



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 1: PUBLIC SECTOR ACCOUNTING

MONDAY, 11 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO (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 following information was extracted from the expenditure performance report of the Republic of Zambia for the year ended 31 December 2021:

Extracts of the Budget execution report for the year ended 31 December 2021.

Details	Target	Actual
	ZMW'million	ZMW'million
Total expenditure (including Amortization)	106,007,612	121,182,890
Domestically financed loans	66,806,794	90,232,994
Foreign financed loans	26,273,723	22,974,692
Expenses	63,030,744	75,796,629
Personal Emoluments (PEs)	25,627,828	26,880,727
Use of goods and services	6,457,567	9,208,260
Government operations including drugs for Covid 19	4,000,439	6,451,028
Interest payment	20,798,548	19,762,189
Domestic debt principle payment	12,293,548	14,524,693
External debt principle payment	8,505,000	5,237,496
Transfers and subsidies	8,306,578	17,656,874
Ordinary grants	3,967,868	4,389,718
Public service pension fund	227,588	18,966
Farmer input support programme (FISP)	1,110,276	9,847,813
Social benefits	1,840,222	2,288,578
Pension Fund Financing Gap & Local authority superannuation fund	792,800	1,481,240
Transactions in non-financial assets	27,104,548	27,649,447
Roads	2,772,777	3,862,711
Foreign financed projects	23,165,898	20,847,711
Food Reserve Agency	660,000	1,900,454
Transactions in financial assets and liabilities		
Empowerment Funds	30,492	517,504
Recapitalization (IDC, NATSAVE,etc)	-	1,003,000
Suppliers of Goods & Services (MOF)	25,000	1,121,547
Other Liabilities	2,253,734	7,119,559

Required:

- (a) Prepare the budget expenditure performance report for the year ended 31 December 2021 for the Republic of Zambia.

(25 marks)

(b) Comment on the budget expenditure performance for the Republic of Zambia for the year ended 31 December 2021.

(15 marks)

[Total: 40 Marks]

SECTION B

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

QUESTION TWO

The International Public Sector Accounting Standards Boards (IPSASB) has developed a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. General Purpose Financial Reports (GPFs) present financial and non-financial information about economic and other phenomena.

Required:

- (a) Describe the content and purpose of GPFs that has been developed by IPSASB.
(10 marks)
- (b) Explain the key three (3) constraints on the information included in the General Purpose Financial Reports.
(10 marks)

[Total: 20 Marks]

QUESTION THREE

Sound fiscal policy in the public sector is a must have if development is to be implemented for all to benefit. The intention to meet public expectations must be supported by a strong political will, water tight internal controls, adherence to sound fiscal policy and informed citizens who are willing to constructively engage the Government of the day on accountability matters.

Required:

- (a) List any four (4) sources of revenue for the public sector and for each source of revenue, give two (2) potential types of fraud which would negatively affect revenue collections.
(10 marks)
- (b) Explain five (5) ways through which the public sector can minimize budget deficits through tax revenue collections
(5 marks)
- (c) Explain any five (5) practical ways through which Government can reduce wastage of resources when procuring medical supplies in public hospitals and clinics.
(5 marks)

[Total: 20 Marks]

QUESTION FOUR

While service above self is a cardinal ethical principle in the public sector, ethical behavior is largely an individual's choice. It is believed that training, professional expectations and in

house mentorship support to employees can produce ethical Accountants who are ready to offer an exceptional service in the public sector.

Required:

(a) Explain the seven (7) principles of public life. (14 marks)

(b) Explain three (3) circumstances under which the rule of confidentiality may be overridden. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

The Public Finance Act of 2018 requires the Minister of Finance to present half-yearly budget performance reports to the National Assembly. The Act further stipulates that the Secretary to the Treasury shall be responsible for preparing a quarterly review of the performance of the budget and submitting a report thereof to the Minister of Finance. The Standing Orders of the National Assembly, provides that the parliamentary Budget Committee shall “study, inquire into and report on matters related to coordination, control and monitoring of the National Budget” and “conduct budget hearings”. The quarterly performance report by the Ministry of Finance is one of the key sources for the Committee’s regular monitoring of the Executive’s execution of the budget.

Required:

(a) Distinguish between financial and Non-Financial reports in Public Sector Financial Reporting. (4 marks)

(b) Outline four (4) key performance indicators for each of the following: (4 marks)

(i) Financial reports

(ii) Non-financial reports in Public Sector Reporting. (4 marks)

(c) Briefly describe four (4) types of in-year reports that the Ministry of Finance produces. (8 marks)

[Total: 20 Marks]

END OF PAPER

PFM 1: PUBLIC SECTOR ACCOUNTING SUGGESTED SOLUTION

SOLUTION ONE

(a) Budget expenditure performance report for the year ended 31 December 2021

Details	Target	Actual	Variance (%)
	ZMW'million	ZMW'million	
Total expenditure (including Amortization)	106,007,612	121,182,890	14.3
Domestically financed	66,806,794	90,232,994	35.1
Foreign financed	26,273,723	22,974,692	(12.6)
Expenses	63,030,744	75,796,629	20.3
Personal Emoluments (PEs)	25,627,828	26,880,727	4.9
Use of goods and services	6,457,567	9,208,260	42.6
Government operations including drugs for Covid 19	4,000,439	6,451,028	61.3
Interest payment	20,798,548	19,762,189	(5)
Domestic debt	12,293,548	14,524,693	18.1
External debt	8,505,000	5,237,496	(38.4)
Transfers and subsidies	8,306,578	17,656,874	112.6
Ordinary grants	3,967,868	4,389,718	10.6
Public service pension fund	227,588	18,966	(91.7)
Farmer input support programme (FISP)	1,110,276	9,847,813	787.0
Social benefits	1,840,222	2,288,578	24.4
Social cash transfer	792,800	1,481,240	86.8
Transactions in non-financial assets	27,104,548	27,649,447	2.0
Roads	2,772,777	3,862,711	39.3
Foreign financed projects	23,165,898	20,847,711	(10.0)
Food Reserve Agency	660,000	1,900,454	187.9
Transactions in financial assets and liabilities	2,945,225	9,761,611	231.4
Empowerment Funds	30,492	517,504	1,597.2
Recapitalization (IDC, NATSAVE, etc)	-	1,003,000	-
Suppliers of Goods & Services (MOF)	25,000	1,121,547	4,386.2
Other Liabilities	2,253,734	7,119,559	215.9

(b) **Comment on the budget expenditure performance for the Republic of Zambia for the year ended 31 December 2021.**

Budget line	Comments
Total expenditure (including Amortization)	Total expenditure (including amortisation) in 2021 stood at ZMW121.2 billion. This was 14.3 percent above a target of ZMW106.0 billion. This was mainly due to the fall in revenue and grants, higher than projected FISP financing for the 2020/21 farming season and the issuance of the Covid bond.
Expenses	The overall releases towards expenses were above target by 20.3 percent at ZMW75.80 billion against ZMW63.03 billion. The higher than budgeted expenses were mainly on account of increased spending on use of goods and services, transfers and subsidies, social benefits, as well as personal emoluments.
Use of Goods and Services	During the period under review, a total of ZMW9.21 billion was spent on the Use of Goods and Services representing 42.6 percent above the target of ZMW6.46 billion. This was mainly attributed to higher releases towards Government Operations, of which ZMW1.12 billion was channeled to the purchase of drugs and medical supplies in health facilities and ZMW362.50 million was released towards the preparedness and mitigation of the COVID-19 pandemic.
Transfers and Subsidies	Expenditures under this category were above target by 112.6 percent at ZMW17.66 billion against the target K 8.31 billion. The releases were above the projection owing to higher releases on Farmer Input Support Programme (FISP) and ordinary grants.
Social Benefits	A total of ZMW2.29 billion was released towards social benefits. This was 24.4 percent above the target of ZMW1.84 billion. The higher than targeted amounts were on account of higher releases towards

	<p>payment of pensioners under the Public Service Pension Fund (PSPF) and the Local Authorities Superannuation Fund (LASF).</p>
<p>Transactions in Non-financial Assets</p>	<p>Releases under this category exceeded the target by 2.0 percent at ZMW27.65 billion against the target of ZMW27.1 billion. This above targeted amount was mainly as a result of higher disbursements on road infrastructure projects and the Food Reserve Agency. Foreign financed expenditures, however, were below the target as a result of the suspension/rescoping of certain projects.</p>
<p>Transaction in Financial Assets and Liabilities</p>	<p>Releases to expenses on financial assets and liabilities in 2021 exceeded the target by over 200 percent at ZMW9.76 billion against the target of K2.95 billion. Higher disbursements on dismantling of arrears, Empowerment funds and release of funds towards the recapitalization of NATSAVE and IDC which apparently were not budgeted for explained this outturn.</p>

SOLUTION TWO

- (a) **Definition, content and purpose of the GPFR that has been developed by IPSASB.**

Characteristics	Description
Definition	A general purpose financial report (GPFR) is a general report that shows all of the financial information that pertains to a business. This is done to meet all of the needs of the readers, rather than those of a specific group of readers, such as investors, shareholders, business executives or budget planners. The name, general purpose financial report, indicates the report is a general observation of the business's finances.
Content	Common sections in a general purpose financial report include income statements, which cover income from investors and sales, cash flow statements, which cover all of the operational expenses the business has in order to operate and a balance sheet that shows how much the business owns in assets and how much it owes in liabilities. Total estimates of various sections, such as expenses, assets and liabilities, also are outlined in the general purpose financial report. Instead of listing all of the expenses on several pages, the general purpose financial report provides total sums, so readers can see exactly how much is being spent each month.
Purpose	General purpose financial reporting is not an end in itself but is a means of communicating relevant and reliable information about a reporting entity to users. Efficient allocation of scarce resources will be enhanced if those who make resource allocation decisions have the appropriate financial information on which to base their decisions. General purpose financial reporting aims to provide this information. General purpose financial reporting also provides a mechanism to enable managements and governing bodies to discharge their responsibility with accountability. Managements and governing bodies are accountable to those who provide resources to the entity for planning and controlling the

	operations of the entity. In a broader sense, because of the influence reporting entities exert on members of the community at both the microeconomic and macroeconomic levels, they are also accountable to the public at large. General purpose financial reporting provides a means by which this responsibility can be discharged.
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(b) **Key constraints on the information included in the General Purpose Financial Reports.**

Constraints	Description
Materiality	Information is material if its omission or misstatement could influence the discharge of responsibility with accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. GPFRs may encompass qualitative and quantitative information but it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material. Assessment of materiality is made in the context of legislative, institutional and operating environment within which the entity operates and in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the value, nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.
Cost-Benefit	Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is a matter of judgment because it is often

	<p>not possible to identify and/or quantify all the costs and all the benefits of information included in GPFs. The costs of providing information include the costs of collecting and processing information, the cost of verifying it and/or presenting the assumptions and methodologies that support it, and the cost of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFs. Service recipients and resource providers ultimately bear the cost of the efforts because resources are redirected from service delivery activities to preparation of information for inclusion in GPFs. However, information prepared for GPFs could be used internally by management and could result in better decision making. The information packaged in GPFs could enhance and reinforce perceptions of transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Application of the cost benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more characteristic might be sacrificed to some degree to reduce costs.</p>
<p>Balance between the qualitative characteristics</p>	<p>The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each</p>

	situation is a matter of professional judgement. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.
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SOLUTION THREE

(a) List of any four sources of revenue for the public sector

- (i) Taxes
- (ii) Rates
- (iii) License Fees
- (iv) Toll gates fees
- (v) Fines and penalties
- (vi) Local and international borrowings

For each source of revenue give two potential types of fraud which would negatively affect collections

Tax

- (i) tax evasion through under declarations of revenue
- (ii) Falsification of tax returns to minimize tax payments to the government

Rates

- (i) collusion between public officers and the public aimed at reducing amounts owing to the public sector
- (ii) undervaluation of ratable properties in order to minimize rate payments

License fees

- (i) awarding license to underserving market players because of bribes and favors
- (ii) failure to enforce penalties on late payments of license fees due to bribes and favors

Toll gate fees

- (i) under banking of collected funds
- (ii) overcharging uninformed clients

(b) List and explain five ways through which the public sector minimizes budget deficit through tax revenue collections

- (i) Increase tax rates for specific individuals or firms - higher income bracket companies and persons should pay more tax
- (ii) Reduce tax breaks – if tax breaks are reduced, businesses will contribute resources to the treasury early

- (iii) Ensure regular updates of tax payer register to minimize outstanding cases of non-payments
- (iv) Introduce tax managers for large tax clients
- (v) Close opportunities for tax avoidance such as usage of non-business assets to claim huge capital allowances
- (vi) Regularly communicate the benefits of tax compliance as this will encourage compliance among the tax clients

(c) Five (5) practical ways through which government can minimize wastage of resources when procuring medical supplies in public hospitals and clinics

- (i) Promote Public tenders – all tenders must be implemented transparently and the best evaluated bidder should be selected on merit.
- (ii) Minimize cases of single sourcing – public sector procurement should be competitive and at least three or more quotes should be assessed before awarding and paying tender suppliers.
- (iii) Only allow procurement of goods from government registered suppliers unless in exceptional circumstances where a market may not be in existence for the sought for goods or services
- (iv) Empower the office of the auditor general at different stages of the procurement cycle to create an anti- fraud environment where officers know any time fraud can be uncovered.
- (v) Train and hold procurement units and controlling officers accountable for inefficient implementation of procurement procedures.

