals whose rights may be infringed would equally know when their rights are infringed and what course of action to take as precedent has already been set. Further, Judicial precedent is applied as a guiding principle. For instance, decisions that were passed so many years back still stand as guiding principles to be followed today if they have not been overruled by later decisions of superior courts which decisions themselves would stand as precedent.

**(b)**The following are the modes of adopting a Constitution:

1. **By Parliament-** the president appoints a Constitution Review Commission under the Inquiries Act (CAP 41) which gathers Information throughout the country and makes recommendations of which are transformed into a draft Constitution. By provisions of the Inquiries Act, the draft Constitution is handed to the president who sits with Cabinet to select recommendations which they deem fit for the country. Having selected recommendation, they refer the same to Parliament for enactment into a new constitution or an amendment. This method has been used in Zambia since independence.
2. **Constituent Assembly-** It is a group of people selected for the purpose of making the Constitution. It is composed of individual representatives from all walks of life and interest groups such as churches, labour movements, political parties, academicians, Trade Union leaders, Farmers Union inter alia. The representatives will gather, debate and agree on the proposed draft before presenting it to Parliament for enactment into law. Operates as a guide in the process of governing a country.
3. **Through a referendum-** A panel of experts or Constitutional Review Commission formulates a draft constitution which is then submitted to the entire citizenry who

shall then approve or disapprove by a vote of Yes or No to the proposed constitution or amendment

(c) The following are the 3 functions of law in society;

- To do justice
- To preserve peace and order
- To enforce morality

### **SOLUTION THREE**



- (a) The Speaker of the National Assembly presides over the business of the House. He is the leader of the house and he is the custodian of all the rules of the house and ensures order is maintained in the house. The speaker also has the power subject to the Standing Orders to punish erring members who act in breach of the Standing Orders. The Speaker also has the power to adjourn Parliamentary debates and to declare vacancies whenever they arise in the National Assembly.
- (b) The following are the origins of Administrative law;
- i. The Constitution
  - ii. Acts of Parliament
  - iii. Statutory Instruments
  - iv. By-Laws
- (c) Zambia Revenue Authority (ZRA) and Zambia Public Procurement Authority (ZPPA).

## **SOLUTION FOUR**

(a). Administrative Law has a number of Sources which include the following;

- i. **The Constitution.** The constitution is not literally a source of Administrative law, but is simply a document that creates the institutions of governance and does not make any specific provisions on how they are to perform their functions. Therefore, the fact that the Constitution makes establishes the institutions that make Acts of Parliament and confers on other bodies the authority to come with the actual administrative laws is what qualifies it to be considered equally a source of Administrative Law.
- ii. **Acts of Parliament.** Acts of Parliament are the primary source of Administrative Law. The Acts of Parliament, create the administrative agencies and grant them the functions they operate on. The fact that Acts establish the administrative agencies and tribunal qualifies them to be considered as primary sources of Administrative law.
- iii. **Statutory instruments and By- Laws.** Statutory instruments are delegated legislations passed by ministers under powers conferred on them by an act of parliament. The jurisdiction of the statutory instruments extends to the whole country in the same manner as the Acts of Parliament. iii. Statutory instruments mainly supplement provisions in Acts of parliament. They therefore supposed to comply with the provisions of the enabling Act failure to which, they would be rendered ultra vires. An example of the statutory instrument is one by Pro Luo on statutory instrument no. 23 of 2012 banning the manufacture, importation, exportation and sale of an alcoholic beverage known as tujilijili due to adverse effect it had on youths.
- iv. **By Laws on the other hand are Laws** made by the Council (local authorities) to enable them to effectively provide services to the people. Unlike statutory instruments which cover the entire Country, By laws are only effective in areas that are under the Local authority making them.

(b) (i) Legislature. This is the organ of the state which is vested with the power to make laws and it is comprised of the President and National Assembly. The role of legislature in public sector finance and administration is that it helping in making Laws that are in line with governmental policies so as to achieve the desired result in a country. It must be noted that the polices of the state and the laws made out of that sate must move in line with each other for a state to thrive.

## (ii) Executive

This is the organ of the state which is tasked with the power to formulate policies and is Responsible for the execution of policy formulated. The role of the executive in public sector finance and administration is that it creates a platform and pattern of policies that state institutions should be guided and follow. As these rules are correctly followed, the state is likely to attain its goals.

## (iii) Judiciary

This is an organ which is tasked to with the interpretation of the laws that are made in a given state. Thus, the judiciary is the branch of the state that adjudicates upon conflicts arising from state institutions, between state institutions and between individuals themselves. The role of the judiciary in public sector finance and administration is that it is aimed at interpreting the policies and laws made in line with the goals of the state so that the state achieves its focal point. Thus, the three arms of government can be seen to be working together for the said policies to work in a given state.

## (c) Administrative and Constitutional Law Distinguished

Constitutional Law is mainly concerned with the aspect of Constituting a state that is, establishing the institutions of government and conferring on them the power they have. Constitutional Law does not make any specific provisions as to the manner the Administrative functions of the state are to be conducted and it is because of that that Constitutional law is referred to as Static Law.

Administrative Law on the other hand looks at the day to day administrative institutions and ensures there is a benchmark against which these administrative institutions would be assessed by to ensure there is Conformity with the law as they perform their functions and any act contrary to law or without legal authority for performance of that function, Administrative law also provides checks by way of judicial review. It is this aspect of being applied on a daily basis that Administrative Law is therefore considered Law in motion. Although, therefore Constitutional Law is considered to be supreme in status, nonetheless, Administrative Law may qualify to be more important in the day running of a Country as it is applied regularly than Constitutional Law.

## **SOLUTION FIVE**

(a) The Concept of the Separation of powers in order for it to function well is bound by the following three limbs that operate as Check and balances;

- (i) That there should not be any one individual to be found in more than one institutions of the Government,
- (ii) That there should not be any one organ to perform the functions that are reserved for another, and;
- (iii) That there should not be anyone institution to have more power than others but that they should all have co equal power.

On whether or not the theory of checks and balances is as effective in practice, this is done by comparing the operations of the organs of government.

Executive and Judiciary. The National Assembly which is a component of parliament provides the personnel to the executive as ministers appointed by the President to Cabinet who must be Members of Parliament. It is thus immediately clear that the Executive, far from being separated from the Legislature is drawn from within it. This automatically defeats the firm limb which suggests that no individual should be found in more than one institution of the Government.

Legislature and Judiciary. The mere perception that Parliament is sovereign and that the Judiciary is Subordinate to Parliament, is paradoxical to the assertion that the Judiciary is independent. Because of this supremacy Parliament has had interfered in the exercise of duty by Judiciary. Judges have at times been criticized in Parliament. For example, in 1977 motions were tabled for the dismissal of judges who had reduced a sentence for rape. Further a judge who describes a rape victim of contributory negligence was controlled in terms of what they may, or may not say though the powers of the speaker of the House of Commons in the United Kingdom.

The Executive and the Judiciary. Between the Executive and the Judiciary, there are several matters with implications for the Separation of powers. For example, the attitude of the Courts in matters entailing the exercise of prerogative powers; Parliamentary privilege; Judicial Review; and the role of Judges in non- judicial functions. All these arrears indicate interference by one institution onto the other.

It can therefore be said that in Zambia, the concept of Separation of powers is merely on paper and not in practice because the limbs that provide for checks and balance are not strictly adhered to.

(b)

**i.** Certiorari is a quashing order. It is granted in instances where there is want or excess of jurisdiction, where there is pecuniary bias, denial of the right to be heard and where there is denial of granting the right to legal representation on the part of an administrative institution, an inferior court or tribunal.

**ii.** Mandamus is a mandatory order. It is granted in instances where there is need to compel an administrative institution, inferior court or tribunal to exercise a duty which it neglected to exercise.

**iii.** Declaration is granted in an instance where a person is aggrieved by the decision of an inferior court, tribunal or administrative institution so that the High Court can state the legal positions of the parties.

**iv.** An injunction is a prohibitory order. It is granted in instances where there is need to prevent a tribunal or an administrative body from exceeding its jurisdiction or infringing the rules of Natural Justice.

**END OF SOLUTION**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR

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TUESDAY 15 JUNE 2021

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO (2) 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 in this Section is Compulsory.**

### **QUESTION ONE – (COMPULSORY)**

#### **TIZ calls for end to overpricing in public procurement**

*By The Mast on September 11, 2017*

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

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

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

In a statement, TIZ executive director Wesley Chibamba challenged government to be more accountable to citizens, especially with regard to public resource management.

He stated that public procurements was the main area of concern.

“As the largest consumer of different goods and services, the government spends a lot of money on public procurements and loses a lot of that money in the process. The government has a responsibility to be diligent and prudent in the way they spend taxpayers’ money,” Chibamba stated. “What is of concern is a trend of government agencies procuring goods and services at non-market reflective costs. Always when government is procuring goods and services, they do so at astronomical amounts, which do not reflect the market value. Even simple things like stationery, or the shirts for Labour Day or any other public events, these items are procured at very high prices, probably double the normal amount if you were to buy the same product at an open market.”

He stated that even in construction, Zambia was always paying higher contract amounts than what should be normal comparatively in the region, especially in the road sector.

“The trend should not be allowed to continue. Usually this is as a result of collusion between suppliers/contractors and the people in charge of procurements. People are viewing government as a milking cow when they are awarded contracts to supply goods and services,” Chibamba stated. “There is a lot of corruption in the award processes of these contracts. On top of that, the corrupt lot still exploits government by charging exorbitant prices for their goods and services. There is a clique of people that feel entitled to be awarded government contracts to supply goods and services simply because they support the ruling party. Whatever the case, this amount of exploitation should end forthwith.”

He stated that such level of institutionalization of corruption should come to an end.

Chibamba urged all government departments and agencies to engage in business transactions that were premised on integrity.

He stated that if the government was procuring goods and services at 'normal' prices and not exaggerated, exorbitant prices, they would have more resources to obtain more goods and services.

"Also this would free resources to be redirected towards other competing interests for which there are no resources. We can manage to provide decent public services to the citizens if we can manage the meagre resources very well," stated Chibamba.

"We are therefore calling for institutional, legal and policy reforms around public procurements. Transparency International Zambia is ready to work with the government in bringing about these reforms such that public procurements work for the Zambian people and not the corrupt few with ties to government officials. The government has a responsibility to obtain value for money in every transaction." For effective public procurement systems, it is essential that reforms focus on creating a complete, multifaceted, and integrated procurement systems. However, there seems to be difficulty in introducing modern tools to public procurement systems such as e-procurement. Electronic procurement, commonly referred to as e-procurement, defines the automation of procurement and supply chain processes using internet based applications and technology.

**Required:**

- (a) Point out five (5) benefits of electronic procurement (e-procurement) systems for public sector organisations. (10 marks)
  
- (b) Explain briefly the five (5) important factors of managing contract documentation. (10 marks)
  
- (c) Show five (5) points on how ethics can be managed in the workplace. (10 marks)
  
- (d) State any five (5) principles of good governance which would improve transparency and accountability in government agencies. (10 marks)

**[Total: 40 Marks]**



## **SECTION B**

**There are FOUR (4) questions in this section. Attempt any THREE (3) questions.**

### **QUESTION TWO**

In government, decentralization is basically the delegation of authority to local governments. This allows for a greater number of decisions to be made at lower levels.