SOLUTION FOUR

(a) Explain the seven principles of public life

Selfless - organizational interest should precede personal interest

Integrity – includes being honest and straightforward in one's public and private conduct. Accounting officers should not engage themselves in questionable professional behavior

Objectivity – third party influence or bias should not compel a public officer to act unprofessionally. Facts and principles should influence accounting output.

Accountability – this is the state or quality of being answerable and must be clearly evident in the conduct of a public officer

Openness – includes willingness to be transparent and to share pertinent information with stakeholders within the confines of the law

Honesty – is reflected in the magnitude of reliance which a public officer inspires in meeting the invested public trust

Leadership – Accountants and public officers in general should demonstrate ability to influence positive change as they take all the necessary steps to meet stakeholders' expectations.

(b) Three circumstances which may override the rule of confidentiality

- (i) The law of confidentiality can be breached but only in exceptional situations including:
- (ii) When there is permission granted by a client that information be shared with a third party
- (iii) When there is a public duty to do so – if there is full knowledge of criminal activities taking place in an organization.
- (iv) When there is a specific law that warrants that information be provided
- (v) When an accountant acts as an expert witness and specific information is sanctioned by the courts of law.

SOLUTION FIVE

(a) Differences between financial and non-financial reports in Public Sector Financial Reporting

A financial report is a formal record of the financial activities and position of a business, person, or other entity. In the present context, financial statements refer to the financial reports produced regularly, i.e. quarterly and biannually, by the Ministry of Finance to take stock of the efficiency of budget implementation against the approved budget.

Non-financial reports provide important information about the effectiveness of budget implementation, i.e. about the results achieved against targets and money spent. Hence, they are often called performance reports, which can contain both quantitative and qualitative information. These reports enable Government to have regular data for decision-making as the Ministries, Provinces and Spending Agencies (MPSAs) implement their annual work plans. If the institutions execute their budgets without monitoring on a regular basis (monthly or quarterly), they may not know whether they will meet their targets at the end of the year or ensure that they are executing the programs in the most cost-effective manner.

(b) The key financial information to establish the efficiency of budget implementation, include indicators, such as:

- (i) proportion of budgeted revenues collected;
- (ii) proportion of budgeted funds released to the respective MPSAs;
- (iii) proportion of released funds received by the respective MPSAs;
- (iv) proportion of received funds spent by the respective MPSAs;
- (v) proportion of projects not timely funded.

The non-financial reports make use of performance indicators, such as:

- (i) proportion of projects implemented against monthly or quarterly target or expected end date (as per the respective MPSA's work plan);
- (ii) monthly or quarterly achieved deliverables against targeted deliverables for the period;
- (iii) proportion of the projects delayed;
- (iv) proportion of the projects overrun;
- (v) proportion of underperforming projects.

These reports enable Government to have regular data for decision-making as the Ministries, Provinces and Spending Agencies (MPSAs) implement their

annual plans. If the institutions execute their budgets without monitoring on a regular basis (monthly or quarterly), they may not know whether they will meet their targets at the end of the year or ensure that they are executing the programs in the most cost-effective manner.

- (c) The Ministry of Finance produces monthly, quarterly and biannual financial reports during the financial year accessible to the Members of Parliament. The Parliamentary Budget Office, within the National Assembly is responsible for reviewing these reports as part of Parliament's oversight function. The various reports of importance for Parliament's financial oversight function are presented in the following documents:

Mid-Term Economic Review

The Ministry of Finance, in accordance with the Finance Act of 2018, produces a midyear economic reports. This report assesses the performance of the economy in general, covering revenue, expenditure, Gross Domestic Product, balance of payments, etc. The mid-term assessment assists the government to gauge and make adjustments in terms of how they will manage the latter half of the year.

Budget Performance

The Ministry of Finance reports on all releases of financial resources to MPSAs on a monthly basis. The Ministry equally reports on all revenues that the Government receives on a monthly basis. The data also includes all the financing obtained on a monthly basis.

Profiles

At the beginning of the year, the Ministry of Finance, requests all the MPSA's to prepare a report on how they have planned the activities and the resources they require month by month throughout the year. The Ministry considers these requests and compares the same with the revenue projections.

Based on this assessment, the Ministry will inform the MPSAs of the amount of financial resources they should expect to receive on a quarterly basis.

Expenditure Reports

Expenditure reports are consolidated by the Accountant General's Office. On a monthly basis, all MPSAs are obligated to forward reports to the Ministry of Finance. These reports show the amounts received by the MPSAs and how they have spent the money received. The reports are produced using the Financial Management System (FMS) and the Integrated Financial Management Information System (IFMIS).

Budget Execution Report

Ministries, Provinces and Spending Agencies report to the Ministry of Finance on all the monies they received and expended quarterly.

Statement C Report

The Statement C report is a comparative of authorized provision and actual expenditure by Department. The report provides the detailed budget execution information of Ministries, Provinces and Spending Agencies (MPSAs). It aggregates figures at programme and departmental level. This report is produced on a quarterly basis.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 2: LEGAL ASPECTS OF PUBLIC SECTOR FINANCE AND ADMINISTRATION

FRIDAY, 15 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO (2) sections:
Section A: One (1) Compulsory scenario question.
Section B: Four (4) Optional Questions. Attempt any three (3) questions.
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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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 – (COMPULSORY)

- (a) Define law and explain its relevance in governance. (10 marks)
- (b) Write notes on the following sources of law in Zambia.
- (i) The constitution (2 marks)
 - (ii) Acts of Parliament (2 marks)
 - (iii) Delegated legislation (2 marks)
 - (iv) Case law (2 marks)
 - (v) Customs (2 marks)
- (c) Define a constitution, and in so doing, explain constitutional supremacy making reference to decided cases. (20 marks)

[Total: 40 Marks]

SECTION B

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

QUESTION TWO

- (a) In the governance of a country, two aspects of law are especially vital, and these are; Administrative Law and Constitutional Law. Both are public law areas meaning they concern themselves with issues that affect the public on daily basis. In as much as these aspects of law are similar, they have differences.

Required:

Explain the differences between Administrative Law and Constitutional Law.

(10 marks)

- (b) Discuss any two (2) sources of Administrative Law.

(10 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) Identify the three (3) organs of government and their functions in the governance of the country.

(10 marks)

- (b) Explain the relevance of each of the organs identified above in public sector finance and administration.

(10 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Write short notes on the following remedies for Judicial Review:

(i) Certiorari

(10 marks)

(ii) Mandamus

(10 marks)

[Total: 20 Marks]

QUESTION FIVE

Give a detailed explanation of the Legal Regulatory Framework of the following:

- (a) The Zambia Revenue Authority

(10 marks)

- (b) The Public Procurement Authority

(10 marks)

[Total: 20 Marks]

END OF PAPER

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

SOLUTION ONE

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

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

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

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

(b)

(i) *The constitution* as a source of law – the constitution is said to be a document that contains the fundamental laws of a country. In Zambia the constitution comes from the people and it is considered the first of all the laws of the land. The constitution is said to be the primary source of law in Zambia as, all laws made by other bodies with power to make law, are required to make that law in conformity to the constitution. According to article 1 clause 1 -1(1) of the Zambian constitution, the constitution is the supreme law of the land and any other written law, customary law and customary practices that are inconsistent with the law of the constitution, that other law is void to the extent of its inconsistency to the constitution. The constitution is therefore the number one source of law and its source is the people of Zambia.

(ii) *Acts of Parliament* in Zambia are laws made by the country’s parliament. The constitution has conferred powers on the country’s legislature to make laws. However, when laws are made by parliament, they are required to conform to the provisions of the constitution otherwise they are declared null and void should they not. Acts of Parliament are usually known as administrative laws.

- (iii) *Delegated legislation* is another source of law in Zambia. Delegated legislation is law made pursuant to Acts of Parliament. When parliament has passed legislation, it further gives power to other institutions to make laws. Delegated legislation is made by local authorities (by-laws) and ministers (statutory instruments) and the law they make is supposed to conform to the laws in the enabling Act (under which it is made).
 - (iv) *Case law* is equally another source of law in Zambia. Case law also known as precedents is judge made law. This guides society especially in the practice of law on what the law basically is. Case law operates as a source of law in Zambia in that, decisions of judges in fact interpret laws of Acts of Parliament or delegated legislation thereby giving them effect. Case law is therefore as important a source of law in Zambia as the others considered above.
 - (v) *Customs*. Zambia is divided into two legal systems. The first and oldest form of law in Zambia like most other countries of the world has in fact been customary law. Customary law has existed from the time man existed. These are customs that guide the manner in which a society is required to exist. For example, in Zambia we practice customary and civil law. All customary matters are dealt with in the local courts.
- (c) As already stated above, **the Constitution** is a document that contains the fundamental laws of a country. It establishes the organs of government and confers on them the powers they have in the governance of the country. The constitution regulates the relationship of the three organs established under it, regulates the relationship between the government and the people and how the people relate with one another. The constitution is very important as it sets a standard of how governmental functions are to be conducted and ensure rights and freedoms of the citizens are guaranteed. In Zambia like in many other countries, the constitution is said to be the supreme law of the law. Article 1 clause 1 of the Zambian constitution makes a declaration of its supremacy in relation to other laws. The supremacy of the Zambian constitution was illustrated in *Christine Mulundika and Seven Others v The Attorney General*. The case concerns the applicant and seven others who were arrested and charged under section 7 of the Public Order Act for breaching section 5(4) of the same Act. Section 5(4) of the Act required persons wishing to hold a public rally to obtain a permit from the police. Failure to obtain such permit constituted a criminal offence under section 7 of the Act. A permit was denied to *Christine Mulundika and Seven Others* but decided to hold the rally anyway. They were arrested and charged under the Act and brought before a magistrate. They however challenged the constitutionality of section 5(4) and 7 of the Act contending they were in violation of articles 20 and 21 of the constitution. The matter was referred to the High Court pursuant to article 28 of the constitution. The Supreme Court ruled in favour of the applicants holding that sections 5(4) and 7 of the Act

indeed violated the constitution which guaranteed fundamental rights of freedoms of expression, association and assembly. The principle of law established by the case is that the constitution in Zambia is the supreme law of the land and should any other law be inconsistent with it, that other law is to the extent of the inconsistency to be declared void.

SOLUTION TWO

(a) Differences between Administrative Law and Constitutional Law

- (i) Constitutional law is the ultimate law of any nation-state while Administrative law is ancillary to ultimate law.
- (ii) Constitutional Law deals with the organs of the state and its structure while Administrative law deals with the actual functioning of the organs of the state.
- (iii) Constitutional law has a wide scope and deals with the powers of the state, general principles of governance, and the relationship between the citizens and the State while Administrative Law has a narrow scope and only deals with the powers and functioning of the Administrative bodies.
- (iv) Constitutional Law is codified into a single text in countries with a written constitution while Administrative is not codified. There might be hundreds of thousands of Administrative Laws.
- (v) Constitutional Law establishes an Administrative body while Administrative law defines its legal roles and limitations. Therefore, it can be seen as the action arm of Constitutional Law.

(b) The sources of administrative law can be any of the following:

(1) Judicial Precedent

Under the doctrine of judicial precedent (*stare decisis*) earlier decisions of higher courts are binding on lower courts dealing with a similar matter at a later date. When a dispute arises between two parties, lawyers on both sides will usually argue the matter in court before a judge. At the end of the arguments, the judge makes a decision usually resolving the matter in favour of the successful party. Before reaching his decision, the judge usually reviews all existing relevant law and then formulates and applies a legal principle to the facts before him. The principle laid down in the case may form a binding or persuasive precedent to be followed by courts in later disputes involving similar issues. This is how common law is created.

- (2) **Common law** is the law as laid down by the judges in deciding cases, though it is always said that judges do not make law – they merely interpret it. The legal principle laid down in the case is known as the *ratio decidendi*. This is what binds later courts dealing with a similar matter. What the judge says in passing is known as *obiter dicta* and is strictly not binding.

(3) Equity

Citizens who could not obtain redress for grievances in the King's common law courts petitioned the King to obtain relief by direct royal intervention. These petitions came before the King in Council. Because the principles on which the Chancellor decided points were based on fair dealing between two individuals as equals, it became known as equity. The system of equity, developed and administered by the Court of Chancery, was not a complete alternative to the common law. It was a method of adding to and improving on the common law; it provided a gloss on the law.

(4) Legislation/Parliament

Legislation (or statute law) refers to law passed by Parliament in the form of statutes or Acts of Parliament. The bulk of Zambian law is statutory.

(5) The Constitution is the supreme law of the land. It is another source of law. Any law not in line with the constitution is null and void.

(6) Customary law

Zambia is inhabited mainly by various ethnic groups. Each of these tribes has its own customs, traditions and political system. These customs and traditions form the customary law of these tribes. The Local Courts Act Chapter 29 of the Laws of Zambia establishes the Local Courts which administer customary law. Customary law is very important in areas such as marriage, succession and land law.

(7) International Law :- This is a source of Administrative Law through conventions, international customary law, etc.

SOLUTION THREE

(a) The constitution in Zambia establishes the three organs of government which collectively are referred to as government. The three are legislature, executive and the judiciary.

- (i) The Legislature – this body is established under Part VI of the constitution. The legislature has been established to perform two functions in the governance of the republic of Zambia. First, in accordance with article 63(1) it is Parliament and performs the function of law making that is, legislative function. Second, in accordance with article 63(2) it is the National Assembly and performs oversight functions over the executive in the manner the executive performs its functions. The National Assembly is made up of the Speaker and two Deputy Speakers and 156 elected Members of Parliament plus 8 nominated by the President. The Members of Parliament are directly elected from the 156 constituencies that Zambia is divided into for purposes of representation of the people.
- (ii) The Executive – this is the body established under Part VII of the constitution. The executive is headed by the President. The executive is made up mainly of the Cabinet which is the nucleus of government. The executive is constituted by the constitution to perform functions of formulating the policies of the government and cause the same to be implemented. The civil services and armed forces are all under the charge of the executive. The civil service is one of the most important of the wings of the executive as it is the one that ensures all the policies as formulated by the cabinet are implemented to their intended objectives. The executive through the president also appoints dignitaries from Zambia to other countries and equally welcomes foreign dignitaries accredited to Zambia by other countries. It is an important organ as it is entrusted with the performance of all administrative functions of running the affairs of the state.
- (iii) The Judiciary – the judiciary is established under Part VIII of the constitution. The judiciary consists of all the courts in the country that is, the Supreme Court, the Constitutional Court, The Court of Appeal, The High Court, the Industrial Relations Court, the Magistrate Courts and the Local Courts. This organ of government is charged with the function of interpreting the law made by Parliament and adjudicating over matters that people may bring against the government. It also hears cases of a criminal nature brought by the State against individuals that commit crimes. The judiciary is very important in the governance of the country as it ensures that the

governance of the country is done according to the provisions of the law and any action that contravenes the law is adjudged to be null and void. It is headed by a Chief Justice and other judges appointed by the President on recommendation of the Judicial Service Commission.

(b)

- (i) The Legislature – this body plays a very critical role in public sector finance and administration. This is the body that is charged with law making in the country. Public administrative bodies that perform public administrative functions are all established by Acts of Parliament which are all passed by this body. All decisions made by public administrative bodies are required to be justified by law otherwise they may be adjudged to be illegal. The legislature therefore ensures that public bodies are established which are to perform their functions according to the provisions of the law thereby curbing arbitrary conduct on the part of public administrative bodies. Further, because the legislature oversees the performance of executive functions, it ensures there is accountability in the manner decisions are made by executive bodies (administrative agencies). The legislature therefore plays a vital role in ensuring accountability and ultimately good governance.
- (ii) The executive – this body is the administrator of all governance functions in the country. Through cabinet the executive formulates the policies of the country and ensures the policies formulated are implemented as intended. All public administrative agencies, fall under the executive and are established by the executive via Acts of Parliament to work as administrative agencies on behalf of the executive. This body is charged with the responsibility of ensuring all public administrative bodies are functioning to execute the mandate of the government as given by the people through elections. The executive initiates legislative proposals that are passed by Parliament and intended to guide how bodies engaged in public sector finance administration perform their functions to ensure accountability of the same bodies.
- (iii) The judiciary – the adjudicative nature of this body ensures that the laws meant to be followed by bodies that perform public sector administrative functions are followed to the latter. Through the principle of judicial review, this body ensures that bodies do not act *ultra vires* and that, any arbitrariness in the performance of their functions is curtailed. The judiciary is the umpire of justice and stands ready to nullify any action of public sector finance administrative bodies where they contravene the law or fail to follow procedure as laid down by law in the execution of their functions. This body therefore ensures adherence to the law thereby promoting accountability and good governance.

SOLUTION FOUR

- (i) Certiorari (quashing order) – this is one of the remedies in an application for judicial review. A quashing order has the effect of completely nullifying a decision made by a public body. This ground is available where a body exceeds the legal authority it has to make a decision made and therefore means the decision it has made has no backing of the law and therefore made arbitrarily. Therefore from the very beginning, the decision is wrong and, because the body has no legal authority to make the decision, it will not be asked to start from the beginning and make the decision notwithstanding the decision to be made. The body cannot at all be allowed to make that decision. *William Harrington v Dora Siliya and Attorney General; Attorney General v Fulham Corporation*.
- (ii) Mandamus (mandatory order) this is a remedy available in judicial review where a body fails to follow procedure as outline in the law. A body that fails to follow the procedure stipulated by law is said to have acted arbitrarily and the decision it makes will not be valid although equally, will not be quashed. However, the courts will order the body to go back to the decision making process all over and follow the procedures as stipulated by law. Under this remedy which comes mainly due to want of procedure, it does not matter if the decision to be made by the body after having followed the correct procedure is the same as that made through want of procedure. What matters therefore is that the body is acting in accordance with the law and there is no arbitrariness in the manner the body makes decisions the law has given it authority to make. *Bedford Kango'mbe v Attorney General*.

SOLUTION FIVE

Give a detailed explanation of the Legal Regulatory Framework of;

The Zambia Revenue Authority Generally like any other Administrative Institution, ZRA resolves its legal issues via Judicial Review which mainly looks at the powers conferred on a body and assessing whether the body has acted within the powers or where the power exists, assessing whether the procedure as laid down in a statute has been followed by the when performing its functions.

Aside from judicial review, ZRA also has a tribunal. This is created under The Revenue Appeals Tribunal Act; By S 190 (1) of the Act, any person who is aggrieved by the decision or determination made by the Commissioner-General under the Act or under any regulation, or rules made under this Act, may in respect of the matter set out an appeal to the Tribunal in such a manner and within such time as the Minister may by regulation prescribe.

Give a detailed explanation of the Legal Regulatory Framework of;

The Public Procurement Authority

As a public body, PPA is amenable to judicial review as means of regulating functions. Aside from that, the Public Procurement Authority Act 2008 and subsidiary legislation such as Statutory Instrument No. 63 of 2011 and the Public Procurement Regulations 2011 all contain regulatory frameworks under which the authority is to operate.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR

TUESDAY, 12 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

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

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

Can good corporate governance explain the private sector's efficiency in service delivery and production? A study compared the corporate governance of a private and a public institution in Swaziland; Nedbank and the Ministry of Enterprise and Employment, respectively.

The evaluation was based on the good corporate governance principles of responsibility, accountability, fairness, social responsibility, independence and transparency. Study findings revealed that:

1. The private sector out performs the public sector in good corporate governance;
2. The public entity lacks social responsibility;
3. Nedbank is more transparent;
4. Decision makers in both the sectors are accountable, yet the private sector outweighs the public one.

Required:

- (a) (i) Discuss the meaning of the term '*Good Governance*.'
- (4 marks)
- (ii) Explain the following principles of good governance: *the principle of the care of the environment* and the *principle of clean government*.
- (6 marks)
- (b) (i) Define the term 'Accountability.'
- (4 marks)
- (ii) Explain three (3) ways the government can ensure accountability in the Public Sector.
- (6 marks)
- (c) If the private sector is more efficient than the public sector, one would argue that the Government should allow the private sector to deliver public goods and services to the people.

Required:

Outline five (5) arguments against government allowing the private sector to deliver public goods and services to the people.

(10 marks)

- (d) Systems of Government control include centralization and decentralization of Government functions.

Required:

- (i) Explain what is meant by decentralization.

(4 marks)

- (ii) Discuss three (3) reasons why a government may choose to decentralize its functions.

(6 marks)

[Total: 40 Marks]

SECTION B

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

QUESTION TWO

- (a) Your supervisor has tasked you to make a proposal on some of the policies that might be included in the working paper to be presented to the public service commission on public policy formulation.

Required:

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

(15 marks)

- (b) Outline any five (5) benefits of decentralization of government systems.

(5 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) List the functions of managements according to Henri Fayol.

(5 marks)

- (b) Draw a MATRIX organization structure and give three (3) advantages for this form of structure in project implementation.

(15 marks)

[Total: 20 Marks]

QUESTION FOUR

- (a) Describe the resources that are used in different contracts

(8 marks)

- (b) Discuss four (4) principles of good governance

(12 marks)

[Total: 20 Marks]

QUESTION FIVE

- (a) (i) Fully discuss 'Public Opinion' as a factor that can influence public policy.

(5 marks)

- (ii) Discuss the importance of having appropriate computerized systems to ensure proper management, control and monitoring of contracts.

(5 marks)

- (b) Explain the following internal communication flow in an organization:

- (i) Downward communication

(4 marks)

- (ii) Upward communication

(5 marks)

[Total: 20 Marks]

END OF PAPER

PFM 3: GOVERNANCE AND MANAGEMENT IN PUBLIC SECTOR SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) **Discuss the meaning of the term 'Good Governance.'**

The concept of good governance covers much more ground and substance than administrative reforms. Good governance has much to do with the ethical grounding of governance and must be evaluated with reference to specific norms and objectives as may be laid down. It looks at the functioning of the given segment of the society from the point of view of its acknowledged stakeholders and beneficiaries and customers. It must have a firm stand on certain moral values and principles. Good governance, as a concept is applicable to all sections of the public sector.

Governance is "good" when through it government can perform efficient allocation and management of resources to respond to collective problems. That means when a government has sufficient capacity to provide public goods of necessary quality to its citizens. And the policies that supply public goods are guided by principles such as "human rights, democratization and democracy, transparency, participation and decentralized power sharing, sound public administration, accountability, rule of law, effectiveness, equity, and strategic vision".

(ii) **Explain the following principles of good governance: the principle of the care of the environment and the principle of clean government.**

The principle of the care of the environment

This principle has to do with the care of the environment and the responsibility placed on individuals, business and governments to take care of the environment in all their dealings. "Prevention before cure", taking action as early as possible to minimize potentially large-scale problems and irreversible effects, is a key policy promoted by UNHCR in its field operations. Effective planning can contribute to minimizing environmental degradation as well as the costs - human resources and financial - of site rehabilitation.

The principle of clean government

The prerequisite to governance is that government must be clean. Without integrity in our government officials, the delivery of service is compromised and in many instances, a scam and a cruelty. Corruption in projects leads to substandard work. Misuse of health funds endangers lives. Evasion of tax monies jeopardizes essential facilities.

(b)

(i) **Define the term 'Accountability.'**

- (1) Accountability concerns the process by which 'those who exercise power whether as governments, as elected representatives or as appointed officials, must be able to show that they have exercised their powers and discharged their duties properly'.
- (2) Accountability also means the obligation to carry out assigned activities in a responsible and responsive manner, and being held answerable for success or failure.
- (3) In the financial world, accountability includes a requirement that public corporations make accurate financial records available to all stakeholders. Accountability may help invoke confidence from external investors, loyalty from employees, and better company returns.
- (4) In recent years, there has been an increased focus on other elements of corporate accountability such as ethical conduct, environmental impact, a commitment to diversity, and fair treatment of employees.

(ii) **Explain Three (3) ways the government can ensure accountability in the Public Sector.**

- (1) Government must responsibly use their resources to provide services that meet the needs of constituents.
- (2) Leadership-based values-Integrity and accountability must be deeply ingrained in the culture of government. This starts at the top.**
- (3) Government should focus on ethical values and provide ethics training. **Government agencies should teach leaders and supervisors to lead with those principles at the center of everything they do.**
- (4) Transparency-citizens should be able to see how the government is spending their tax money, what services the government is providing, and how government officials are working to improve the community.
- (5) Written policies and procedures- part of accountability in government is setting expectations in writing, and then consistently applying and enforcing those policies.
- (6) Independent ethics commission or officer- to promote accountability in government, the people overseeing the ethics program need to be independent of the government itself.
- (7) Accountability audits and assessments-to achieve a culture of accountability, government needs to be aware of areas where there is a lack of accountability. An accountability audit assesses how the government uses public funds and resources.

(c) **If the private sector is more efficient than the public sector, one would argue that the government should allow the private sector to deliver public goods and services to the people.**

REQUIRED:

Outline Five (5) arguments against government allowing the private sector to deliver public goods and services to the people.