#### **Required:**

- (a) Point out five (5) objectives achieved by decentralization. (10 marks)
- (b) List three (3) advantages/benefits and three (3) disadvantages/challenges of Decentralization of Government. (6 marks)
- (c) Explain the meaning of 'Levels of Management', and identify the three (3) levels of management. (4 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Discuss the five (5) sources of power for leaders. (10 marks)
- (b) Explain the five (5) functions of a manager. (10 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) Discuss the three (3) stages involved in the public policy making process. (9 marks)
- (b) Evaluation of work projects and policies is very important as it allows management/administrators to determine if the intended outcomes have been achieved. State three (3) problems of policy evaluation in Third World Countries. (6 marks)
- (c) Some scholars have held that there is no significant difference between public and private administration. In fact, there are many similarities between public and private administration. List five (5) similarities between the two (2) types of Administration. (5 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

Contract management or contract administration is the management of contracts made with customers, vendors, partners, or employees. Contract management includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing on any changes or amendments that may arise during its implementation or execution.

**Required:**

- (a) State the six (6) activities that are associated with a contract life cycle. (6 marks)
- (b) Budgeting is the process of creating a plan to spend resources. Explain the three (3) roles that budgets play in the public sector. (9 marks)
- (c) State five (5) skills/abilities that a contract manager should possess to be able to manage a contract effectively? (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR SUGESSTED SOLUTIONS**

### **SOLUTION ONE**

- a) Point out **FIVE (5)** benefits of electronic procurement (e-procurement) systems for public sector organisations.

#### **1. Lower/reduced costs**

E-procurement removes re-work errors and paperwork. All these factors result in a lower cost of operating a business or [organization](#). Furthermore, electronic procurement results in better supplier relationships. It uses system developments to lessen external spend, whilst enhancing supplier quantity and performance.

#### **2. Better visibility**

With E-procurement, all transactions are centralized and this provides a better view of how finances are used within the organization. It enables in depth reporting on items purchased, payments made, requisitions and orders processes. This great visibility also extends to making certain that the organization complies with established and existing contracts.

#### **3. Better control**

E-procurement leads to better control of the organization as the decisions are easily made. This is made possible by the central organization of data and presence of time stamps. Additionally, standardized process of approval and a formal workflow ensures that the same degree of control is applied onto every transaction. Compliance to regulations is also improved with E-procurement.

#### **4. Eliminating Paperwork**

With e-procurement, everything can be saved and stored electronically. This not only saves you from needing more room, it also makes the process of finding older tenders simpler.

#### **5. Increased Transaction Speed**

E-procurement is both time-saving and efficient. As the electronic handling of tasks supports and simplifies the purchasing process, transaction speed is increased. Also, because of e-enabled relationships with suppliers, procurement cycle times speed up. The e-procurement process eliminates unnecessary activities, allowing you to focus on more valuable tasks.

#### **6. Reduced Errors**

Electronic paperwork is streamlined and thus easier to check for errors—there's no messy printing to get in the way either. Along with this, past orders are more easily referenced, meaning there's a greater chance that your company can compare orders to ensure new ones are correct.

## 7. Avoid invoice delays and duplicate payments

One of the more complex validations is matching an invoice and the related documents in the procure-to-pay lifecycle. The pricing and terms on an invoice should match those mentioned in the purchase order and the goods receipt note.

Additionally, the line-item quantities, product descriptions and per-unit pricing on the invoice must match those of the purchase order and the actual goods received. Although three-way matching can be performed manually, the cost, accuracy, and time required for the validations can be significantly reduced through automation.

## 8. Eliminate dark purchasing

Dark purchasing reigns when organizations use outdated or disparate tools to manage procurement. When procurement is handled manually, stakeholders have no idea of who is requesting what and why. This leads to expenses incurring outside of established practices like redundant or unnecessary purchases, submissions to unapproved vendors, and more.

## 9. Remove approval bottlenecks

A procurement system that depends on too many manual intervention and spreadsheets and emails is subject to human errors and associated risks. In a people-based system, people tend to do things their own way even if it means bypassing policies to cut down purchase cycles.

An [effective e-procurement tool](#), on the other hand, will address such purchase risks with enforced accountability and role-based accessibility, protecting sensitive information and restricting confidential information to relevant stakeholders while keeping the procurement cycle moving forward.

Additionally, an e-procurement solution will reduce the workload of the procurement and finance team by automating administrative tasks such as field-level arithmetic calculations, approval routing, and deadline adherence.

b) Explain briefly **Five (5)** important factors of managing contract documentation.

-Procurement and contract records are important because they serve as an audit trail of how the process was carried out.

-Procurement and contract records are the evidence of all actions taken to award contracts, and of the results of the monitoring and oversight of contract implementation.

-Procurement and contract records are the basis for internal and external audits, and are needed to determine compliance with the procurement legal and institutional framework.

-Maintaining procurement and contract records should be mandated by law given the use of public funds and the need for transparency and accountability.

It is important to manage contract documents to ensure proper management control and monitoring of contracts. This is important for the following reasons:

-It promotes easier reporting.

- Documents important information such as milestones, deliverables, and payments.
- Provides secure storage of documentation and easy access to all contract documentation and information

Document Management Systems include:

- Manual Systems where documents are filed away in folders and;
- Computerized systems such as simple excel spreadsheet and comprehensive systems such as an Enterprise software management (ECM) solution).

c) Show **Five (5)** points on how ethics can be managed in the workplace.

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

d) State any **Five (5)** principles of good governance which would improve transparency and accountability in government agencies.

- The principle of meritocracy.
- The principle of racial and religious harmony.
- The principle of clean government.
- The principle of the rule of law.
- The principle of inclusiveness.
- The principle of the care of the environment.

## **SOLUTION TWO**

(a) Explain the **Five (5)** objectives achieved by decentralization.

The following are the objectives to be achieved by decentralization:

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

(b) List **three (3)** advantages/benefits and three (3) disadvantages/challenges of Decentralization of Government.

### **Advantages of Decentralization**

1. In addition to protecting citizens from governmental overreach, the numerous merits of decentralization include ease of access to citizens, a decrease in the bureaucratic burdens of centralized government and an increase in speed in policy implementation.
2. In decentralized governments, citizens have access to governmental offices that are closer to them. These offices can meet their individual needs.
3. With greater decentralization comes a decrease in costs. Maintaining government bureaucracy requires both manpower and funding. By decentralizing power, individuals at the far ends of the web of decentralization can accomplish more with less because they have fewer citizens to manage.
4. When the authority is decentralized, employees in the organisation will get the opportunity to develop their talents by taking initiative which will also make them ready for managerial positions. The growth of the organisation greatly depends on the talented employees.
5. Decentralization ensures better control and supervision as the subordinates at the lowest levels will have the authority to make independent decisions. As a result they have thorough knowledge of every assignment under their control and are in a position to make amendments and take corrective action.
6. Decentralization brings decision making process closer to the scene of action. This leads to quicker decision-making of lower level since decisions do not have to be referred up to HQ.

## **Disadvantages of Decentralization**

Decentralization can be extremely beneficial. But it can be dangerous unless it is carefully constructed and constantly monitored for the good of the organisation as a whole. Some disadvantages of decentralization are:

### ***1. Uniform policies not followed:***

Under decentralization, it is not possible to follow uniform policies and standardized procedures. Each manager will work and frame policies according to his talent.

### ***2. Problem of Co-Ordination:***

Decentralization of authority creates problems of co-ordination as authority lies dispersed widely throughout the organisation.

### ***3. More Financial Burden:***

Decentralization requires the employment of trained personnel to accept authority, it involves more financial burden. Decentralization results in a duplication of staff effort. To be independent, each division should have access to purchasing, personnel, marketing and other specialists.

### ***4. Requires Qualified Personnel:***

Decentralization becomes useless when there are no qualified and competent personnel. Often capable and competent individuals may not be available to run the divisionalised organizations. Freedom of action may lead to diversity of decisions. In addition, decentralization demands training programs that may be time-consuming and highly expensive.

- c) Explain the meaning of 'Levels of Management', and identify the **THREE (3)** levels of management.

Levels of management refer to a line of demarcation between various managerial positions in an organization. The levels of Management depend upon its size, technical facilities, and the range of production.

The three levels of management are:

1. Top Management
2. Middle Management
3. Lower or Operative Management

### **SOLUTION THREE**

- (a) The **FIVE (5)** sources of power for leaders are:
1. Legitimate power (*power by virtue of being appointed or elected to a position, e.g. CEO, President of a country*).
  2. Reward power (*ability to give/offer rewards e.g. managers*).
  3. Coercive power (*ability to command, give orders as well as give out punishments*).
  4. Charismatic power (also known as Referent power)-*ability to be liked by others; people wanting to identify with such a person who has charisma*.
  5. Expert power (*skills of an individual in a given field*)
- (b) Discuss five functions of a manager.
- i. Planning- In their managerial functions, planning tends to be the starting point at all times. Planning may be defined as to foresee, examining the future, deciding what needs to be achieved and developing a plan of action. Planning involves the setting of objectives (what to do), formulation of a strategy (how to do) and implementation of strategy (when, whom) to achieve the set objectives.
  - ii. Organising - Organising involves the analysis of activities, identifying decisions and relationships required in the organisation, classifying and dividing work, creating the organisation structure and selecting staff to implement management strategies.
  - iii. Coordinating -Coordination involves the unifying and harmonisation of all activities and effort of the organisation to facilitate its work and success. It involves balancing and maintaining the team by ensuring a suitable division of work and seeing that the tasks are performed in harmony and not in conflict.
  - Iv. Leading- Leading is the creation of an organisational climate, in which, people work willingly and effectively thus inspiring morale among employees. An essential part of management is coordinating the activities of people and guiding their efforts towards the goals and objectives of the organisation.
  - v. Controlling-After planning, organising and coordinating the various work processes, it is important that an evaluation is undertaken to compare actual performance against the set standards. This comparison will ensure satisfactory performance and progress and this record can be used as guide for future operations.



## **SOLUTION FOUR**

(a) Discuss the **Three (3)** stages involved in the public policy making process.

### *- The Policy Formulation Stage*

After identifying and studying the problem, a new public policy may be formulated or developed. This step is typically marked by discussion and debate between government officials, interest groups, and individual citizens to identify potential obstacles, to suggest alternative solutions, and to set clear goals and list the steps that need to be taken to achieve them.

### *-Policy Implementation Stage*

A new policy must be put into effect, which typically requires determining which organizations or agencies will be responsible for carrying it out. During the policy development step, compromises may have been made to get the policy passed that those who are ultimately required to help carry it out do not agree with; as such, they are unlikely to enforce it effectively. Clear communication and coordination, as well as sufficient funding, are also needed to make this step a success.

### *-Feedback and Evaluation Stage*

The final stage in the public policy process, known as evaluation, is typically ongoing. This step usually involves a study of how effective the new policy has been in addressing the original problem, which often leads to additional public policy changes. It also includes reviewing funds and resources available to ensure that the policy can be maintained. Historically, this step has not always been treated as very important, but policy makers are increasingly finding ways to make sure that the tools needed for evaluation are included in each step of the public policy process.

(b) Evaluation of work projects and policies is very important as it allows management/administrators to determine if the intended outcomes have been achieved. State **Three (3)** problems of policy evaluation in Third World Countries.

–Lack of facilities for evaluating policy outcomes.

–Lack of press of freedom which undermines policy evaluation and feedback analysis efforts.

–Inadequate autonomous associations and institutions at work in Third World Societies to obtain information about the impact of policies on their members, to assess the cost benefit of this impact and to communicate this information to public officials.

(c) Some scholars have held that there is no significant difference between public and private administration. In fact, there are many similarities between public and private administration.

List **Five (5)** similarities between the two types of Administration.

The Similarities are:-

*1. Efficient and prompt service:*

Public and private administrations are deeply interested to be efficient and quick in their dealings with other persons with whom they are required to interact and serve. Both are governed by the objective of rendering efficient and prompt service to the people.

*2. Public Dealings:*

Both realise that there should be maximum contacts with the people. If these contacts are lost, administration becomes a failure because it fails to know the needs and necessities of the people whom it is required to serve. Development of continuous, cordial and harmonious relations with the people constitutes a meeting place for public and private administrations.

*3. Hierarchical organisation:*

Both public and private administrations have a hierarchical set up. Both have employees of different statuses and both have a clear demarcation of duties and work. In both, there are some individuals who are to formulate the policies of the organisation and there are others who are responsible for the implementation of these policies.

*4. Scope for improvement:*

Both public and private administrations feel that there is large scope for improvement in their areas of action. Both try to grow with time.

*5. Similar working conditions:*

Both public and private administrations realise that it is very essential to provide to their staff good working conditions and security of service. Both feel that unless their staff is provided with good working conditions, they will not be in a position to work with confidence.

*6. Similar set of rules:*

Both are supposed to work in accordance with some set of rules or standards. All the persons serving in public or private administration have to follow several definite rules, regulations and a defined routine. Both involve organised efforts for securing their respective objectives. Both are to see that the welfare of the staff is not ignored. Moreover, both are to see that staff is recruited, promoted and retired as per rules and policies.

*7. Common skills:*

In both, numerous skills are required for the running of administration. These depend on several similar clerical, accounting and managerial skills.

*8. Common managerial techniques:*

Managerial techniques are common to both public and private administrations. Activities such as planning, organising, staffing, direction, coordination, control and budgeting, characterise both types of organisations.

## **SOLUTION FIVE**

(a) State the Six (6) activities that are associated with a contract life cycle.

### *–Planning*

This refers to the planning and budgeting activities. This helps to identify the need for contract creation and thus plan for what contract creations should take place to ensure delivery can occur as approved in the budget.

### *–Creation*

In the Contract Authoring or Drafting stage, contract or agreement document is created which includes intended outputs and outcomes and all clauses, terms and conditions. It is usually in this stage Contract Approvers and Signing parties are determined and approver and signing details are captured in the contract document.

### *–Collaboration*

A process that requires drafting and negotiating and includes internal and external reviews to ensure that the contract will give legal effect to the requirements of all parties to the contract.

### *–Execution*

Contract document which is approved is sent to respective parties for signature either online or using manual process; making it legally enforceable and formalizing the terms of the contract.

### *–Administration*

This activity is concerned with monitoring delivery under the contract to ensure that it achieves its original objectives and includes tracking and auditing of contract terms.

### *-Closeout/renewal*

This 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.

(b) Budgeting is the process of creating a plan to spend resources. Explain the Three (3) roles that budgets play in the public sector.

### *–Aggregate fiscal discipline*

Refers to the process of monitoring and controlling financial performance at a summary level. Aggregate fiscal discipline refers to the alignment of public expenditures with total revenues (domestic revenues plus a sustainable level of foreign borrowing); roughly speaking, it means keeping government spending within sustainable limits. In layman's terms, it means don't spend more than what you can afford.

### *–Allocative efficiency*

Allocating the available resources in line with government's priorities and the service need of communities. Allocative efficiency on the other hand refers to the consonance of budgetary

allocations with strategic priorities: are budgetary resources being allocated to programs and activities that promote the strategic priorities of the country? Put simply, is the government spending money on the "right" things? Focuses on delivering the priorities in the most cost-efficient or cost-effective manner.

*–Operational efficiency*

Operational efficiency refers to the provision of public services at a reasonable quality and cost. The relevant question here is whether the country is getting the best buy for its money.

(c) State **Five (5)** skills/abilities that a contract manager should possess to be able to manage a contract effectively?

- Financial skills sufficient to be able to understand financial implications of contracts;
- Change management skills to successfully manage changing relationships and contract modifications;
- Analytical skills to ensure sufficient analysis and reporting of contract progress and judgment regarding escalation of issues;
- Risk management skills;
- Performance management; and legal understanding around contracts.

**END OF SOLUTIONS**



PUBLIC SECTOR FINANCIAL MANAGEMENT EXAMINATIONS

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DIPLOMA LEVEL

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PFM4 - PUBLIC SECTOR FINANCIAL MANAGEMENT

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FRIDAY 18 JUNE 2021

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:  
Section A: One (1) Compulsory scenario question.  
Section B: Four (4) Optional 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.
10. Present Value and Annuity tables are attached at the end of this paper.

**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**

Emigrate Transport Limited is a government owned trucking company. The company currently has fifty (50) trucks. These trucks are used exclusively for government transportation of grains and other exports. However out of the 50 trucks only 40 are currently being used for transportation as the other 10 need upgrades. The company now seeks to upgrade the non-functional trucks. This will require obtaining spare part to upgrade the trailers. The company could buy the spare parts locally for K20,000 per truck. The company has its own mechanical workshop where upgrades and maintenance of vehicles are done. Emigrate Limited can therefore use it's own workshop mechanics to upgrade the trailers once the spare parts are bought. Five (5) mechanics would be required to upgrade the trucks. The upgrades would take one and half months to complete if this route is taken by the company and the 5 mechanics would suspend other duties. The workshop currently has 20 mechanics earning a net monthly salary of k4,000 each. Alternatively, the company could take the trucks back to the manufacturer's workshop for upgrades. The manufacturer normally uses spare parts obtained from the head office overseas and therefore the total cost of upgrading the trucks using this option is slightly higher at K39,000 per truck. The manufacturers are expected to take one month to complete the upgrades.

The Emigrate Limited workshop also provides services to external clients who seek to upgrade or repair their vehicles. The average revenue earned by the workshop is K300,000 per month from providing external upgrade services and a commission of 5% of the invoice value is paid to the mechanics. The commission is shared equally by the mechanics involved in upgrading a particular truck.

Emigrate has since its formation been fully funded by government. However, the government has decided to allow the company to look for alternative financing so that it becomes only partially depend on government financing. This would free up funds which are normally budgeted for Emigrate Ltd so that the funds can be used for other public sector programs. Emigrate Limited will be required to issue a bond of K200 million to enable it acquire 100 new trucks to add to its current fleet. The new trucks will be used to provide transportation for both the private sector and government. Each truck is expected to travel 2500 kilometres per month. Private sector customers will be charged K20 per kilometre. This will enable Emigrate Limited generate income to supplement the expected reduction in government funding. Average cost of upgrades is approximately 2% of the cost of the trucks per annum. 40% of the trucks will be used for government transportation of grains. The trucks are expected to have a lifespan of 10 years. Assume a social opportunity cost of capital of 5% per annum.

**Required:**

- (a) Advise Emigrate whether it is beneficial on financial grounds, to use its own workshop to upgrade the trucks or to use the manufacturer's workshop. (12 marks)
- (b) Compute the Net Present Value of acquiring the new trucks and advise Emigrate management whether the project is financially worthwhile. (8 marks)
- (c) Explain five (5) other financial or non-financial factors that should be considered when providing advice in both part (a) and (b). (10 marks)
- (d) Explain five (5) other alternative sources of financing that Emigrate Limited could have used to finance the acquisition of the new trucks. (10 marks)

**[Total: 40 marks]**



## **SECTION B**

**There are FOUR (4) questions in this section. Attempt any THREE (3) questions.**

### **QUESTION TWO**

Kankole City Council (KCC) was established in 1985. Since then it has provided a number of services to the community in Kankole. The local authority has provided fire fighting services to the community. KCC has also installed street lighting in all major roads in the city.

KCC has been instrumental in maintaining a clean environment in the city by ensuring that all waste is disposed of promptly. The council has signed contracts with several waste management companies to enable them collect waste in the community in exchange for a commission from the council. The council has also established affordable play parks for children in the city.

Prior to the establishment of KCC, the city experienced a lot of flooding during the rainy season due to blocked drainages. However, when KCC came on the scene, it managed to unblock all the drainages thereby saving the city from flooding during the rainy season.

KCC has however, experienced a number of challenges financially. The challenges have been mainly due to the narrow revenue base in the city and difficulties in accessing domestic financing.

#### **Required:**

- (a) Explain the sources of financing for local authorities such as the KCC. (4 marks)
- (b) Discuss some of the efforts the government has made in broadening the revenue base in Zambia. (6 marks)
- (c) Explain, giving reasons, whether the services provided by KCC in the city can be categorized as public goods. (4 marks)
- (d) Describe any six (6) major sources of revenue for city councils such as the KCC. (6 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

(a) The following is an extract from one of the national budgets presented to the national assembly by the honourable minister of finance.

#### **Expenditure by Functional Classification**

<b>FUNCTIONAL CATEGORY</b>	<b>Allocation (K' Billion)</b>	<b>% of total Budget</b>
General Public services	4514.2	35.3
Public order and safety	581.8	4.6
Economic affairs	2300.8	18
Environmental protection	95.7	0.7
Housing and community amenities	830.6	6.5
Health	1586.6	12.5
Recreation and culture	174.1	1.3
Education	2118.5	16.6
Social protection	577.7	4.5
<b>TOTAL</b>	<b>12780</b>	<b>100</b>

In his speech the Minister said expenditure under the General public services will account for 35.3% of the total expenditure. He further said that the allocation to education and health functions will be high at 16.6% and 12.5% of the total expenditure respectively.

#### **Required:**

- (i) Explain the various ways in which the government of Zambia provides social protection. (4 marks)
- (ii) Explain any four (4) functions of the budgetary process. (8 marks)

(b) The table below is a classification of goods based on their characteristics.

	<b>Excludable</b>	<b>Non-excludable</b>
<b>Rivalrous</b>	PRIVATE GOOD	COMMON GOOD
<b>Non-Rivalrous</b>	CLUB GOOD	PUBLIC GOOD

**Required:**

(i) Provide at least one example of each of the goods in the table. (4 marks)

(ii) For each example provided explain why it suits the particular category in the table. (4 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

The Minister of Finance of Domesto Republic is concerned with the increasing levels of indebtedness of the republic. Its Levels of internal and external debt have grown rapidly in recent years. This is reflected in the country’s public sector debt service ratio and public debt to GDP ratio. These ratios have risen increased rapidly in recent years.

The republic has been affected by the current world economic recession, a situation which has forced the country to increase its expenditure in order to reduce the negative impact on the economy. This increase in expenditure has been largely financed by borrowing.

The Minister of Finance has constituted a team of experts from the Ministry to revise the public sector debt management strategy. This is to try and save the country from collapse as investor confidence is likely to fall if this situation persists. The team of experts prepared the following table of ratios to help them address the issue of debt sustainability.

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Debt service ratio %</b>	20%	36%	50%	80%
<b>Debt to GDP ratio%</b>	30%	32%	45%	79%

**Required:**

(a) Explain the meaning and main objective of public debt management. (4 marks)

(b) Evaluate the ratios computed by the team of experts as presented in the table. Your evaluation should include possible reasons why the ratios have been rising over the period of years under review. (10 marks)

(c) Describe any three (3) external debt management strategies which the team of experts could recommend for Domesto republic. (6 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

The public finance Act 2018 is one of the results of public sector financial management reforms in Zambia. The public finance act 2018 replaced the public finance act 2004. It is intended to provide an institutional and regulatory framework for management of public funds; the strengthening of accountability, oversight, management and control of public funds and the public financial management framework.