- (1) **Some goods and services are best provided by the public sector**-to make sure that everyone benefits equally. Examples are mail service, public health services, schooling, electricity, and road network systems.
- (2) **Some services may get worse**- public services involve caring for people. But private companies make a profit from public services by cutting corners or underinvesting.
- (3) **Privatization costs more**-people may pay more, both as taxpayers and directly when public services are privatized (e.g. increase in water bills, energy bills, etc.)
- (4) **You can't hold private companies accountable**-If a private company runs a service, they are not democratically accountable to you. You don't have a voice. Contracts to deliver public services are agreed between private companies and government behind closed doors. There is very little transparency, public accountability or scrutiny. When private companies fail to deliver, the public has no powers to intervene and government (local and national) doesn't always have the time or expertise to force them to keep their promises.

Privatization creates a divided society-Public services are important to meet everyone's basic needs, so we can all be part of the community. Schools and hospitals are not optional extras. We all need and rely on public services - they are universal. That means they need to be accessible and high quality for everyone. Privatization often goes hand in hand with encouraging richer people to pay more and opt out of the services we all use. This leads to division, making it harder to provide excellent public services for everyone.

Privatization means fragmentation-When lots of private companies are involved in delivering a public service, this can create a complicated, fragmented system where it's not always clear who's doing what. Private companies don't necessarily have much incentive to work together and share information. This makes it difficult to provide an integrated service.

Private companies cherry pick services- private companies cherry pick the profitable bits of a service so they can make as much money as possible. For example, bus companies will only run services in busy areas, so rural communities lose out unless government steps in with a subsidy.

- (d) **Systems of government control include centralization and decentralization of government functions.**

REQUIRED

- (i) **Explain what is meant by decentralization.**
Decentralization is the process by which the activities of an organization, particularly those regarding planning and decision making, are distributed or delegated away from a central, authoritative location or group

Decentralization transfers authority and responsibility of major government functions from central to sub-national governments — including local governments, civil society, and the private sector.

In decentralization, the management disperses the decision-making authority across the organization and brings it closer to the source of action and information. An organization has a greater degree of decentralization if the number of decisions made and functions affected at the lower level are higher.

(ii) **Discuss Three (3) reasons why a government may choose to decentralize its functions.**

- (1) **Quick decision-making:** In the decentralization process decision-making is not restricted in few hands only but decision-making power is entrusted to leaders at the local level who are taking actions or performing the activities. This leads to faster decision because employees who have to perform the activities are allowed to take decision also.
- (2) **Responsiveness:** With local self-governance, it is possible to deal with issues quickly.
- (3) **Transparency:** Local people of a region have a better understanding of problems and issues at the local level. Hence, such problems can be rectified efficiently and effectively at the "local level".
- (4) **Democratic participation:** when decisions are taken at the "local level", people get a chance to participate in them directly. This helps in creating the feeling of democratic participation.
- (5) **Relief to top level management/HQ:** In the process of decentralization top level managers or headquarters are not overburdened with the responsibilities and authority as they systematically pass the authority and responsibilities at different levels and they become free to concentrate on core and important issues.

SOLUTION TWO

(a) **Required:**

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

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

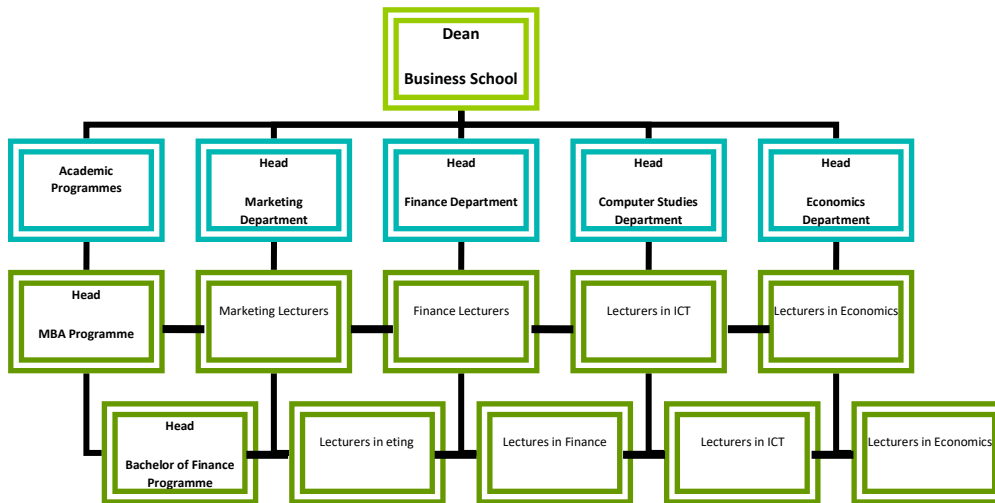
- (i) The Policy Formulation Stage: This is the stage where the policy makers take decisions as to what is to be done and how it is done. Areas where policies can be formulated include: Healthy care facilities, Educational policies, Electricity supply, Durable roads etc.
- (ii) Policy Implementation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

(b) Outline any five (5) benefits of decentralization of government systems.

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

SOLUTION THREE

- (a) List the functions of managements according to Henri Fayol
- (i) Planning
 - (ii) Organizing
 - (iii) Coordinating
 - (iv) Directing/Commanding
 - (v) Controlling
- (b) Draw a MATRIX organization structure and give three advantages for this form of structure in project implementation.



Advantages

- (i) Decision making is decentralised to a level where information is processed properly and relevant knowledge applied.
- (ii) Extensive communications networks help develop process large amounts of information.
- (iii) With decisions delegated to appropriate levels (project level) higher management levels are not overloaded with operational decisions.
- (iv) Resource utilisation is efficient because key resources are shared across several important programmes or products at the same time.

SOLUTION FOUR

(a) Describe the resources that are used in different contracts

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

(b) Discuss Four (4) principles of good governance

- (i) The principal of meritocracy: is a political and governance philosophy stating that power should be vested in individuals almost exclusively based on ability and talent.
- (ii) The principal of racial and religious harmony: is a political philosophy and stating that there should exist different races and religion should be allowed to core exist if harmony in the governance process.
- (iii) The principal of clean Government: elements of corruption and other negative vices cannot be part to the definition of good government.
- (iv) The principal of the rule of law: the term rule of law refers to a principle of government in which all persons, institutions and entities, public and private, including the state itself, are accountable to laws that are publicly promulgated, equally enforced and independently.
- (v) The principal of inclusiveness: Good governance is embodied in the idea of inclusiveness meaning there should equal or fair participation in matters of governance by all stakeholders regardless of social and economical status.
- (vi) The principal of care for the environment. Environmental governance is a concept in political ecology and environmental policy.

SOLUTION FIVE

(a)

(i) **Fully discuss 'Public Opinion' as a factor that can influence public policy.**

(1) **Public opinion can** play a positive role in **policy** making **Public opinion can** have various **effects** on how **policy** is made or viewed.

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

(3) -In the final analysis, the public's opinion has a large role on the policy making process. Leaders have to walk a very tight balance between hearing the voices of the people and being enslaved to them. This is not denigrating either side, but rather recognizing the large role that public opinion plays in the making of policy. At the same time, leaders have to be extremely vigilant in how they actions will be seen by the people. Leaders have to be extra delicate in explaining their stances an issue in order to ensure that voters understand and embrace the said position.

(ii) **Discuss the importance of having appropriate computerized systems to ensure proper management, control and monitoring of contracts.**

While the tradition is to manage contracts manually through folder and file cabinet storage, the practice is riddled with inefficiencies that can only detract from an organization's overall efficiency.

Contract management software is an electronic approach to solving these problems. Contract management software suites can organize all contract paperwork. The software can put signing and renewing on an electronic calendar that is easy to manage, and it can help you track and allocate resources related to the contract management process.

Integration with an automated contract management service can free up countless man-hours and automate countless processes associated with managing a contract, thus creating more value for a company. The overall purpose of contract management software is to streamline administrative tasks by creating a centralized and uniform record for each contract's processes.

Using contract management software can make it easier to monitor complex contracts without relying solely on paperwork. The most important aspect of contract management software is that it allows employees in multiple locations to access contracts in one place.

(b) Explain the following internal communication flow in an organization:

(i) **Downward communication**

Communication which flows from a top level to a low level in an organisation is known as downward communication. This flow of communication is used by the management to convey work-related information to the employees at lower levels.

(ii) **Upward communication**

Flow of Communication which flows to a higher level in the organization is known as upward communication. It gives feedback on how well the organization is working. The subordinates use upward communication to express their performances and problems to their superiors. The subordinates also use upward communication to

tell how well they have understood the downward communication. It can also be used by the employees to share their ideas and opinions and also to take part in the process of decision-making.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 4: PUBLIC SECTOR FINANCIAL MANAGEMENT

FRIDAY, 15 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO (2) sections:
Section A: One (1) Compulsory scenario question.
Section B: Four (4) Optional scenario Questions. Attempt any Three (3) questions.
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5. **Cell Phones** are **NOT** allowed in the Examination Room.
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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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 – (COMPULSORY)

The Delight College is a publicly owned institution. The college has been facing stiff competition in the last ten years due to rising competition from newly established private colleges in its area of location.

Since the reduction in budget support from the Ministry of Finance last year the college has encountered challenges with meeting its working capital needs. The annual grant from the Ministry of Finance has been reduced by 60% since last year. This coupled with a reduction in the number of enrolments per semester has been a source of concern to the principal of Delight College. The principal, miss Charles Rumpe identified an investment opportunity. She observed that most of the private colleges provide transport to their students at a fee. She presented an idea to the bursar for the purpose of adding another income source for the college to supplement its dwindling income.

The opportunity presented was for the provision of transport to the students to and from their homes at a fee. This will require the purchase of 10 buses. However, the other 3 buses were bought by the college last year as staff buses for lecturers. The buses cost K250,000 each. Two (2) of these buses would be used for this proposed project. The other eight buses would be acquired immediately when the project is approved. The eight buses will be acquired at K380,000 each.

The schedule of fees and related routes for the proposed project is provided in the following table:

CATEGORY	AREA	NUMBER OF BUSES	TRANSPORT FEES (K)
1	NORTH	3	1500 per semester
2	WEST	2	1400 per semester
3	EAST	1	1350 per semester
4	SOUTH	4	1550 per semester
TOTAL		10	

The total number of students on average per semester is 710. 30% of students come from area North while 20% of students come from area West. 10% of the students come from area East while 40% of the students come from area South. However not all the students will require transport. Some of the students will use their own private transportation. On average 80% of the students are expected to take up the offer for transportation.

The variable costs of transportation are 30% of the transport fees. The buses will be depreciated for five (5) years at the end of which they are expected to have a scrap value of K50,000.

Each bus will be driven by one driver who is paid a salary of K4000 per month. The school calendar comprises two semesters each year. The proposed project is expected to last for an initial five (5) years before it is reviewed.

The bursar has since presented the idea to the Delight College Management Board, who have forwarded it to the Ministry of Higher Education headquarters in Lusaka.

The Government uses a social opportunity cost of 5% per annum to appraise investment projects like this one.

After careful evaluation the Ministry of Higher Education may include this proposal in its budget submission to the Ministry of Finance next year. Assume you are a private consultant for the Ministry of Higher Education.

Required:

- (a) Evaluate the proposed investment in transportation using the following methods:
 - (i) Discounted Pay Back. (19 marks)
 - (ii) Net Present Value. (6 marks)

- (b) Explain the stages of the Zambian budget process. (15 marks)

[Total: 40 Marks]

SECTION B

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

QUESTION TWO

Mary a member of the Zambia Institute of Accountants was recently transferred to the Ministry of Health headquarters as a Chief Accountant. As an accountant in the public sector she is required by law to account for all financial transactions and activities of the Government. This includes the management of public assets and liabilities.

She is authorized to supervise and control the financial activities of all departments at the macro level.

Mary was appointed to membership of the audit committee of a public utility company a few weeks after assuming her duties at the Ministry of Health. This is because she was a former employee of a reputable audit firm and the company wanted to utilize her experience gained in auditing. In addition, Mary has extensive knowledge in the public service having worked for other Government Ministries for more than fifteen years before being transferred to the Ministry of Health.

She accepted the appointment as member of the audit committee and she is due to resume her duties shortly. She has approached you as her friend to help clarify certain issues about her new appointment.

After her appointment by the Board of Directors of the utility company, she was informed that the company's system of internal control was not very robust.

Required:

- (a) Advise whether or not Mary was legally appointed and explain the composition of the Audit Committee as outlined in the Finance act 2004. (5 marks)
- (b) Explain any four (4) functions of the Audit Committee as outlined in the finance act 2004. (10 marks)
- (c) Explain any five (5) objectives of the internal control system at the utility company. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Fenda republic is a poor country encountering various economic challenges in the provision of public goods and services.