The challenges faced by Zambia in public expenditure management have resulted in public sector financial management reforms. It is expected that the reforms will lead to the strengthening of accountability over public funds, among other things.

**Required:**

(a) Explain any six (6) areas covered by the public financial management reforms in Zambia. (12 marks)

(b) Explain any four (4) factors that have had an impact on the design and implementation of public sector financial management reforms in Zambia. (8 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## Formula Sheet

Economic order quantity

$$= \sqrt{\frac{2C_n D}{C_H}}$$

Miller – Orr Model

Return point = Lower limit +  $\left(\frac{1}{3} \times \text{spread}\right)$

$$\text{Spread} = 3 \left[ \frac{\frac{3}{4} \times \text{transaction cost} \times \text{variance of cash flows}}{\text{interest rate}} \right]^{\frac{1}{3}}$$

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

$$g = b r_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

$$s_1 = S_0 \times \frac{(1+h_e)}{(1+h_b)} \qquad f_0 = s_0 \times \frac{(1+i_e)}{(1+i_b)}$$

**Present Value Table**

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

Where  $r$  = discount rate  
 $n$  = number of periods until payment

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	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	0.914	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	0.350	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

## PFM4: PUBLIC SECTOR FINANCIAL MANAGEMENT

### SUGGESTED SOLUTIONS PFM 4

#### SOLUTION ONE

(a)	<b>Emigrates workshop</b>		K
cost of spares	$k20000 * 10$	=	-200000
loss of revenue	$k300000/20 * 5$		
	$75000*1.5$	=	-112500
saving in commissions	$K300,000/20$	=	
	$15000*0.05$	=	
	$K750*5*1.5$	=	5625
<b>TOTAL COST</b>			<b>306875</b>

	<b>Manufactures workshop</b>		K
Cost of service	$K39000*10=$		-390000
additional revenue	$15000*0.05*5$		75000
Commission payable	$750*5$		-3750
<b>TOTAL COST</b>			<b>318750</b>

It is cheaper to use the Emigrate workshop by  $(K318750-306875)=K11875$

#### (b) NET PRESENT VALUE

Number of trucks hired to private sector	$100 * 60%=$	60
Annual revenue	$2500 * 12 * 60 * 20=$	36,000,000
Repairs	$200000000*2%$	4000000

#### **PRESENT VALUE COMPUTATION**

YEAR	0	1-10
initial investment	-200000000	
Annual revenue		36000000
Repairs		-4000000



Net revenue	-200000000	32000000
DF @ 10%	1	6.145
Net cash flows	-200000000	196640000
<b>NPV</b>	<b>-3360000</b>	

The project is not worthwhile as it results in a net negative present value.

( c) OTHER FACTORS

- (1) In part (b) we only appraised the benefits from the private sector. Though government is not charged for transportation there are benefits which accrue to the economy indirectly such as the increase in GDP, employment for the drivers etc.
- (2) The remuneration for the drivers was not included for all the 100 trucks in part (b). The cost of paying the drivers of 60 trucks should have been included to make the appraisal more accurate.
- (3) In part (b) the cash flows are merely approximations which may sometimes be inaccurate due to changes in the economic indicators on which they are based over the 10 year period.
- (4) In part (a) we are not told whether the spare parts available locally are of good quality /genuine. If not, this option, though cheaper, would turn out to be expensive in the long run for the company because the spare parts may not last long.
- (5) In part (a) if the repairs are done by the manufacturer, there is a risk of breach of contract as the manufacturer may or may not fulfill the terms of the contract. For example delay in completion, reliability of the quality of repairs or perhaps even the spare parts may not be necessarily genuine, in spite of the manufacturers promise.

(d) ALTERNATIVE SOURCES OF FINANCE

- (i) Grants from foreign sources to Zambian government. This does not attract repayment and interest.
- (ii) Bank loan from a local commercial bank.
- (iii) Loan from the world bank. They normally finance specific capital projects through the IBRD.
- (IV) Loans from the ADB.
- (v) Budget allocation from the government using revenue from taxes.

## **SOLUTION TWO**

(a)

(i) Issue of Bonds.

Long term debt instruments usually issued at a fixed interest rate.

(iii) Bank overdraft, Facility which allows one to overdraw their account at their bank up to a certain level.

(iii) Bank loan. - Term loans which are structured with specific loan instalments and duration of loan, Fixed or variable interest rate.

(b)

(I) Introduction of Base tax, Withholding tax on rental income, borehole levy.

(ii) Introduction of E-payment platforms for the payment of taxes.

(iii) Making TPIN registration mandatory.

(iv) Partnering with local authorities in collecting WHT on rental income and turnover tax from in bus stations and markets.

(c)

Public goods are "non-rival" i.e. consumption by one person does not prevent another person from consuming the goods and "non-excludable" i.e no one can be excluded from enjoying the goods.

Street lights- no one can be excluded from accessing the light. Accessing the lights cannot prevent another person from access.

Cleaning services and drainages - no one is excluded from enjoying the clean environment.

Play parks- only those who paid had access to the play parks therefore some individuals can be excluded on the basis of access fees.

(d)

(i) Property rates

(ii) Personal levy

(iii) Trading licenses and other licenses

(iv) Business levies

(v) Rents

(vi) Parking fees

(vii) Grants such as the local government equalization fund and

(viii) Toll fees

(ix) CDF.

(x) Ground rent

(xi) Inspection fees

(xii) Registration fees

### **SOLUTION THREE**

(a) (i) The social cash transfer scheme targeted at the vulnerable such as orphans, the aged and the widows.

(i) Empowerment programs such as youth empowerment, women empowerment. These include government funded training programs in various skills for the youth and women.

(ii) The national pension scheme, public service pension fund and the local authority superannuation fund to provide social security after retirement.

(iii) The national health insurance scheme.

(ii) Redistribution of wealth function through progressive taxation.

(ii) Economic regulation function. The budget can be used to increase or reduce money supply.

(iii) Planning function to deliver public goods and services.

(iv) To provide information. It is a source of information.

(v) As a control instrument. To determine whether tasks were executed according to schedule.

(b)

- **Private goods:** Private goods are excludable and rival. Examples of private goods include food, clothes, and flowers. There are usually limited quantities of these goods, and owners or sellers can prevent other individuals from enjoying their benefits. Because of their relative scarcity, many private goods are exchanged for payment.
- **Common goods:** Common goods are non-excludable and rival. Because of these traits, common goods are easily over-consumed, leading to a phenomenon called "tragedy of the commons." In this situation, people withdraw resources to secure short-term gains without regard for the long-term consequences. A classic example of a common good is fish stocks in international waters. No one is excluded from fishing, but as people withdraw fish without limits being imposed, the stocks for later fishermen are depleted.
- **Club goods:** Club goods are excludable but non-rival. This type of good often requires a "membership" payment in order to enjoy the benefits of the goods. Non-payers can be prevented from access to the goods. Cable television is a classic example. It requires a monthly fee, but is non-rival after the payment.
- **Public goods:** Public goods are non-excludable and non-rival. Individuals cannot be effectively excluded from using them, and use by one individual does not reduce the good's availability to others. Examples of public goods include the air we breathe, public parks, and street lights. Public goods may give rise to the "free rider problem." A free-rider is a person who receives the benefit of a good without paying for it. This may lead to the under-provision of certain goods or services.

	Excludable	Non-excludable
Rivalrous	<b>PRIVATE GOOD</b> e.g. food	<b>COMMON GOOD</b> e.g. fish stocks in the river
Non- Rivalrous	<b>CLUB GOOD</b> e.g. cable television	<b>PUBLIC GOOD</b> e.g. street lights

## **SOLUTION FOUR**

- (a) Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other public debt goals the government may have set, such as developing and maintain an efficient market for government securities.

The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

(b) **Debt service ratio.**

A country's debt service ratio measures the amount of debt interest payments to the country's export earnings. For example, if a country has export revenue of K100bn and pays K15bn interest payments on its external debt, then its debt service ratio is 15%.

The table shows a rising debt service ratio from 20% in 2017 to 80% in 2020.

A rising debt service ratio is often the sign of an imminent economic crisis.

Debt service ratios may rise because of:

- A fall in exports
- Lower price of commodities which are main exports of a country. e.g. copper in Zambia.
- Higher Borrowing
- Higher interest rates increasing cost of debt repayments
- Devaluation increasing cost of external repayment.

**Debt to GDP ratio**

The debt-to-GDP ratio is the metric comparing a country's public debt to its gross domestic product (GDP). By comparing what a country owes with what it produces, the debt-to-GDP ratio reliably indicates that particular country's ability to pay back its debts. Often expressed as a percentage, this ratio can also be interpreted as the number of years needed to pay back debt, if GDP is dedicated entirely to debt repayment.

When a country defaults on its debt, it often triggers financial panic in domestic and international markets alike. As a rule, the higher a country's debt-to-GDP ratio climbs, the higher its risk of default becomes. Although governments strive to lower their debt-to-GDP ratios, this can be difficult to achieve during periods of unrest, such as wartime, or economic recession. In such challenging climates, governments tend to increase borrowing in an effort to stimulate growth and boost aggregate demand.

(c) **External debt management strategies**

- (i) Limit on debt service payments. This measure involves setting aside a proportion of export earnings to meet debt service obligation to allow for internal development.
- (ii) Debt restructuring. This measure entails conversion of an existing debt into another category of debt done through refinancing, buy back and debt rescheduling.

- (iii) Debt conversion. It entails the exchange of monetary instruments for tangible assets and other financial instruments. It is a mechanism for reducing a country's debt burden by changing the character of the debt.

## **SOLUTION FIVE**

### **(a) Areas of PFM reforms.**

#### **(1) Legal and institutional framework.**

The reforms in these areas are aimed at strengthening the laws on how the government raises the resources, how the planning and budget process is done, how resources are utilized and accounted for and outlines the responsibilities of the institutions involved in public financial management improving collaboration between these institutions.

#### **(2) Planning and budgeting.**

The reforms will focus on strengthening the planning and budget processes, ranging from how priorities are set, revenue forecasting, budgeting methods and preparation and appraisal of budget proposals.

#### **(3) Budget execution and implementation.**

This will focus on improving budget implementation processes, and includes disbursement arrangements, procurement processes and systems, budget monitoring etc.

#### **(4) Financial accounting and reporting.**

This will involve strengthening financial accounting processes, procedures and systems, financial reporting and cost control.

#### **(5) Treasury management.**

This will involve improving cash flow forecasts, payment systems, cash management, banking arrangements etc.

#### **(6) Internal control and internal audit.**

This involves strengthening systems of internal controls and the internal audit function.

#### **(7) External audit scrutiny and parliamentary oversight.**

This involves strengthening the office of the auditor general and the role of parliament in providing oversight in PFM matters. It may involve introduction of new auditing techniques, processes and procedures.

#### **(8) Monitoring and evaluation.**

This involves strengthening the monitoring and evaluation framework to monitor the performance of public sector institutions in terms of delivering services.

### **(b) Factors impacting on PFM reforms.**

#### **(i) Government leadership and ownership.**

A pre-requisite for successful implementation of any reforms in the public sector is government leadership, commitment and ownership of the reforms at the highest level.

PFM reforms fundamentally change the way government does business and their implementation may face resistance. It is therefore important that there is high level leadership and political will for the reforms to be implemented successfully.

**(ii) Coordination across government.**

The institutional arrangements are important in implementing PFM reforms. This requires involvement of key stakeholders through established structures to support implementation. If this is lacking, this may adversely affect implementation.