The Government seeks to broaden its tax base which has been very narrow. This will be done by introducing various taxes targeted at the informal sector. This includes base tax, turnover tax and presumptive taxes on passenger transportation.

The Government is also planning to attract foreign investors in the agriculture and mining industry. Foreign investment is also a source of revenue to the Government as the mines are subjected to mineral royalty tax.

Various incentives to attract foreign investors have been implemented by the Government. Some of the incentives to foreign investors include tax holidays, relaxation of company registration legal requirements and investor friendly labor laws.

Various methods and interventions in the economy are being sought in order to stabilize the economy. This is because a stable economy is one of the major attractions for foreign investment. Currently the country is experiencing high unemployment especially among the youths.

The Government is more concerned with the provision of pure public goods than with common goods and club goods.

Required:

- (a) Explain the difference between common goods, club goods and pure public goods. (6 marks)
- (b) Discuss how the Government of Fenda republic can utilize the following economic instruments to stabilize the economy:
 - (i) Monetary policy instrument. (7 marks)
 - (ii) Fiscal Policy instrument. (7 marks)

[Total: 20 Marks]

QUESTION FOUR

Newly elected members of parliament of Country Zeepart were to undergo a two (2) weeks orientation programme. The orientation program included an in-house training on various aspects of public sector management. A public University through the School of Governance won a public tender to conduct this training. Among the many subjects to be covered was that of treasury management in the public sector and the objectives of financial management and the role of a Finance Manager as it relates to both private and public sectors.

Required:

- (a) Explain the function of treasury management in the public sector (5 marks)
- (b) Identify the various objectives of financial management (5 marks)
- (c) Identify and explain in detail the functions of a Financial Manager (10 marks)

[Total: 20 Marks]

QUESTION FIVE

The public sector performance should be effectively measured in order to ensure that it is functioning according to set standards and goals. There must be indicators in place so as to determine the deviations, whether positive or negative and take corrective action in the event that negative variances are noted in the implementation of the various activities.

Required:

- (a) Explain the concept behind performance management. (2 marks)
- (b) Explain five (5) elements which define how an entity should implement performance management. (10 marks)
- (c) What is essential to know regarding an effective indicator in performance measurement. (8 marks)

[Total: 20 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

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

Two asset portfolio

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

The Capital Asset Pricing Model

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

The asset beta formula

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

The Growth Model

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

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

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

The Fisher formula

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

Purchasing power parity and interest rate parity

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

Modified Internal Rate of Return

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

The Black-Scholes option pricing model

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

Where:

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

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

The Put Call Parity relationship

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

Present Value Table

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

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

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

Annuity Table

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

Where r = discount rate
 n = number of periods

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

Standard normal distribution table

	0-00	0-01	0-02	0-03	0-04	0-05	0-06	0-07	0-08	0-09
0-0	0-0000	0-0040	0-0080	0-0120	0-0160	0-0199	0-0239	0-0279	0-0319	0-0359
0-1	0-0398	0-0438	0-0478	0-0517	0-0557	0-0596	0-0636	0-0675	0-0714	0-0753
0-2	0-0793	0-0832	0-0871	0-0910	0-0948	0-0987	0-1026	0-1064	0-1103	0-1141
0-3	0-1179	0-1217	0-1255	0-1293	0-1331	0-1368	0-1406	0-1443	0-1480	0-1517
0-4	0-1554	0-1591	0-1628	0-1664	0-1700	0-1736	0-1772	0-1808	0-1844	0-1879
0-5	0-1915	0-1950	0-1985	0-2019	0-2054	0-2088	0-2123	0-2157	0-2190	0-2224
0-6	0-2257	0-2291	0-2324	0-2357	0-2389	0-2422	0-2454	0-2486	0-2517	0-2549
0-7	0-2580	0-2611	0-2642	0-2673	0-2704	0-2734	0-2764	0-2794	0-2823	0-2852
0-8	0-2881	0-2910	0-2939	0-2967	0-2995	0-3023	0-3051	0-3078	0-3106	0-3133
0-9	0-3159	0-3186	0-3212	0-3238	0-3264	0-3289	0-3315	0-3340	0-3365	0-3389
1-0	0-3413	0-3438	0-3461	0-3485	0-3508	0-3531	0-3554	0-3577	0-3599	0-3621
1-1	0-3643	0-3665	0-3686	0-3708	0-3729	0-3749	0-3770	0-3790	0-3810	0-3830
1-2	0-3849	0-3869	0-3888	0-3907	0-3925	0-3944	0-3962	0-3980	0-3997	0-4015
1-3	0-4032	0-4049	0-4066	0-4082	0-4099	0-4115	0-4131	0-4147	0-4162	0-4177
1-4	0-4192	0-4207	0-4222	0-4236	0-4251	0-4265	0-4279	0-4292	0-4306	0-4319
1-5	0-4332	0-4345	0-4357	0-4370	0-4382	0-4394	0-4406	0-4418	0-4429	0-4441
1-6	0-4452	0-4463	0-4474	0-4484	0-4495	0-4505	0-4515	0-4525	0-4535	0-4545
1-7	0-4554	0-4564	0-4573	0-4582	0-4591	0-4599	0-4608	0-4616	0-4625	0-4633
1-8	0-4641	0-4649	0-4656	0-4664	0-4671	0-4678	0-4686	0-4693	0-4699	0-4706
1-9	0-4713	0-4719	0-4726	0-4732	0-4738	0-4744	0-4750	0-4756	0-4761	0-4767
2-0	0-4772	0-4778	0-4783	0-4788	0-4793	0-4798	0-4803	0-4808	0-4812	0-4817
2-1	0-4821	0-4826	0-4830	0-4834	0-4838	0-4842	0-4846	0-4850	0-4854	0-4857
2-2	0-4861	0-4864	0-4868	0-4871	0-4875	0-4878	0-4881	0-4884	0-4887	0-4890
2-3	0-4893	0-4896	0-4898	0-4901	0-4904	0-4906	0-4909	0-4911	0-4913	0-4916
2-4	0-4918	0-4920	0-4922	0-4925	0-4927	0-4929	0-4931	0-4932	0-4934	0-4936
2-5	0-4938	0-4940	0-4941	0-4943	0-4945	0-4946	0-4948	0-4949	0-4951	0-4952
2-6	0-4953	0-4955	0-4956	0-4957	0-4959	0-4960	0-4961	0-4962	0-4963	0-4964
2-7	0-4965	0-4966	0-4967	0-4968	0-4969	0-4970	0-4971	0-4972	0-4973	0-4974
2-8	0-4974	0-4975	0-4976	0-4977	0-4977	0-4978	0-4979	0-4979	0-4980	0-4981
2-9	0-4981	0-4982	0-4982	0-4983	0-4984	0-4984	0-4985	0-4985	0-4986	0-4986
3-0	0-4987	0-4987	0-4987	0-4988	0-4988	0-4989	0-4989	0-4989	0-4990	0-4990

This table can be used to calculate $N(d)$, the cumulative normal distribution functions needed for the Black-Scholes model of option pricing. If $d_i > 0$, add 0.5 to the relevant number above. If $d_i < 0$, subtract the relevant number above from 0.5.

PFM 4: PUBLIC SECTOR FINANCIAL MANAGEMENT SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

WORKINGS

(1) COMPUTATION OF FEES

	Proportion	students	80%	FEES	TOTAL
NORTH	0.3	213	170.4	1500	255,600
WEST	0.2	142	113.6	1400	159,040
EAST	0.1	71	56.8	1350	76,680
SOUTH	0.4	284	227.2	1550	352,160
	Total	710	568		843,480
X 2 SEMESTERS					X2
Total fees per annum					1,686,960

(2) COMPUTATION OF DISCOUNTED PAYBACK PERIOD

YEAR	0	1	2	3	4	5
Transport fees		1,686,960	1,686,960	1,686,960	1,686,960	1,686,960
Variable costs @ 30%		506,088	506,088	506,088	506,088	506,088
Salaries for drivers		480,000	480,000	480,000	480,000	480,000
Net Cashflows		700,872	700,872	700,872	700,872	700,872
Disposal proceeds						50,000
		700,872	700,872	700,872	700,872	750,872
Initial investment	-3040000					
DF @ 5%	1	0.952	0.907	0.864	0.823	0.784

PV of costs	-3040000	667230	635691	605553	576818	588684
Cumulative c/flows		-2372770	-1737079	-1131526	-554708	

Pay back period	4yrs +					
	554708/588683					
	4.94yrs					

(b)

COMPUTATION OF NPV

YEAR		1-5
Net Cash Flows		700,872
AF YEAR 1-5 @ 5%		4.33
		3,034,075
Present value of disposal proceeds		
50000 x (5% df yr 5) 0.784		39,200
PV of costs		3,073,275
Initial Investment 380000*8		3,040,000
NPV		33,275

(b) The Zambian budget process consists of four stages. These stages are drafting, legislative, implementation and auditing.

The budget is prepared for a period of 12 months from January to December annually. It begins by the minister of finance issuing a budget call circular to spending ministries asking them for budget proposals based on the medium term expenditure framework as a guiding principle. The spending ministries and agencies submit budget proposals between June and November. In November, The ministry of finance and national planning (MoFNP) submits a draft budget to Cabinet for review.

In January, the Minister of Finance and National Planning on behalf of the

Republican President presents the budget proposal to parliament for approval. Then, Parliamentary debates commence thereafter.

(1) DRAFTING STAGE

This is mainly the responsibility of the executive. Generally, MoFNP initiates the budget formulation process. This is done through the issuance of a 'call circular' to controlling officers. The call circular gives the general economic policy guideline and expenditure ceilings on which the budget for the following year is to be based.

Upon receipt of the call circular, controlling officers prepare draft estimates for the budget in the form in which they are to be submitted. These draft estimates are debated by the controlling officers (permanent Secretaries) from various ministries chaired by the Minister of Finance. At this stage, adjustments are made in order to adhere to the general policy agreed upon earlier. Thereafter, the proposed draft budget measures are sent to cabinet for debate and approval, before compiling the Estimates of Revenue and Expenditure (Yellow Book). Once Cabinet approves the budget proposals, the Yellow Book and Budget Speech are printed for general circulation.

(2) LEGISLATIVE STAGE

Constitutionally, the Budget is supposed to be announced by the Minister responsible for finance and approved by the National Assembly within three months [ninety (90) days from the beginning of a financial year, as spelt out in article 117 (1) of the Constitution of Zambia, being Act No. 18 of 1996. During this stage, the budget is presented to the National Assembly for approval. In explaining the Budget, the Minister reads what is commonly known as the 'Budget Address. On the Budget day, the Minister of Finance tables the appropriation bill before the National Assembly for it to consider the draft estimates and pass the bill. At this stage, it must be pointed out that the National Assembly is only permitted to propose savings in the budget and not to propose additional spending for a particular head of expenditure.

(3) IMPLEMENTATION STAGE

Implementation of the Budget is an executive function. The MoFNP at this stage informs other Ministries to start spending as it disburses funds. In practice, Budgets are not always implemented in the exact form in which they were approved. There are two processes that influence spending during the fiscal year. Firstly, several supplementary expenditures are passed during the fiscal year to authorise additional expenditures which were not provided for in the main budget estimates. Secondly, a regular internal committee of the MoFNP decides what requests for funding from spending agencies are met, given the cash available from revenue receipts.

(4) THE AUDIT STAGE

This is the last stage in the budget cycle; it includes a number of activities that aim at measuring the effective use of public resources. The major player at this stage is the Auditor General's office. Under Article 121(1), of the constitution the Auditor General is appointed by the President subject to ratification of the National Assembly. The principle function of the Auditor General is to audit the public accounts. Ideally, the Executive branch should report extensively on its fiscal activities to the Legislature and the public. These fiscal activities should be subject to regular reviews by the Auditor General's office. It is the function of the Auditor General to submit the audited public accounts and report within 12 months to the Public Accounts Committee of parliament. This committee scrutinises the audit report, after which the committee makes recommendations. The follow - up on the audit report is the responsibility of the Auditor General.

SOLUTION TWO

(a) COMPOSITION OF THE AUDIT COMMITTEE

Mary was legally appointed as she is a member of the Zambia Institute of Chartered Accountants and she has extensive knowledge in the public service.

The composition of the audit committee includes:

- (i) Two serving or retired public officers with extensive knowledge and experience in the civil service outside that institution.
- (ii) One representative from the Zambia Institute of Chartered Accountants (ZICA)
- (iii) One representative from the Law Association of Zambia (LAZ)
- (iv) One representative from any other professional body.

(b) FUNCTIONS OF THE AUDIT COMMITTEE

- (i) Receive reports from internal auditors.

An audit committee can strengthen the existing internal audit function through enforcing the discipline of developing risk based strategic audit plans and regularly reporting results and progress against the plans. Proper internal controls will lead to higher efficiencies in all processes, less waste of resources, more objective evaluation methods and more timely and accurate management measurements.

- (ii) Evaluate and review audit policy.

An audit committee can be instrumental in reviewing audit policy, monitoring and directing activities and results related to the maintenance of internal controls and preparation of financial reports. It is also responsible for overseeing compliance to legal and regulatory standards, internal policies, other stakeholder requirements, and ethical matters. All of these can have a potential, non-financial or reputational impact.

- (iii) Evaluate the management procedures

An audit committee can be instrumental in reviewing, monitoring and directing activities and results related to the maintenance of internal controls and preparation of financial reports. Audit committee increase the scrutiny of certain aspects of an MPSA's governance, risk management, assurance, and financial management practices. This additional scrutiny provides the Controlling Officer with assurance that these areas have been independently reviewed.

A diligent audit committee will take an active role in the prevention and detection of fraud and encourage the establishment of effective ethics and compliance programs. The committee should establish and monitor the

government's code of ethics or code of conduct and, institute and monitor special investigations.

- (iv) Make recommendations to the accounting authority
An audit committee oversees and monitors the performance of the external auditor and helps ensure independence is maintained between the external auditor and those involved in managing the government's affairs. The committee should also participate in the external auditor selection process and make recommendations to the governing board.

(c) OBJECTIVES OF INTERNAL CONTROL SYSTEM

- (i) The orderly and efficient conduct of its business, including adherence to internal policies.
- (ii) The safeguarding of assets of the business.
- (iii) The prevention and detection of fraud and error.
- (iv) The accuracy and completeness of the accounting records.
- (v) The timely preparation of financial statements.

SOLUTION THREE

(a)

- (i) **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 are 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.
- (ii) **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.
- (iii) **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.

(b)

(i) Monetary Policy.

This is exercised by government when they want to take various actions that decrease or increase the money supply and raise or lower short term interest rates, making it harder or easier or harder to borrow money. When government believes that inflation is a problem they will use contractionary policy, to decrease the money supply and raise interest rates. When rates are higher borrowers have to pay more for the money they borrow and banks are more selective in making loans. Because money is tighter (more expensive to borrow) demand for goods and services will go down and so will prices.

In the case of Fenda republic an economic stimulus is needed to increase economic activity and hence create jobs. The government needs to increase money supply and lower interest rates to release money supply and hence increase economic activity leading to job creation.

(ii) Fiscal Policy

Fiscal policy relies on government's powers of spending and taxation . Both taxation and government spending can be used to reduce or increase the total supply of money in the economy- the total amount, in other words, that businesses and consumers have to spend. Since Fend is in a recession, the appropriate policy is to increase spending, reduce taxes or both. Such expansionary actions will put more money in the hands of businesses and

consumers encouraging businesses to expand and consumers to buy more goods and services. When businesses grow they will require more labor to increase production and sales, this will create employment opportunities in the Fend republic.

If the economy was experiencing inflation, the opposite policy is adopted, the government should decrease spending or increase taxes or both. Because such contractionary measures reduce spending by businesses and consumers, prices come down and inflation reduces.

SOLUTION FOUR

(a) Functions of treasury management:

- (i) Coordinate the operations between the Division and Ministries/ Departments concerning the disbursement of parliamentary funds and the reporting to parliament through Treasury and appropriation statements.
- (ii) Management of government accounts
- (iii) Financial planning and forecasting of cash flows.
- (iv) Administration of foreign grants and counterpart funds from international aid.
- (v) Financial asset management and public debt management

(b) Objectives of financial management:

- (i) Raising funds
- (ii) Allocation of funds raised
- (iii) Profit Planning
- (iv) Understanding capital markets.
- (v) Strategies on cost saving decisions.

(c) Functions of Financial Management:

- (i) Capital expenditure assessment and decisions
- (ii) Capital structure decision, i.e. Debt vs Equity.
- (iii) Investment decisions
- (iv) Financial Controls
- (v) Overall cash management
- (vi) Decisions concerning management of surplus funds
- (vii) Investment of funds
- (viii) Maximising Returns of Capital
- (ix) Minimising financial risks
- (x) Disinvestment decisions

SOLUTION FIVE

(a) Define the term "performance management" and explain the concept behind It

Performance management:

Performance management is an integral part of running an organisation. It is a tool by which you measure whether your employees are performing the way they should be.

It is the continuous process of identifying, measuring and developing performance of individuals and aligning it with the organisations vision.

(b) Five (5) elements which define how an entity should implement performance management

- (i) Setting objectives – what you want to achieve e.g 25% increase in production next year. Setting objectives is the first act a public sector organization will have to undertake. The organisation must first strategise on the goals the organization wants to meet in the first place.
It also includes the measures that will be used to determine whether expectations and goals are being met.
- (ii) Measuring the performance – consistently measuring performance and providing ongoing feedback to actual performance toward reaching the set objectives. Ongoing measuring of performance provides the opportunity to check the performance to identify and resolve any problems early.
Measuring performance involves collecting, analyzing and reporting information regarding the performance of employees and the public sector organisation.
- (iii) Feedback of performance results – this is an evaluation of actual performance against targets.
It evolves evaluating employee or group performance against the elements and standards in an employee's performance plan, summarizing that performance, and assigning a rating of record and organisation actual performance against the set targets.
- (iv) Reward systems based on performance outcomes. – Providing incentives to and recognition of employees, individually and as members of groups, for their performance and acknowledging their contributions to the organisation.
- (v) Amendments to objectives and activities. A review of the objectives and activities can be done for the purpose of making improvements.

(c) It essential to know the following issues regarding an effective indicator in performance measurement:

- (i) The assumptions regarding the indicator and the rationale for measuring it.
- (ii) The precision and accuracy for any measurement.
- (iii) Congruence- many indicators are proxies so it is essential that the indicator changes in line with the actual behavior.
- (iv) The change measured by the indicator should represent progress that the programme hopes to make.
- (v) An indicator should be defined in precise, unambiguous terms that describe clearly and exactly what is being measured.
- (vi) An effective indicator is one which is acceptable to all stakeholders, clearly defined, a reliable measure of the criterion, easy to measure and record, and integrative.

- (vii) Whether a static measure (a value at a point in time) or a vector (a value and direction of change) is more appropriate. Usually, a vector will be more informative, but organisations normally use static measures.
- (viii) Whether a soft or hard measure is required.
- (ix) If the indicator is going to measure results or behaviour;
- (x) What are the likely intended and unintended consequences of the measurement system.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 5: PUBLIC SECTOR AUDITS

THURSDAY, 14 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

You work for the Office of the Auditor General (OAG) as a Senior Auditor. You are leading a team of auditors to perform the audit of the financial statements of the Government owned Fertilizer Manufacturing Ltd for the year ended 31 March 2023.

This is the first time that the Office of the Auditor General (OAG) will be auditing a company in this industry. You are the only one who has some knowledge of this company for which you worked as Chief Accountant until recently when you resigned and joined the Office of the Auditor General (OAG). The rest of the audit team members comprises inexperienced Assistant Auditors.

At the planning stage of the audit of the financial statements of Fertilizer Manufacturing Ltd you concluded that audit risk is above acceptable levels. This is on account of the poor internal controls in the company and the high turnover of accounting staff. You decided to use a combined approach to this audit and so you will have to perform tests of controls before deciding on the nature and extent of further audit procedures to conduct.

The plant of Fertilizer Manufacturing Ltd is old and the company faces frequent break downs of equipment. This has led into low production levels resulting in reduced revenue leading to poor liquidity position of the company. The major customer of the company is Government which buys more than 70% of its production for the farmer support system. At the year end the receivables age analysis shows that 80% of the debt is over 90 days. A review of the receivables age analysis revealed that an agricultural company selling agricultural products and owned by the Principal Auditor in charge of the audit of Fertilizer Manufacturing Ltd owes an amount of K1.5 million.

You are concerned that audit risk on this audit is high. You wish to reduce sampling risk by testing larger samples in the main business cycles.

The audit of the financial statements of Fertilizer Manufacturing Ltd is at the review stage. The Principle Auditor who was reviewing the work done observed that no work has been done regarding subsequent events. In his working paper review notes, he requested that audit procedures on subsequent events should be performed. He requested you to document the work you will perform with regards subsequent events and he wants to discuss this with you to ensure that the work will be done in accordance with the relevant auditing standard.

Required:

- (a)
- (i) Explain the meaning of audit risk and state the action that the audit team should take in view of the assessed high level of audit risk at the planning stage of the audit. (8 marks)
 - (ii) Identify and explain two (2) audit risks at the planning stage of the audit of Fertilizer Manufacturing Ltd and for each risk suggest a suitable response by the audit team. (4 marks)
 - (iii) Identify and explain two (2) ethical issues in the audit of Fertilizer Manufacturing Ltd. (4 marks)
- (b)
- (i) Explain the two (2) types of subsequent events in accordance with IAS 10 Events After the reporting period. (4 marks)

- (ii) Explain the responsibility of the public sector auditors with regards subsequent events to the date of issuing the financial statements. (8 marks)
 - (iii) Explain the role of the Public Accounts Committee in public expenditure and state how the Office of the Auditor General assists the committee in meeting its mandate. (4 marks)
- (c)
- (i) Explain the meaning of sampling risk in public sector auditing. (4 marks)
 - (ii) Illustrate the use of tests of controls and substantive tests in the audit of revenue of Fertilizer Manufacturing Ltd. (4 marks)

[Total: 40 Marks]

SECTION B

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

QUESTION TWO

- (a) Public sector audits are conducted with a view to obtain sufficient appropriate audit evidence which forms the basis of the audit opinion. Audits would be expensive if public sector auditor would perform audit procedures on all transactions and balances. Public sector auditors test samples of transactions and balances and conclude on the audit based on the results of the sample.

The sample size depends largely on assessed risk. In doing so the auditors normally perform tests of controls the results of which impact the work of the public sector auditor.

Required:

Explain how the results of tests of controls performed by the public sector auditor may impact the public sector audit.

(4 marks)

- (b) The procurement of drugs in the country is done centrally through the Drug and Medicines Board. The board is funded by Government through the Ministry of Health. The Board has a large warehouse located in Lusaka and satellite depots across the whole country.

The board has an internal audit department under the responsibility of the Finance Director. The Internal Audit Department is involved in the pre-audit of all payments which have to be authorized by internal audit before payment can be made. The Internal Auditors also carry out audits of all board operations including the reconciliation of the inventory of stocks of drugs on a monthly basis. On a quarterly basis, the board conducts a physical count of all drugs at central warehouse. The provincial satellite depots hold significant quantities of drugs but only conduct inventory count once at the year end. Monthly inventory returns are sent to Head Office to enable the board purchase more drugs as necessary. All inventory at the depots belongs to the board and is included in the closing inventory of the board. The Drug and Medicines Board sells to chemists around the country. Credit is extended to chemists whose annual turnover is above K3 million. At the end of the year the age analysis shows a significant number of outstanding accounts receivables.

You have been assigned to perform the audit of the financial statements of the Drug and Medicines Board for the year ended 31 December 2022.

The audit is at the planning stage and you are about to carry out a risk assessment of the operations of the Medicines Board. Depending on the results of the risk assessment you will decide the extent of substantive audit procedures. Audit procedures will include verification of payments for the samples extracted. The board maintains a number of bank accounts with various banks. Monthly bank reconciliations are prepared by Head Office accounts staff.

Required:

- (i) Distinguish between internal and external auditing in the public sector.

(4 marks)

- (ii) Explain the meaning and use of financial statements assertions in an audit of financial statements in the public sector.

(4 marks)

- (iii) Suggest four (4) methods of obtaining audit evidence in the audit of the Drugs and Medicines Board.

(8 marks)

[Total: 20 Marks]

QUESTION THREE

- (a) You have been assigned to carry out a forensic investigation of a suspected fraud in a rural district of the country five (5) hundred kilometers from Lusaka.

You are leading a two (2) man team and you have been given cash for your lodging and fuel expenses to enable you return after the investigation.

It is alleged that the District Commissioner is involved in the misappropriation of Constituency Development Fund (CDF). He has managed to do this by appointing on the District Development Committee close friends and relatives who do not question his decisions.

He was informed about the intended investigation by the Provincial Permanent Secretary. As soon as he came to know of your visit, he arranged accommodation for the two (2) of you at his lodge for which no payment will be required. Further, he instructed the Workshop Foreman to allow you to fill up fuel at the district fuel depot.

Required:

Explain the ethical issue in the above case and suggest a suitable safeguard by the team.

(4 marks)

- (b) You have been assigned Senior Auditor in charge of the audit of project funds under the Ministry of Justice. This is a four (4)-year project which will be subject to audits by the Office of the Auditor General (OAG). This is the first of the four (4) audits and the Principal Auditor has requested that relevant audit files should be opened and maintained during the audit.

During the risk assessment and understanding the entity, you have been provided with the approved agreement for the project funds. This document contains the approved budget against which actual annual expenditure will be compared. The engagement letter was signed by the Director of Audits and this states the scope of the audit and the responsibilities of the project team and the auditors.