**(iii) Technical capacity.**

The nature and complexity of the reforms require that technically competent staff are involved in the reforms. However in many developing countries undertaking these reforms, capacity may not exist and this does affect implementation.

**(iv) Availability of resources.**

These reforms require substantial financial resources to be implemented and in most cases these may not be available. However, development partners have provided funds in the recent past to support these reforms

**END OF SOLUTIONS**





PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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DIPLOMA LEVEL

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PFM 5: PUBLIC SECTOR AUDITS

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THURSDAY 17 JUNE 2021

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO (2) 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 Zambia Electricity Supply Corporation Limited is a state-owned power company in Zambia. It is Zambia's largest power company producing about 80% of the electricity consumed in the country.

The company was formed in 1970 after the Zambia Electricity Supply Act was passed in Parliament. This Act brought together the electricity undertakings that were previously managed by the local authorities. In 1994, the name of Zambia Electricity Supply Corporation Limited was changed to ZESCO Limited. This was to reflect the recommitment to providing a high quality of customer service.

ZESCO Limited is audited by one of the big four (4) audit firms but the Government authorities have requested that the Office of the Auditor General (OAG) carry out a financial and compliance audit of the company.

There are rumours that ZESCO Limited had awarded a huge procurement contract to Dynamo Limited without following tender procedures. According to the rumours, Dynamo Limited paid an amount of K4 million to members of the Procurement Committee of ZESCO Limited in return for a favour to award them the contract to supply an assortment of materials worth K400 million.

#### **Required:**

- (a) Discuss, with examples, seven (7) methods that can be used to gather evidence in the financial audit of ZESCO Limited. (14 marks)
- (b) Explain the responsibilities of the Office of the Auditor General (OAG) and that of ZESCO Limited Management with regards to fraud, in accordance with ISSAI 1240. (4 marks)
- (c) Distinguish between the financial audit and compliance audit that will be carried out in the audit of ZESCO Limited. (4 marks)
- (d) Explain six (6) general principles of public sector auditing that may be used by the audit team of ZESCO Limited as per ISSAI 100. (9 marks)
- (e) Explain any three (3) elements of quality control of audits of SAIs in accordance with ISSAI 40 quality control. (6 marks)
- (f) Explain with reasons why the compliance audit team will need to appoint one or more external experts to assist the audit. (3 marks)

**[Total: 40 Marks]**

## **SECTION B**

**There are FOUR (4) questions in this section. Attempt any THREE (3) questions.**

### **QUESTION TWO**

You are the Audit Manager in the Office of the Auditor General working on the audit of the Ministry of Youth and Sport. The Ministry's financial year ended on 31 March 2019. As you are planning for the financial audit, the audit team is giving consideration to the audit risk associated with the payroll system. The payroll cost is a significant portion of the Ministry's total expenditure. The controls over the payroll system are weak and there is a huge risk of manipulating salaries, allowances and payments to employees who are changing grades.

#### **Required:**

- (a) Explain the meaning of "ghost employees" and how these may exist within a payroll system. (4 marks)
- (b) Explain why it is important to plan an audit. (6 marks)
- (c) Suggest audit procedures that might be taken by the audit team to address the audit risk in payroll costs. (10 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

The Public Audit Act No. 29 of 2016 is the legal framework which governs the operations of the National Audit Office in Zambia.

The Act includes the annual audit of the accounts of the National Audit Office by an independent auditor appointed by the State Audit Commission. The State Audit Commission has asked your firm to suggest to it a job description of the Auditor General (AG) which should incorporate appropriate details on forensic audits.

#### **Required:**

- (a) State the contents of the Mexico Declaration on Supreme Audit Institutions (SAIs). (8 marks)
- (b) Describe any five (5) guidelines outlined in the Lima Declaration. (10 marks)
- (c) Explain what is meant by the term forensic audit? (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Explain what is meant by 3 'Es' in relation to a performance audit. (4 marks)
- (b) You are an Audit Manager in the Office of the Auditor General (OAG). You are auditing the procurement system of Medical Stores Limited, a wholly owned Government institution. Extracts from the procurement system are provided below:

##### **Details of Ordering Department**

Six (6) members of staff – One (1) Chief Buyer and five (5) Purchasing Clerks. The Department receives about 75 orders each day, many orders for duplicate items come from different medical centres in the country. An initial evaluation of internal controls indicates that control risk is high.

##### **Procurement Systems**

All orders are raised based on pre-numbered purchase requisitions sent to the ordering Department. In the ordering Department, each requisition is signed by the Chief Buyer. A Purchasing Clerk transfers the order information onto an order form and identifies the appropriate supplier.

##### **Good Inwards Department**

All goods received are checked for damages. Damaged items are returned to the supplier and a damaged goods note completed. For undamaged items, a two-part pre-numbered goods received note (GRN) is raised.

- Part one is sent to the Accounts Department via the Ordering Department.
- Part two is filed in order of the reference number for goods being ordered (obtained from the supplier's goods dispatched documentation), in the Goods Inwards Department.

GRNs are separated from damaged goods notes which are filled. In the accounts Department, GRNs are matched with the orders awaiting the receipt of the invoices.

##### **Required:**

Using the system notes provided;

- (i) Identify and explain the internal control deficiencies and provide recommendations to overcome each. (10 marks)
- (ii) Identify and explain the additional deficiencies that should be raised by a value for money audit and provide a suitable recommendation to overcome each deficiency. (6 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

In 2013, the Zambian Government launched a new Land Management System, through the Ministry of Lands and Natural Resources. This is aimed at tracking land malpractices and environmental protection. The computerized land administration system valued at K8 million would provide secure, transparent and traceable land transactions that would help identify fraudulent practices as it would restore and increase public confidence in the administration of land in the country. The computerization system would run side by side with the old system.

According to the project details, the Government would ensure that the land administration is effective, transparent and accountable as this would contribute to poverty reduction, wealth and job creation.

The project would allow electronic monitoring of each transaction and allow automated processes that would improve efficiency.

#### **Required:**

- (a) Describe the purpose of an IT audit and explain its importance in the Ministry of Lands and Natural Resources. (2 marks)
- (b) Describe the role of IT audits in financial, compliance and performance audits. (6 marks)
- (c) Suggest any four (4) relevant application controls which ought to exist in the Ministry of Lands and Natural Resources computerized system, giving two (2) examples for each. (8 marks)
- (d) Describe the risks of not paying attention to cyber security in the Ministry of Lands and Natural Resources. (4 marks)

**[Total: 20 Marks]**

**END OF PAPER**

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

### **SOLUTION ONE**

(a) Methods of gathering audit evidence in a financial audit in the public sector

#### **Inspection:**

Inspection involves the examination of documents or records in a client organization. It also includes physical inspection of tangible non-current assets. In the financial audit of ZESCO Limited, inspections include orders for authorization or attending at inventory count.

#### **Observation:**

This involves the Auditor looking at a process being performed by others with the objective to confirm that the process is being carried out, as it should be. In examples of observation could include the Auditor's observation of inventory counting by the client staff or observation of the performance of control activities.

#### **External Confirmation:**

This is achieved by the Auditor obtaining third party confirmations. The method can be used to confirm account balances with the bank or confirming receivable account balances with a selection of customers.

#### **Recalculation:**

Recalculation involves checking the mathematical accuracy of documents and records by the Auditor. For example, when testing revenue, the Auditor may check the calculation of invoice values on a sample of invoices.

#### **Re-performance:**

This involves the Auditor executing a procedure or control originally performed as part of the internal controls of the entity.

For example, the Auditor may re-perform the bank reconciliation for a particular month.

#### **Analytical Procedures:**

Analytical procedures involve evaluating and comparing financial and/or non-financial data for plausible relationship that are not consistent with other relevant information or deviates from predicted amounts.

For example, a significant increase in gross pay can be verified by comparing with changes in staff numbers during a period. One would expect that a significant increase in staff numbers will be matched by an increase in the gross pay.

**Enquiry:**

This method is widely used in an audit of statements. It ranges from formal written enquiries to oral inquiries of persons within and outside the entity. For example, the Auditor uses enquiry method when gaining an understanding of the entity and its environment.

**(b) Responsibilities For Fraud**

ISSAI 1240 gives guidance on the responsibilities for fraud in a public sector audit.

**Management Responsibility:**

The primary responsibility for prevention and detection of fraud lies with Management and those charged with governance of the entity.

It is their responsibility to place emphasis within the organization for fraud prevention and also to establish a strong control environment.

**OAG Responsibility:**

The Office of the Auditor General (OAG) is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error.

The Auditors should be aware of the fact that the financial statements could be materially misstated due to fraud.

**(c) Distinction between financial audit and compliance audit:****Financial Audit**

A financial audit focuses on whether an entity's financial information has been presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient appropriate audit evidence to enable the auditor to express an opinion about whether the financial information is free from materials misstatements due to error or fraud.

**Compliance audit**

A compliance audit is conducted so as to establish whether an entity's (i.e a Ministry, Programme, Activity or System) activities conform with the set standards or guidelines. Actual performance is measured against set criteria which may be laws, regulations or policies.

**(d) Principles of public sector audit: (ISSAI 100)****Ethics and independence**

The SAI auditor should consider the relevant ethical requirements to ensure that they are truly independent of ZESCO Limited.

**Professional judgement and professional scepticism**

The officers of OAG on the audit of ZESCO Limited must apply professional scepticism, professional judgement and due care throughout the performance of the audit.

**Quality control**

The audit should be conducted following of relevant standards on quality control.

**Audit team and management skills**

The members of the audit team of ZESCO Limited should have the necessary skills and competences to perform the audit. In the event that experts will be used, care should be taken to ensure that the experts have the necessary skills and competences.

**Audit risk**

The auditors of ZESCO Limited should ensure that they consider risk before and the audit. They should manage risk and ensure it is at an acceptable level.

**Materiality**

This should be considered by the auditors throughout the audit. Materiality will impact on the nature, timing and extent of the audit procedures.

**Documentation**

Proper documentation must be retained on the audit. This will provide evidence of the work that has been carried out will also form the basis of the conclusion reached.

**Communication**

There should be effective communication between the officers from the OAG during the audit. Management of ZESCO Limited should be kept informed about matters relating to the audit and they should be provided with timely observations and findings throughout the audit.

**(e) Elements of Quality Control:****Leadership responsibilities**

SAI should establish policies and procedures which promote quality as part of the culture of the institution. This should be from the highest level of the institution.

**Relevant ethical requirements**

SAI should have policies to ensure that the integrity of Management is not questionable. It should be noted that SAIs do not have the discretion about the work they will carry out. Considering integrity helps the SAI decide how to deal with risk that will arise due to lack of integrity in Management.

**Human resources**

SAI should have policies and procedures to provide it with reasonable assurance that it has necessary resources with the requisite skills and competences to perform its duties.

**Engagement performance**

Policies and procedures to ensure work is conducted in accordance with relevant standards must be in place. This entails supervision and review of responsibilities of the work that has been carried out.

**Monitoring**

There should be monitoring systems in place in order to reasonable assurances to the SAI that quality control process and procedures are relevant, adequate and operating effectively at all times.



- (f) The compliance audit team will need to deal with matters of technical nature within the context of generation, transmission, distribution and supply of electricity. The OAG is unlikely to have anyone with the necessary knowledge and expertise to inspect records, carryout physical observations of the operations and arrive at the conclusions.

ISSA 1620 states that the auditors may appoint an expert of suitable competence to obtain evidence for them by carrying out investigations that are beyond the scope of the auditor's own competence.

\*In this compliance audit experts on power generation, distribution, transmission and supply may be available from engineering consulting firms.

## **SOLUTION TWO**

### **(a) Definition of ghost employees:**

A ghost employee is a fake employee, who does not exist but is receiving payment of wages or salary from an organization's payroll.

### **Existence of ghost employees:**

- The existence of ghost employees within payroll system may be due to human error as well as fraud.
- This is made possible by weakness in the internal control system.
- Some ghost employees exist because individual who leave the organization through resignation or retirement continue to receive pay and do not inform the organization.

### **(b) Audit planning is important because of the following reasons:**

- It ensures that appropriate attention is devoted to important areas of the audit. For example, overall materiality and performance materiality will be assessed at the planning stage and this will mean that when the detailed audit plan is drawn up, more procedures will be directed towards the most significant figures in the financial statements.
- Planning should mean that potential problems are identified and resolved on a timely basis. This could be in the sense of identifying financial statement risks at an early stage so allowing plenty of time to gather sufficient appropriate evidence. It could also relate to identifying practical problems relating to the gathering of evidence and resolving those through actions such as involving other experts being built into the detailed audit plan.
- Planning helps ensure that the audit is organized and managed in an effective and efficient manner. This could relate to, for example, ascertaining from the client when particular pieces of information will be available so that timings of the audit are organized so as to minimize waste of staff time and cost.
- Planning assists in proper assignment of work to engagement team members. Once the main risky areas have been identified at the planning stage, the engagement partner can then make sure that staff with suitable experience and knowledge is allocated to the engagement team.
- Planning facilitates direction, supervision and review of the work done by the team members. Once procedures have been designed and allocated to members of the team, it is easier for the Manager and partner to decide when work should be completed and ready for review. It will also make it easier for them to assess during the audit whether work is going according to the original plan and budget.

**(c) Payroll audit procedures:**

- Make a comparison of the employees on the HR register with the employees on the payroll register to identify discrepancies where there are employees on the payroll register who are not on the HR register. With IT systems for both registers, it may be possible to make 100% comparison of the registers.
- There should be an investigation of controls over the recruitment of new employees and recording leavers who resign or retire. It might be appropriate to investigate a sample of new recruits in order to confirm their actual existence, for example, by meeting with them or their Management and finding evidence of their existence. All new appointments must be authorized at an appropriate Management level, and the auditors should check the documentation for evidence of approval and authorization.
- Spot checks may be carried out on the existence of employees by visiting employment locations and verifying that all employees on the payroll register for that location actually turn up for work.
- As a check on the overpayment of employees who received pay for a higher grade than their actual grade within the organization, sampling can be used to check the actual payment to employees (from the payroll system) with their entitlement to pay (from the HR register).
- Sampling should be used to check payments of allowances such as overtime payments. The auditor should look for documentary evidence that overtime has been appropriately authorized. However, it may be difficult to find evidence that employees have actually been authorized and paid for.
- There should be checks on amendments to payroll file, for items such as increase in salary or wage rates, or the payment of various allowances. Documentary evidence to validate any payroll changes should be obtained. Test of controls may indicate control weaknesses, in which case more extensive substantive testing will be required.
- Assuming that the payroll system of the Ministry of Youth and Sport is computerized, it would be possible to extract details of any employee paid unusually large amounts or who is paid for an unusually large amount of overtime. Similarly, it may be possible to check for multiple payments to any employee for the same period. Each unusual case that is identified can then be investigated in more detail.

### **SOLUTION THREE**

- (a) The Mexico declaration on SAI independence states the following eight (8) core principles which are essential elements of proper public sector auditing:

**Principle 1**

The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application of proper public sector auditing legislation that spells out, in detail, the extent of the SAI independence is required.

**Principle 2**

The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties.

**Principle 3**

A sufficiently broad mandate and full dissemination, in the discharge of SAI functions.

**Principle 4**

Unrestricted access to information.

**Principle 5**

The right and obligation to report on their work.

**Principle 6**

The freedom to decide the content and timing of audit reports and to publish and disseminate them.

**Principle 7**

The existence of effective follow-up mechanisms on SAIs recommendations.

**Principle 8**

Financial and managerial/administrative autonomy and the availability of appropriate human, materials and monetary resources.

- (b) **The Lima Declaration**

**Internal and external audit**

Each Government Ministry, Department and entity needs to have its own internal audit. The external auditor should assess the effectiveness of internal audit.

**Independence of SAIs**

An independent supreme audit institution must perform its function objectively and effectively. The SAI should have its functional or organizational independence to achieve this.

**Independence of SAI members**

The independence of decision makers within the supreme audit institution should be protected.

**Financial independence of the supreme audit institution**

In order for the Auditor General to carry out its mandate, there is need for adequate financial support. This will enhance objectivity.

**Powers of investigation**

The Auditor General's office should have access to all staff and records in order to effectively carry out an audit.

**Auditor staff**

All the audit employees should have adequate knowledge and competences to enable them conduct audits effectively.

**Audit methods**

The SAIs should audit in accordance with a self-determined program.

**Method of reporting**

The SAIs should give due consideration to the points of view of the audited entities on its findings.

- (c) A forensic audit can be defined as the process of gathering, analysing and reporting on data in a predefined context, for the purposes of finding facts and/or evidence in the context of financial/legal disputes and/or irregularities and giving preventive advice in this area.

## **SOLUTION FOUR**

- (a) The 3 'Es' relate to economy, efficiency and effectiveness in performance audit (value for money audits).

**Economy** relates to the attainment of the appropriate quantity and quality of physical, human and financial resources (inputs) at the lowest cost.

**Efficiency** is the relationship between goods or services produced (outputs) and the resources used to produce them; an efficient process would produce the maximum output for any given quantity and quality of produce or service provided.

**Effectiveness** is concerned with how well an activity is achieving its policy objectives or other intended effects.

- (b) (i)

<b>Internal control deficiency</b>	<b>Recommendation</b>
A Clerk transfers information from the order requisition to an order form. This could result in errors in orders being made after the buyer has authorized the requisition.	The order form should be signed off as authorized to confirm that the details on the requisition match those on the order form.
The order requisition is thrown away once the Chief Buyer has authorized it. Any subsequent queries on orders cannot be traced back to the original requisition.	The order requisition form should be retained with the order form in case of query or dispute regarding items ordered.
No copy of the order form is retained by the Ordering Department. This means that goods could be ordered twice in error or deliberately. It also means that queries on deliveries cannot be chased up.	A three part pre-numbered order form should be used and one copy could be retained by the Ordering Department with the requisition form.
The Goods Inwards Departments must retain a copy of the damaged goods note. If the note is lost on the way to the Ordering Department, or there is a query, the Goods Inward Department has no record of goods returned.	Four copies of the damaged goods note should be issued. One copy could be retained by the Goods Inward Department, one sent to the Ordering Department, one sent to the department who requested the goods, so that they are aware that there will be a delay and one to the supplier.
The Ordering Department does not keep a record of goods received, so is unable to confirm which orders are closed or to chase up suppliers.	The Ordering Department should match orders to GRNs and mark orders as closed once all goods have been received.
The Goods Inwards Department files GRNs in order of the supplier's goods reference. This could make it difficult to find a GRN at a later date if the department is not aware of the supplier's reference.	GRNs should be filed in date order or by purchase order number.

- (ii)

<b>Additional deficiency</b>	<b>Recommendation</b>
There is no delegated level of authority for	There should be authority limits set so that

authorizing order requisitions. The Chief Buyer has to authorize all requisitions. This is not an efficient use of Chief Buyer's time.	staff authorize within the set limits.
Purchasing Clerks place orders for goods and some of these are for duplicate items. Any volume discounts for ordering bulk items would therefore not be obtained – this shows a lack of economy.	All purchase requirements should be passed through one buyer who will check for possible duplicate requirements.
The copy of the GRN sent to the Accounts Department goes via the Ordering Department which delays the checking of the GRN to the order. This is inefficient.	Accounts copies of the GRNs should be sent direct to accounts as a control for any missing GRNs rather than channeling through Ordering Dept.
The structure of the Ordering department could be improved; there is just one Buyer and five (5) Purchasing Clerks. This could cause problems when the Buyer is on holiday, sick or leaves permanently. It may indicate inefficiency.	Procedures should specify who of the Purchasing clerks acts in the absence of the Chief Buyer and authority should be formally delegated when the Chief Buyer goes on leave or absence from work for any reason.
There is insufficient communication to the department that created the purchase requisition regarding the order progression. They do not know that their order has been made and would not find out if the goods are delivered but have to be returned due to damages.	Copies of order should be sent to the requisitioners and so should copies of GRNs so that they are updated on the status of the order.

## **SOLUTION FIVE**

### **(a) Purpose of IT Audits**

IT audits are test of controls in a specific area of the business, the computer system. In modern business, computers are vital to the functioning of the business and thereof the controls over them are key to the business. Hence the purpose of IT audits is to give assurance on the effectiveness of controls.

The Ministry of Lands and Natural Resources has invested significant sums of money in automation and stakeholders may be interested in seeing the promised improvements, the efficiency and making land affordable to all citizens of Zambia.

### **(b) Application of IT audits during other types of public sector audits**

#### **Financial Audit**

In an environment like the public sector, a financial accounting IT system audit is inevitable as the auditor will be required to trail accounting transactions up to the preparation of financial statements. This means testing controls over input, processing and output.

#### **Compliance Audit**

In compliance audit, the auditors are concerned with the Government compliance with relevant laws and regulations. This includes assessing whether the financial staff adhere to applicable IT laws and regulations as well as the IT system being compliant with all guidelines.

#### **Performance Audit**

Government IT systems must be assessed in terms of economy, efficiency and effectiveness. This may include assessing the cost of the IT systems while maximizing the operation of the system. In terms of effectiveness, an evaluation as to whether the system has been implemented in a manner that enables Government to achieve its objectives will be necessary.

### **(c) Application Controls**

#### **Controls over completeness of input**

Examples:

- Document counts.
- One-for-one checking of processed output to source documents.

#### **Controls over accuracy of input**

Examples:

- Reasonableness test (e.g ground rent received).
- Existence checks (e.g name of title holder)



### **Controls over authorization**

Examples:

- Manual authorization.
- Input by authorized official.

### **Controls over master files and standing data.**

Examples:

- Cyclical reviews of all master files and standing data.
- Record count and hash totals.

#### **(d) Risks of not paying attention to cyber security:**

As a result of the internet and huge changes in communication and technology, the Ministry of Lands and Natural Resources may be a victim of cybercrime, which may take the following form:

##### **Malicious damage:**

This is where criminals gain access to the IT systems and delete data and install sophisticated programs. This leads to operational challenges in terms of planning and decision making.

##### **Data theft:**

Important and sensitive data is copied and used for criminal activities.

##### **Denial of access attacks:**

Business is disrupted when access to the website is denied by criminals hacking the system.

**END OF SOLUTIONS**



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

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**DIPLOMA LEVEL**

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PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

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MONDAY 14 JUNE 2021

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO (2) 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**

The Office of the Auditor General for Country X extracted the following balances from the consolidated fund for the year ending 31 December 2019.