The audit plan shows that there will be need to perform tests of controls before carrying out substantive audit procedures. Both tests of control shall be performed by the two (2) Audit Assistants assigned to this audit. During the audit planning meeting with the Principal Auditor, he emphasized the need to consider the quality control requirements according to ISSAI 40 *Quality control* when assigning audit team members and the conduct of the audit. In the Office of the Auditor General (OAG) the Auditor General is responsible for quality control but he delegates this responsibility to the Principal Auditor during individual audits.

Required:

- (i) Explain four (4) advantages of audit documentation in the audit of project funds under the Ministry of Justice.

(4 marks)

- (ii) Explain how the provisions of ISSAI 40: *Quality control* can be implemented in the Supreme Audit Institution(SAI) and individual audit. (4 marks)
- (iii) State four (4) documents that should be contained in the current audit file in the audit of the project funds. (4 marks)
- (iv) State four (4) documents that should be included in the permanent audit file of the audit of the project funds. (4 marks)
- [Total: 20 Marks]**

QUESTION FOUR

- (a) Public funds in democratic countries are supposed to be used for the benefit of the citizens. In order to ensure transparency and accountability of how custodians of public funds use the funds, many countries set up Supreme Audit Institutions (SAI) whose objective is to carry out audits through which transparency and accountability is enhanced. The scope of public sector auditing is much wider than that of private sector auditing.

Required:

Explain four (4) types of audits conducted by the Supreme Audit Institution (SAI).

(8 marks)

- (b) You work for the supreme Audit Institution (SAI) as a Chief Investigator under the Investigation unit.

Your supervisor has called you to inform you that he received a call from a whistle blower about a fraudulent activities taking place at a Government run lodge in Lundazi. Brief details of the information given by the whistle blower are as follows:

1. The fraudulent activities involve the Lodge Manager and the Accountant and it has been going on for over two (2) years.
2. The fraud involves misappropriation for personal gain of cash by the two (2) who alter records to show that less money has been received.
3. The Accountant maintains his accounting records on his laptop and he keeps all accounting documentation.
4. In order to conceal the fraud of under banking of cash, copies of deposit slips authentic deposit slips kept by the lodge are destroyed and replaced by deposit slips showing lower amounts.

Your supervisor has requested you to immediately make travel arrangements to go and investigate the alleged fraudulent activities. If there will be a prima case against the two (2), the case will be taken to court. Your supervisor has emphasized to you the need to ensure that you get evidence that will be admissible in court. He advised you to record all the interviews that you will conduct to avoid a retraction of information by the people involved.

Required:

- (i) Explain the two (2) types of interviews in forensic investigations. (4 marks)
- (ii) Briefly explain any four (4) stages that should be carried out in the planned forensic investigation. (8 marks)
- [Total: 20 Marks]**

QUESTION FIVE

- (a) You are in charge of training in the Office of the Auditor General (OAG). Arising from the results of staff appraisals for the previous year, a training need has been identified. It was observed that a majority of the staff do not understand the reporting standards and in most cases recommend wrong opinions. The main challenge faced by staff is on opinions relating to the audit of financial statements.

Training has been arranged for Lusaka based employees at which you are required to go through the auditing standards guidelines on how to arrive at an appropriate audit opinion after the audit.

Required:

- (i) Distinguish between modified and unmodified audit opinions. (2 marks)
- (ii) Explain the basis for the modification of the audit opinion for each of the possible modified opinions according to ISSAI 1705: *Modifications to the opinion in the independent auditor's report*. (6 marks)
- (b) The Government of Zambia introduced annual Constituent Development funds in 2021. The funds are under the responsibility of the Ministry of Local Government.
- The Ministry of Local Government issued guidelines on how the Constituent Development Funds should be disbursed. The following were extracted from the guidelines by the Ministry of local Government:
1. The funds should be administered by the Constituent Development Committee (CDC) comprising the area Member of Parliament, the District Commissioners, the Mayor/Chairman, councilor and
 2. Disbursement of funds should be authorized by the Constituency Development Committees at a meeting called for the same.
 3. The Constituency Development Funds received from the Ministry of Local Government should be kept in a separate bank account.
 4. Funds should be disbursed for expenditure approved in the budget on submission of the application for funds.
 5. All requests for the funding of the procurement of goods and services should be supported by three (3) quotations.
 6. Requests for funding projects above K1.5 million should be by way of public tender and the award be made by the District Tender committee.

The Demu Constituency received its allocation of the Constituency Development Fund for the year 2022. A number of projects were approved and funds disbursed.

You have been assigned to perform a compliance audit of the Demu Constituency – CDF funding for 2022.

Required:

- (i) Explain the objective of the intended compliance audit of Constituent Development Fund disbursement for quarter one (1) 2022 of the Demu Constituency. (2 marks)
- (ii) Explain the parties to the intended compliance audit of Demu constituency Constituency Development Fund disbursements and state the role of each party. (6 marks)
- (iii) Describe four (4) audit procedures that should be carried out in the compliance audit of Demu Constituency Development Fund disbursement. (4 marks)

[Total: 20 Marks]

END OF PAPER

PFM 5: PUBLIC SECTOR AUDITS SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) **Meaning of audit risk:**

Audit risk is the risk that the public sector auditors may issue an inappropriate audit opinion. When the auditor should have issued a modified opinion, an unmodified opinion or vice versa issued.

Audit risk has three elements as follows:

Inherent risk – This is the risk that the financial statements may be misstated due to the nature of an item such as an accounting estimate with no precise method of measuring the amount.

Control risk – This is the risk that internal controls in an entity will fail to prevent or help detect material misstatements in the figures in the financial statements.

Detection risk – This is the risk that despite the public sector auditors performing procedures in accordance with auditing standards they may fail to detect material misstatements in the figures contained in the financial statements.

Action in view of high level of risk:

If at the planning stage of the audit the public sector auditor assesses audit risk as being higher than expected, the response is unlike that in private sector auditing. In private sector auditing the auditors may consider declining the appointment or they may consider resigning from the engagement. In the public sector the mandate of the public sector is in the law and the public sector auditor is required to carry on with an audit even where risk is considered high.

The public sector auditors will design suitable audit procedures considering the high-risk levels. This may include extracting large sample sizes in order to reduce detection risk.

(ii) **Audit risks:**

Audit risk	Auditor response:
1. The sudden resignation of the Chief Accountant creates an audit risk in that there is likely to be a significant number of errors which could lead to a misstatement of the financial statements.	Emphasis to the audit team to apply professional skepticism throughout the audit and close supervision by senior members of the audit team. The materiality level may have to be set at a low level in view of increased risk.
2. The use of newly recruited inexperienced Audit Assistants could lead to increased detection risk. The newly recruited Audit Assistants may not be able to detect misstatements due to lack of experience.	Close supervision of the work done by the newly recruited Audit Assistants.
3. Poor internal controls in Fertilizer Manufacturing Ltd could result in a high level of errors in the financial statements	Emphasis to the audit team to observe professional skepticism throughout the audit

4. Old equipment may have suffered impairment and the company may not have carried out an impairment review.	Inquire from management whether an impairment review has been performed. If not request management to do this.
5. This is the first time that the OAG will be auditing the financial statements of Fertilizer Ltd there is a risk that the opening balances may be misstated.	Perform audit procedures on opening balances and look out for evidence on opening balances when performing current year audit procedures.

(iii) **Ethical matters:**

Ethical matter	Suitable safeguard
1. The appointment of the former Chief Accountant to lead the audit team for the audit of Fertilizer Manufacturing Ltd. He recently worked for the company and held a senior position. Being in charge of the audit will create a familiarity and self- review threat.	Consideration should be made to replace James with another person.
2. Inexperienced audit team comprising a Senior Auditor with little experience and the Assistant Auditors with little audit work experience. This increases detection risk.	There is need for close supervision and review of the work done by this team. The OAG should consider the skills and competences of staff when assigning staff to audits in line with ISSAI 40: Quality control
3. The Principal Auditor does business with Fertilizer Manufacturing Ltd. This creates a self-interest threat and impact on the objectivity of the Principal Auditor.	He should not be involved in the audit of Fertilizer Manufacturing Ltd. He should be replaced by someone with no interest

(b)

(i) **Types of subsequent events:**

Adjusting events – these are events that take place after the reporting period that had they been known at the reporting period would have necessitated an adjustment of the figures in the financial statements. When these events arise after the period end before the signing of the audit report, they would require that the figures in the financial statements be adjusted.

Non-adjusting events- these are the events that occur after the period end but they do not give additional evidence of conditions that existed at the period end and will not give rise to adjustment to the related figures in the financial statements.

(ii) **Responsibilities of the public sector auditor for subsequent events:**

Management is responsible for the correct accounting for subsequent events in accordance with IAS 10 *Events after the reporting period*.

ISSAI 1560: *Subsequent events* provides guidance to the public sector auditors as follows:

- (1) The public sector auditors have an active duty to perform between the year end and the date of signing the audit report. They should perform audit procedures to identify any subsequent events and confirm that they have correctly been accounted for according to IAS 10.
- (2) After the date of signing the audit report, the public sector auditors have a passive duty and it is up to management to inform the auditors of any matter that arises that could have impacted on the work of the auditor. If such a matter is brought to the attention of the public sector auditors, they should discuss the matter with management. If the matters require that the financial statements should be adjusted, management will be required to adjust and the auditor is required to perform audit procedures on the adjustments.
- (3) A new audit report will be prepared and signed. Public sector auditors will require to extend the procedures for identifying adjusting and non-adjusting events to the date of the new auditor's report.
- (4) If a matter arises between the date of the audit report and the issue of the financial statements, the auditors will require to discuss with management and find out how management intends to deal with the matter. If it requires amending the financial statements the auditor will request the management to withdraw the financial statements and if necessary, adjust the financial statements. Audit procedures will have to be performed on any adjustments and an extension of the date of identifying adjusting and non-adjusting events to the date of the new audit report.

(iii) **Role of the Public Accounts Committee:**

The Public Accounts Committee (PAC) is a committee of parliament which is entrusted with the responsibility of providing oversight on how public funds are spent.

The Public Accounts Committee (PAC) holds public hearings on the findings of the public sector auditors. Controlling and other officers of the audited entities are called to answer on the findings of the Auditor General.

The Public Accounts Committee (PAC) further, decides on whether matters raised in the audit report should be reported to relevant authorities for prosecution.

How the OAG assists the Public Accounts Committee fulfill its mandate:

The Public Accounts Committee (PAC) conducts its oversight role through the use of reports by the Office of the Auditor General. The Office of the Auditor General conducts audits of public entities and issue an audit report on its findings. The report is circulated to the President and Parliament.

By conducting and reporting on its findings the Office of the Auditor General assists the Public Accounts Committee to fulfill its mandate. Proceedings of the Public Accounts Committee are attended by representatives of the Office of the Auditor General (OAG).

(c)

(i) **Meaning of sampling risk:**

Sampling risk is the risk that the public sector auditor may issue an inappropriate audit opinion because of basing the opinion on sample results. Had the whole population been examined, a different conclusion could have been reached.

How sampling risk may be reduced:

Sampling risk may be reduced by the public sector auditors by increasing the sample sizes to test. The near to 100% testing the lower will be the sampling risk. In a computerized environment, this could be done through the use of Computer Assisted Audit Techniques (CAATs).

(ii) **Meaning and use of tests of controls:**

Tests of controls are procedures performed by the public sector auditors to obtain evidence about the effectiveness of the internal controls in place. The objective for the auditor of performing tests of controls is to respond appropriately depending on the results as follows:

- (1) If the results of tests of controls show that the controls are operating as expected during the period under review, the public sector auditors may place reliance on the effectiveness of the controls and limit the extent of substantive audit procedure. The public sector auditors will use a combined approach in obtaining evidence.
- (2) If the results of the tests of controls shows that the controls were not operating as expected, then no reliance will be placed by the public sector auditors and the approach will be that of performing substantive procedures on all material amounts in the financial statements.

Meaning and use of substantive audit tests:

Substantive tests are procedures conducted by the public sector auditors in order to obtain evidence on whether the figures in the financial statements are materially misstated.

Auditors are required to perform substantive procedures on all material amounts and cannot rely entirely on tests of control to form an audit opinion.

SOLUTION TWO

(a) Auditors perform tests of controls during the audit. The results of the tests of control have an impact on the extent of further audit procedures that will be performed by the public sector auditors as follows:

If the results of the tests of control indicate that the controls are operating as expected, the public sector auditors will use a combined approach and reduce on the extent of substantive audit procedures.

If on the other hand the results of the tests of controls indicate that the internal controls are not operating as expected, no reliance will be placed and the auditors will perform substantive audit procedures to obtain evidence on the figures in the financial statements.