<b>Details</b>	<b>'K'</b>
Direct Tax	2,044,460
Compensation of Employees	1,808,672
Goods and Services	1,404,336
Non-Financial Assets	1,134,779
Indirect Tax	1,939,556
Grants	28,000,000
Interest Expenses	498,138
Social Benefits	1,238,882
Other Expenses	1,159,255
Other Revenue	150,928
National Health Insurance Levy	179,400
Depreciation and Amortization	120,500
Loan Repayments	4,500,000
Levies	127,500
Loans Received	7,545,150
Loans Recovered	560,000
Other Payments	768,428
Cash at Bank	2,813,642

### **Required:**

- (a) Prepare Receipts and Payments of the Consolidated Fund for the year ended 31 December 2019. (19 marks)

(b) State five (5) components of the financial Statements of the consolidated fund. (5 marks)

(c) Explain the usefulness of the notes to the Financial Statements and which notes should be included to the Financial Statements. (16 marks)

**[Total: 40 Marks]**

## SECTION B

There are **FOUR (4)** questions in this section. Attempt any **THREE (3)** questions.

### **QUESTION TWO**

(a) The Ministry of Works and Supply has recognized a number of non-current assets that are earmarked for sale from various ministries. These assets, according to the finance director, have met the recognition criteria for classification as non-current assets held for sale per applicable standard.

#### **Required:**

- (i) Outline the conditions required for an asset to be recognized as 'held for sale'.  
(6 marks)
- (ii) The non-current assets classified as held for sale at the Ministry of Works and Supply at the reporting date of 31 March 2021 had a carrying value of K5.7 billion and their fair value was known at a time to be K8.1 billion of which K1.1 billion costs would be incurred in order to sell the assets.

Explain the appropriate measurement basis for non-current assets held for sale and discontinued operation upon classification and state at what value the Ministry of Works and Supply would show the non-current assets at 31 March 2021.

(2 marks)

(b) 'IPSAS 12 Inventories' provide guidance on the accounting treatment of inventories and determination of the cost of inventory be it purchased or manufactured among other issues.

#### **Required:**

- (i) List four (4) components of cost that qualify to be included as cost of manufactured inventory as per IPSAS 12.  
(2 marks)
- (ii) List the key disclosure requirements for inventories per IPSAS 12.  
(4 marks)
- (iii) The Ministry of General Education had the following items of inventory as at the yearend 31 March 2021.

Item	cost/unit 'K'	selling price/unit 'K'	cost to sell/unit 'K'	Qty
Chalk	35	36	4	450
Books	48	165	12	600
Rotatrim ream	240	220	-	400

**Required:**

Ascertain the total value of inventory at the Ministry of General Education as  
at 31 March 2021 (6 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

Mafinga District Council prepares its financial statements using International Public Sector Accounting Standards (IPSAS) accrual basis. The following are the Statement of Financial Position and Financial Performance for the years ending December 31 2018 and 2019.

Statement of Financial Position:

	2018 K'000	2019 K'000
<b>Assets:</b>		
<b>Non - Current Assets</b>		
Intangible assets	6,500	5,242
Property, Plant and Equipment	158,000	177,000
<b>Total Non-Current Assets</b>	<b>163,000</b>	<b>182,242</b>
<b>Current Assets</b>		
Inventories	4,000	4,500
Receivables	9,700	11,800
Cash and Cash Equivalents	36,700	48,558
<b>Total Current Assets</b>	<b>50,400</b>	<b>64,858</b>
<b>Total Assets</b>	<b>213,400</b>	<b>247,100</b>
<b>Equity and Liabilities</b>		
Capital Contributed by Central Government	79,100	71,200
Revaluation Reserves	42,500	46,800
Retained Surplus	75,200	89,100
<b>Long Term Liabilities</b>		
Long term borrowing	8,000	23,000
Provisions	400	500
<b>Total Long Term Liabilities</b>	<b>8,400</b>	<b>23,500</b>
<b>Current Liabilities</b>		
Trade and Other Payables	7,800	15,600
Borrowings	400	900
<b>Total Current Liabilities</b>	<b>8,200</b>	<b>16,500</b>
<b>Total Equity and Liabilities</b>	<b>213,400</b>	<b>247,100</b>

## Statement of Financial Performance for the Year 31 December 2019

Details	K'000
Income from rates	257,000
Other Operating Income	24,000
	<b>281,000</b>
<b>Expenses</b>	
Staff Costs	(199,000)
Cleaning Materials	(25,000)
Depreciation	(10,000)
Other Operating Expenses	(32,000)
	<b>(266,000)</b>
	<b>15,000</b>
Interest Received	130
Loss on disposal of Assets	(120)
Finance Costs – Interest Payment	(1,200)
Finance Costs – unwinding discounts on provision	(7)
	(1,327)
Surplus	13,803

### Notes:

1. During 2019, the District incurred costs of K1,200,000 on research and development. Research costs of K400,000 were written off to the Statement of Financial Performance as other operating expenses. The remainder of K800,000 were development costs which were capitalized.
2. The loss on disposal assets relates to some outdated equipment with net book value of K150,000. The equipment had previously revalued by K55,000. Half of the proceeds of sales were received on 1 October 2019 with the remainder due to be received on 1 February 2020.
3. The receivable balances relate to income from rates and the amount owed in relation to the disposal of assets in note 2.
4. The payable balance relate to staff costs.
5. Each year approximately 10% of the opening balance of the capital contributed by central government is repaid. The payment K7, 900,000 was made on 1 March 2018.
6. The revaluation reserve relates entirely to property, plant and equipment.
7. During 2018, new long term loans of K40,000,000 were received from the District Financing Facility.
8. During the year ending 31 December 2018 new provisions totalling K123,000 were set up for negligence claims for staff.

**Required:**

(a) Prepare Cashflow Statement for Mafinga District Council for the year ended 31 December 2019 in accordance with IPSAS 1 Direct Method.

(15.5 marks)

(b) Prepare the reconciliation of net cashflow from operating surplus of Mafinga District Council for the year ended 31 December 2019.

(4.5 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Nampeyo is a public interest entity which supplies water for industrial use in a newly established district in Southern Province. The following summarised financial statements have been provided:

**Statement of financial performance**

<b>Financial year ended 30 June ...</b>	<b>2020</b>	<b>2019</b>
	K'000	K'000
Revenue	50,000	30,000
Cost of sales	(30,000)	(15,000)
Gross profit	20,000	15,000
Distribution costs	(12,000)	(9,000)
Administration expenses	(5,400)	(4,000)
Finance costs	(500)	(100)
Profit before tax	2,100	1,900

**Statement of financial position**

<b>As at 30 June...</b>	<b>2020</b>	<b>2019</b>
	K'000	K'000
<b>Assets</b>		
Non-current assets		
Property, plant and equipment	25,000	32,000
Investment property	10,000	-
Current assets		
Inventory	3,000	2,000
Receivables	5,000	4,000
Prepayments	1,000	500
Cash and bank	2,500	800
Total assets	46,500	39,300
<b>Equity and liabilities</b>		
Equity		
Ordinary shares K1 each	7,000	7,000
Retained earnings	2,640	1,920
Non-current liabilities		
16% Loan stock	31,000	24,000
Current liabilities		
Payables	5,860	6,380
Total equity and liabilities	46,500	39,300



**Required:**

- (a) Explain the primary objective of most public sector entities like Nampeyo. (4 marks)
- (b) Using the financial information provided for Nampeyo, compute the following ratios (for both years):
- (i) Return on capital employed (ROCE)
  - (ii) Return on equity (ROE)
  - (iii) Quick ratio
  - (iv) Receivable days
  - (v) Payables days
  - (vi) Debt/Equity ratio
- (12 marks)
- (c) Comment on any major areas of performance where the absolute use of figures could be misleading. (4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

The Government of Country X is in the process of rolling out International Public Sector Accounting Standards (IPSAS) and the Government Finance Statistical (GFS) reporting guidelines to all its Ministry, Provinces and Agencies. The paper to introduce the new reporting guidelines was presented to parliamentary committee for scrutiny before rolled out. In the same paper, the Ministry of Finance indicated that government implement Integrated Reporting which brings together material information about an organization's strategy, governance, performance in a way that the economic, social and environmental context within which it operates.

The Parliamentary Committee has written to the Ministry of Finance seeking clarification on the objectives of GFS and how government makes use of the financial information provided by IPSAS reporting framework.

**Required:**

- (a) Prepare a response for the Minister outlining the objectives of GFS and how government makes use of the financial information provided by IPSAS reporting framework. (8 marks)
- (b) Explain areas where integrated reporting has benefited organisations and the common weaknesses with implementing Integrated Reporting. (12 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

### SUGGESTED SOLUTIONS

#### **SOLUTION ONE**

- a) Prepare Receipts and Payments of the Consolidated Fund for the year ended 31st December 2019.

#### **STATEMENT OF RECEIPTS AND PAYMENTS OF THE CONSOLIDATED FUND FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2019**

<b>RECEIPTS</b>	<b>K</b>	
Direct Tax	2,044,460	
Indirect Tax	1,939,556	
Grants	28,000,000	
Other Revenue	150,928	
National Health Insurance Levy	179,400	
Levies	127,500	
Loans Received	7,545,150	
Loan Recoveries	560,000	
<b>Total Receipts</b>	<b>40,546,994</b>	
<b>PAYMENTS</b>		
Compensation of Employees	1,808,672	
Goods and Service	1,404,336	
Non-Financial Assets	1,939,556	
Interest Expenses	498,138	
Social Benefits	1,238,882	
Other Expenses	1,159,255	
Loan Repayments	4,500,000	
Other Payments	768,428	
<b>Total Payments</b>	<b>13,317,267</b>	
<b>Excess of Receipts over payments</b>	<b>27,229,727</b>	
<b>Total</b>		

	b) State five components of the financial Statements of the consolidated fund.	
	<ul style="list-style-type: none"> <li>i. Statement of Financial Position</li> <li>ii. A Statement of Revenue and Expenditure</li> <li>iii. A Statement of Receipts and Expenditure</li> <li>iv. A cash flow Statement</li> <li>v. Notes to the Accounts</li> </ul>	

	c) Explain the usefulness of the notes to the Financial Statements and which notes should be included to the Financial Statements.	
	<p><b>Usefulness of the notes to the Financial Statements</b></p> <ul style="list-style-type: none"> <li>• Footnotes to the financial statements allow additional information and clarification to items presented in the Statement of Financial Position, Statement of Financial Performance and cash flow statement.</li> <li>• The footnotes present required disclosures, accounting methodologies used, any modifications to methodologies from previous reporting periods, and upcoming transactions that may affect future profitability.</li> <li>• Footnotes are important for key stakeholders and other users of the financial statements as they may reveal issues about the financial status of the institution.</li> </ul> <p><b>Notes to be included to the Financial Statements</b></p> <ul style="list-style-type: none"> <li>• <b>Notes that show the basis for presentation</b> The first thing to do when preparing explanatory notes is explaining, in general, the business and significant accounting policies. For such a note, the institution gives a thumbnail sketch of the business. Common topics for discussion include what the core business of the institution is and how it does that work.</li> <li>• <b>Notes that advise on significant accounting policies</b> Information about accounting policies assists financial readers in better interpreting an institution's financial statements, thus resulting in a more fair presentation of the financial statements. A note is needed for each significant accounting choice by the Institution. At the very least, the explanatory notes should include what depreciation methods are in use, how a institution values its ending inventory, the basis of consolidation, accounting for income taxes, information about employee benefits, and accounting for intangibles.</li> <li>• <b>Notes about depreciating assets</b> Depreciation is spreading the cost of a long-term asset over its useful life (which may be years after the purchase). An Institution values its ending inventory using inventory valuation methods. The methods an Institution opts to use for both depreciation expense and inventory valuation can cause wild fluctuations in the amount of assets shown on the Statement of Financial Position and the amount of net Surplus/(Deficit) shown on the Statement of financial Performance. The user needs to know which methods the company uses when comparing financial statement figures with another company's figures. Differences in net income could merely be a function of depreciation or valuation methodology, and the user would be unaware of that fact without the footnote.</li> <li>• <b>Notes about valuing inventory</b> Institutions have two inventory issues that must be disclosed in the notes: the basis upon which the company states inventory</li> </ul>	

(lower of cost or market) and the method in use to determine cost. GAAP allows three different cost flow assumptions: specific identification; weighted average; and first in, first out (FIFO). Accounting for depreciation and inventory is usually addressed in whichever note gives a summary of accounting policies.

- **Notes that disclose subsequent events**

The Institutions also has to address any subsequent events that happen after the close of the accounting period. How the Institutions handles this type of event hinges on whether the events affect the Institution's estimates booking on the financial statements or events aren't on the books at all before the Statement of Financial Position date and have no direct effect on the financial statements under audit.

- **Notes that explain intangibles**

Intangible assets aren't physical in nature, like a desk or computer. Two common examples of intangibles are patents, which are licensing for inventions or other unique processes and designs, and trademarks, which are unique signs, symbols, or names that the company uses. Besides explaining the different intangible assets the Institution owns via an explanatory note, the business needs to explain how it has determined the intangible asset's value showing on the Statement of Financial Position.

- **Notes that consolidate financial statements**

Consolidation refers to the aggregation of financial statements of an Institution as a consolidated whole. In this section of the footnotes, the Institution confirms that the consolidated financial statements contain the financial information for all its other institutions affiliated to it. Any deviations, including deviations from all institutions, also must be explained.

- **Notes that spell out employee benefits**

Employee benefit plans provide benefits to both employees and former employees. One example is a health and welfare benefit plan that provides medical, dental, vision, vacation, and dependent care (just to name a few) benefits to employees and former employees. The footnotes also spell out details about the Institution's expense and unpaid liability for employees' retirement and pension plans. These details include the obligation of the business to pay for post-retirement health and medical costs of retired employees.

- **Notes that reveal contingencies**

A contingent liability exists when an existing circumstance may cause a loss in the future, depending on other events that have not yet happened and, indeed, may never happen. For example, the company may be involved in an income tax dispute. Disclosing this contingent liability is a requirement if the Institution will owe a substantial amount of additional tax penalties and interest if the unsolved examination ends up in the government's favor.

	<ul style="list-style-type: none"><li>• <b>Notes about reporting debt</b> The notes to the financial statements also must disclose claims by creditors against the assets of the Institution. The note shows how the company is financing present and future costs. It also gives the user of the financial statements a look at future cash flows, which can affect the payment of dividends.</li></ul>	
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## **SOLUTION TWO**

- a) i) conditions for recognizing Non-current asset as 'a held for sale non-current asset include:
- Management must be committed to a plan to sell the asset.
  - The asset must be available for immediate sale.
  - An active program to locate a buyer must have been initiated.
  - Management must be actively marketing the asset at a reasonable sales price in relation to its fair value.
  - The sale must be highly probable within 12 months from date of classification.
  - There must be unlikelihood of change of plan to sell.

ii) as there is no IPSAS guidelines for Non-Current Assets 'held for sale and discontinued operation', the IFRS 5 guidance stands and it states that such assets shall be measured at the lower of Fair Value less costs to sell and the carrying amount.

For ministry of works and supply, the fair value less costs to sell is equal to K7.0 billion (K8.1 billion – K1.1 billion) and the carrying value equals K5.7 billion hence the lower of the two is K5.7 billion.

- b) i) four components of costs for manufactured inventory include:
- Cost of materials purchased (including non-refundable taxes, transport cost and handling) net of trade discounts.
  - Labour costs of production excluding excess wastage of labour hours.
  - Other variables and fixed production costs.
  - Hire charges of equipment in the production process for specialized function.

ii) Key disclosure requirements for inventories are:

- Amount of inventories recognized as an expense during the year.
- Amount of inventory write down
- CA of inventory held at NRV
- Accounting policies adopted in measuring inventories
- Any inventories pledged as security for entity's liabilities.

iii)	Item	cost/unit	NRV/unit	lower of cost & NRV	Qty	total
		'K'	'K'	'K'		'K'
	Chalk	35	32 (36-4)	32	x 450	14,400
	Books	148	153 (165-12)	148	x 600	88,800
	Rotatrim	240	220 (220-0)	220	x 400	<u>88,000</u>
	Total cost of inventory					<u>191,200</u>

### **SOLUTION THREE**

- a) **Prepare Cash flow Statement for Mafinga District Council for the year ended 31st December 2019 in accordance with IPSAS 1 Direct Method.**

<b>S/N</b>	<b>Cash Flow Statement for Mafinga District Council for the Year Ending 31<sup>st</sup> December 2019</b>	
	<b>Receipts</b>	<b>ZMW</b>
	Income from Related Activities(257,000+9700-11,800-15)	254,885
	Other Operating Income	24,000
	Interest Received	130
		<b>279,015</b>
	<b>Payments</b>	
	Staff Costs (199,000+7,800-15,600)	191,200
	Cleaning Materials (25,000-4,000+4,500)	25,500
	Other Operating expenses (32,000-123)	31,877
	Interest paid	1,200
		<b>249,777</b>
	Net Cashflow from operating activities	<b>29,238</b>
	Cashflow From Investing Activities	
	Proceeds from Disposal (W1)	15
	Payments to acquire Property , Plant and Equipment (W2)	(24,195)
	Payments on Intangible Assets	(800)
		<b>(24,980)</b>
	Cashflows From Financing Activities	
	Repayment of Capital Contributed by government (79,100-71,200)	(7,900)
	Repayment of long term borrowing (W3)	(25,000)
	Proceeds from new long term borrowing	40,000
	Proceeds from Long term Borrowing (900-400)	500
		<b>7,600</b>
	Net Increase/(Decrease) in Cash and Cash Equivalents	<b>11,858</b>
	Cash and Cash Equivalents at the beginning of the Year	<b>36,700</b>
	Cash and Cash Equivalents at end of the year	<b>48,558</b>

### **Workings**

#### **WK1 - Proceeds on Disposal**

Book values	150,000
Loss on Disposal	(120,000)
Proceeds from disposal	30,000
Less Cash not received	(15,000)

**15,000**

**WK2 – Property Plant and Equipment**

Opening Balance	158,000	Depreciation	10,000
Additions (bal figure)	24,195	Disposal	150
Revaluation (46,800+65-42,500)	4,955	Closing balance	177,000
	<b>187,150</b>		<b>187,150</b>

**WK3 – Long Term Borrowing**

Balance	25,000	Opening Balance	8,000
Closing Balance	23,000	New loan	40,000
	<b>48,000</b>		<b>48,000</b>

**b) Prepare the reconciliation of net cash flow from operating surplus of Mafinga District Council for the year ended 31st December 2019**

S/N	Cashflow From Operating Activities	ZMW
	Surplus	13,803
	Depreciation	10,000
	Loss on Disposal	120
	Increase in Inventories (4,500-4,000)	(500)
	Increase in receivables (11,800-15-9,700)	(2,085)
	Increase in payables (15,600-7,800)	7,800
	Increase in provisions (500-400)	100
	<b>Net Cash Flows from Operating Activities</b>	<b>29,238</b>



## **SOLUTION FOUR**

(a) Primary objective of most public sector entities like Nampeyo

The primary objective of most public entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows.

(b) Computation of ratios

Ratios	Formulae	2020	2019
(i) Return on capital employed	$\text{PBIT/CE} \times 100\%$	$2,600/40,640 \times 100\%$ = 6.4%	$2,000/32,920 \times 100\%$ = 6.1%
(ii) Return on equity	$\text{PBT/E} \times 100\%$	$2,100/9,640 \times 100\%$ = 21.8%	$1,900/8,920 \times 100\%$ = 21.3%
(iii) Quick ratio	$(\text{CA} - \text{Inv.})/\text{CL}$	$(11,500 - 3,000)/5,860$ = 1.5	$(7,300 - 2,000)/6,380$ = 0.8
(iv) Receivables days	$\text{Rec./Rev.} \times 365$ days	$5,000/50,000 \times 365$ days = 36.5 days	$4,000/30,000 \times 365$ days = 48.7 days
(v) Payables days	$\text{Pay./COS} \times 365$ days	$5,860/30,000 \times 365$ days = 71.3 days	$6,380/15,000 \times 365$ days = 155.2 days
(vi) Debt/Equity ratio	$\text{D/E} \times 100\%$	$31,000/9,640 \times 100\%$ = 321.6%	$24,000/8,920 \times 100\%$ = 269.1%

(c) Comment

Nampeyo is located in a newly established district, implying that meaningful infrastructure to support the business is almost non-existent. This could be the reason for the marginal increase in return on capital employed.

The reduction in both receivables and payables days could be due to political pressure given that Nampeyo is a public entity. Any information on the political environment could therefore be very useful in analysing Nampeyo's performance.

The question is also silent on the economic environment. If made available, this will help identify what changes are attributable to changes in economic conditions and changes attributable to good or bad management.

Any changes in accounting policies could affect comparability of the data given. Hence, information on any changes in accounting policies is needed. It is possible that we may not be comparing "like" with "like".

The use of year-end figures in the computation of ratios may not produce ratios which could be representative of the performance throughout the year. Ratios based on averages are more reliable and useful.

## **SOLUTION FIVE**

<b>S/N</b>	<p><b>a) Prepare a response for the minister outlining the objectives of GFS and how government makes use of the financial information provided by IPSAS reporting framework.</b></p>
	<ul style="list-style-type: none"> <li>• Report preparation time, costs, and effort</li> <li>• Improvements can be expected in the source data for GFS reports</li> <li>• Report quality, including timeliness.</li> <li>• Improvements to the understandability and credibility of both types of reports are also likely to result.</li> </ul>
	<p><b>b) Explain areas where integrated reporting has benefited organisations and the common weaknesses with implementing Integrated Reporting.</b></p>
	<p><b>Benefits</b></p> <ul style="list-style-type: none"> <li>• More integrated thinking and management.</li> <li>• Greater clarity on business issues and performance. The report highlights that “management teams are finding that &lt;IR&gt; provides greater insights into factors driving business performance”.</li> <li>• Improved corporate reputation and stakeholder relationships.</li> <li>• More efficient reporting for both users and preparers of reports.</li> <li>• Employee engagement.</li> <li>• Improved gross margins although it was highlighted that any financial benefits of adopting &lt;IR&gt; may take time to realise.</li> </ul> <p><b>Common areas of weakness”.</b> These include:</p> <ul style="list-style-type: none"> <li>• <b>Value creation:</b> The report notes that this may be a “general weakness” in identifying and articulating what the organisation’s stakeholders perceive as ‘value’.</li> <li>• <b>Connectivity:</b> companies identified this as one of the biggest challenges with implementing &lt;IR&gt;: it required breaking down silos within the organisation and changing existing data collection processes.</li> <li>• <b>Defining performance measures:</b> thinking and practice is still immature in articulating the value organisations derive from non-financial capitals.</li> <li>• <b>Materiality:</b> companies found it challenging to reconcile the needs of different stakeholders. The report highlights that only 46% of reports reviewed explained the materiality determination process well. Improving the materiality determination process could help drive improvements in conciseness, completeness and reliability.</li> <li>• <b>Reliability and completeness:</b> Organizations need to know what ‘good reporting’ looks like, before they can implement internal control processes and consider external assurance on their integrated report.</li> <li>• <b>Concise</b> – Most Integrated Reports are not integrated and stakeholders have challenges to follow.</li> </ul>

**END OF SOLUTIONS**