(b)

(i) **Distinction of internal and external auditors in the public sector:**

	Internal auditors	External auditors
1. Independence:	The internal auditors in the public sector are part of the organization for which they work and they lack independence and hence objectivity.	The external auditors who work for the Supreme Audit Institution are independent of the audited institutions and are expected to be objective in carrying out their work.
2. Reporting:	Report to management for whom they work.	Independent of the audited entities report to the Office of the Auditor General an independent entity.

(ii) **Meaning and use of financial statement assertions:**

Financial statement assertions are representations made by management in the figures contained in the financial statements. Management is making claims that the financial statements or financial records have been prepared in accordance with the applicable financial regulatory framework.

In designing audit procedures to perform, the public sector auditors will have in mind the financial statements being tested.

For example in the figure for property, plant & equipment will contain non-current assets belonging to the audited entity. One of the financial statements assertions is that of existence which means that the assets represented by the amount did exist at the year end. In designing the audit procedure on the existence of the non-current assets, the auditors should bear in mind the assertion. The procedure to test for the existence of the asset is physical inspection of the relevant asset.

(iii) Methods that may be used to obtain evidence in the audit of Drug and Medicines Board include:

Inquiry of management and others within Medical Stores – This involves inquiry of management and other people within the organization. Inquiry could be made at the planning stage when assessing risk and also during tests of controls and substantive tests.

Observation – This is the process of observing a process to confirm compliance with laid down procedures. In the audit of Medical Stores, the auditors could witness the inventory count at the year end to confirm whether it is being done in accordance with the inventory count instructions.

Analytical procedures – This is the use of ratios and comparisons over time and related items. Analytical procedures are an efficient way of obtaining evidence and they are used at all the three stages of auditing namely planning, substantive audit stage and the review stage.

Re-performance – This involves the auditor re-performing an activity that was performed by the client. In the audit of Medical Stores, the auditors may wish to perform the bank reconciliations.

SOLUTION THREE

(a) Ethical issue

In carrying out a forensic investigation, the staff carrying out the investigation should be independent of the people being investigated. Lack of independence will result in loss of objectivity on the part of the investigators.

In the case at hand:

- (1) The staff assigned to carry out the investigation have been given money for board and lodging. The team should decline the offer for free accommodation offered by the suspect being investigated.
- (2) The offer for fuel should also be declined.

(b)

(i) Benefits of audit documentation:

The audit work performed by the Supreme Audit Institution should be documented and the following benefits arise:

- (1) The documentation forms the basis for arriving an appropriate audit opinion.
- (2) Documentation facilitates the supervision and review of the work performed.
- (3) Audit documentation is useful for reference for any future work that will be done.
- (4) In the case of litigation and court cases the documentation may be used in giving evidence in court.
- (5) Audit documentation is a record of the work that was performed to confirm that it was done in accordance with auditing standards and also shows who did the work.

(ii) How provisions of ISSAI 40: Quality control can be implemented:

Quality control relates to the quality of the audit work performed. The Supreme Audit Institution (SAI) can enforce the provisions of ISSAI 40 by:

- (1) The Supreme Audit Institution (SAI) putting in place policies for quality control for the SAI. The SAI should appoint an individual with necessary knowledge of the standards on quality to be the focal person for quality who can be consulted on any matters on quality.
- (2) At the individual audit level the SAI, the Engagement Partners are responsible for quality control. This should be enforced in accordance with the provisions of ISSAI 1220.

(iii) Documents contained in the current audit file:

- (1) The letter of engagement detailing the scope of the engagement.
- (2) Copies of incorporation documents where relevant.
- (3) The organization chart of the client company.
- (4) Copies of procedural manuals where available.
- (5) Copies of important contracts or agreements.

(iv) Documents contained in the permanent audit file:

- (1) The audit plan for the current year
- (2) The trial balance or details of the subject matter under audit.
- (3) Working papers for material financial statements assertions.

- (4) Review notes by reviewers of working papers.
- (5) Draft financial statements of the client company.

SOLUTION FOUR

(a) Types of audits conducted by the Supreme Audit Institution:

- (1) **Financial audits** which involve the audit of financial statements prepared by the entity being audited. The objective of financial audits is to enable the auditor form an opinion on the financial statements.
- (2) **Compliance audits** – these are audits performed by the public sector auditors to confirm compliance with given criteria of projects, systems etc.
- (3) **Performance audits** – These are value for money audits aimed at establishing whether projects, programs or government expenditure in general are done considering the principles of economy, efficiency and effectiveness.
- (4) **IT Audits** – These are audits aimed at obtaining sufficient appropriate evidence that information systems in the public sector are operating according to the intended purpose.
- (5) **Environmental audits** – These are audits performed with a view to establish compliance with the requirements of environmental laws and regulations.
- (6) **Forensic audits and investigations** – These are audits performed by the public sector auditors to establish whether a crime has been committed or not. The outcome of the investigations may lead to litigation against the people involved.

(b)

(i) The types of interviews conducted by forensic investigators:

Information seeking interviews

These are interviews that are conducted by the forensic investigator with the objective of obtaining information regarding the matter being investigated. These interviews involve staff who may not have been involved in the fraud being investigated.

Admission seeking interviews

These are interviews performed with the objective of seeking an admission and ultimately a conviction. The people involved in the alleged fraud are interviewed with the objective that they will admit the wrong doing.

(ii) Four (4) stages in a forensic investigation:

Defining the scope and objectives:

At this stage the investigators will wish to decide on the scope in terms of the period to be covered. The investigators will also require to define the objective of the investigation. Is it an allegation or is it an actual fraud that has taken place?

Gaining an understanding:

The information received by the supervisor is from a whistle blower and is not conclusive. During this stage, the forensic investigators will require to gain an understanding of how the fraud was done. It is only through a clear understanding that suitable procedures can be done.

Securing and safeguarding financial and other information:

The Accountant keeps the accounting records and accounting information is maintained on his laptop. If the Accountant comes to learn that an investigation is about to be conducted, there is a risk that he may destroy the records in order to conceal evidence. Without evidence it is unlikely that a conviction can be secured.

To avoid destruction of evidence, the forensic investigator will require to secure the documents and information on the laptop. This may necessitate the suspension of the staff involved to avoid loss of information.

Interviewing staff and third parties:

This is the stage of gathering information. In forensic investigations, there are interviews of staff and others in the organization and also the people suspected of committing the fraud.

Inspecting financial information and documents:

This is the stage of inspecting the documentation that will form the basis of the investigation. During this stage, any 'red' flags are noted and the work in this stage forms the basis for the conclusions that will be made.

Drawing conclusions:

Based on the results of the previous stage and other evidence from the interviews the investigators should reach a conclusion based on the objectives earlier determined.

Producing the report:

At this stage, the report is prepared by the team addressing the objectives of the investigations.

SOLUTION FIVE

(a)

(i) **Unmodified and modified opinions:**

Unmodified opinions – This is an opinion issued by the auditor when they conclude that the financial statements have been prepared in accordance with the applicable financial reporting framework. The auditor has no matter of concern and concludes that the financial statements show a true and fair view.

Modified opinion – In this case the auditor has a matter of concern and is unable to issue an unmodified opinion. The auditor is required to decide the form of modification of the report from the three types of modification.

(ii) **Basis for issuing modified opinions:**

There are three forms of modified opinions according to ISSAI 1705(Revised): *Modifications to the Opinion in the Independent Auditor's Report* Namely qualified opinion, adverse opinion and disclaimer of opinion.

In order to decide on the form of modification, there are two (2) situations that should be considered and in each of the situation the materiality and pervasiveness of the matter of concern should be considered as follows:

The auditors are able to obtain sufficient appropriate audit evidence:

- (1) If the matter of concern is material and not pervasive to the financial statements a **qualified opinion** will be issued by the public sector auditors.
- (2) If the matter is both material and pervasive then an adverse opinion will be used.

There is a limitation of scope and the auditors are not able to obtain sufficient appropriate evidence:

- (1) If the matter is material and not pervasive the auditors will issue a qualified opinion.
- (2) If the matter is both material and pervasive a disclaimer of opinion will be issued by the auditors.

(b)

(i) **Objective of the compliance audit:**

The objective of the compliance audit of the disbursement of funds is to establish compliance with the guidelines under which these funds were disbursed in accordance with the guidelines.

Compliance audits are carried out by assessing whether activities, financial transactions and information comply, in all material respects, with the authorities that govern the audited entity. Compliance auditing includes both the aspects of regularity (adherence to formal criteria such as relevant laws, regulations and agreements) and/or propriety (observance of the general principles governing sound financial management and the conduct of public officials

(ii) **Parties to the compliance audit of the CDF:**

The three parties to the planned compliance audit are as follows:

- (1) **The public sector auditor** – who is responsible for gathering evidence on compliance.
- (2) **The responsible party** – In this case it is the Ward Development Committee which is responsible for administering the disbursed funds.
- (3) **The intended users** – The ones who are concerned about compliance in this case the Constituency Development Committee and the Ministry of Local Government which is ultimately responsible for disbursement and use of CDF.

(iii) **Compliance audit procedures:**

- (1) Inquire from the Constituency Development Committee of the disbursements made and confirm that they were approved in line with the CDF guidelines.
- (2) Confirm that the funds approved are maintained in a separate bank account and confirm balances directly with the bank.
- (3) For funds disbursed, confirm that there was a budget submitted with the application as per guidelines.
- (4) Examine a sample of disbursement for procurement and confirm supported by three quotation in accordance with the guidelines.

END OF SOLUTIONS



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

MONDAY, 11 DECEMBER 2023

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

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE

- (a) The Office of the Accountant General for Country Y prepared the following lists of balances as at 31 December 2022.

	K'000
Income Tax	15,000,000,320
Customs and Excise Duty	2,905,801
Value Added Tax	3,979,993
Fees and Fines	135,187,054
Interest	176
Fuel Levy	358,555,272
Medical Levy	17,559,653
Grants From -EU	203,818,125
-Norway	129,108,700
-Exim Bank – China	523,625,000
Personal Emoluments	6,412,780,212
Goods and Services	3,334,322,742
Financial Charges	1,565,208,085
Grants to Local Authorities	1,215,579,440
Social Benefit	1,151,755
Capital Expenditure	21,902,406

The following information was also available:

- (1) The Government classifies receipts as direct tax, indirect tax and non-tax, external assistance, external borrowing and domestic borrowing.
- (2) The Government expenses are categorized into Personal Emoluments, Goods and Services, Financial Charges, Grants to Institutions, Capital Expenditure and Social Benefits.
- (3) The Government opening balance on 1 January 2022 was a deficit of K4,105,480,275.
- (4) The Government currently prepares accounts using cash basis IPSAS.

Required:

- (i) Explain the difference between the cash basis of accounting and accrual basis of accounting.
(10 marks)

- (ii) Prepare a statement of cash receipts and payments for the Government of country Y for the year ended 31 December 2022. (15 marks)
- (b) The Government of country A has been struggling to finance its Government activities particularly in the health and education sector. This has been caused by lack of orientation of its revenue collectors who most of the time does not understand the Information Communication Technology (ICT) systems that have been implemented. Further much of the revenue is not accounted for in line with International Public Sector Accounting Standards (IPSAS) 9.
- (i) You are Director of Finance at the Ministry of Finance, you have been requested to prepare a presentation for the Accountant General, stating the key consideration to be taken into account when accounting for revenue in accordance with IPSAS 9. (12 marks)
- (ii) Explain the responsibilities of revenue collectors in the public sector. (3 marks)
- [Total: 40 Marks]**

SECTION B

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

QUESTION TWO

Public sector organisations are formed by the Government in order to achieve social objectives such as the provision of clean water and sanitation to the citizens. The Government has broad powers, including the ability to establish and enforce legal requirements for public sector organizations and to change those requirements. Globally the public sector, varies considerably in both its constitutional arrangements and its methods of operations. Public enterprises are expected to prepare their financial statements using the General Purpose Financial Reporting Frameworks (GPFRs) for both primary and other users. Despite the wide use of GPFRs in the public sector, there are pervasive constraints with regard to GPFRs.

The governance in the public sector generally involves the holding to account of the executive by a legislative body (or equivalent). Therefore, characteristics of a public sector organisation are very different from those of a private sector organisation.

Required:

- (a) Describe four (4) characteristics of a public sector organisation. (10 marks)
- (b) State four (4) constraints on information included in the General Purpose Financial Reporting (GPFRs) by Public Sector Entities. (4 marks)
- (c) Explain six (6) service recipients/resource providers that rely on GPFRs for information, who are not primary users of GPFRs. (5 marks)

[Total: 20 Marks]

QUESTION THREE

The Ministry of Defense (MoD) of Country Y recently adopted Accrual International Public Sector Accounting Standards (IPSAS) accounting in accordance with Government Pronouncement. During the course of the year, the ministry through its engineering department was awarded a contract to construct a school. At the end of 31 December 2022, the ministry provided you with the following information about the project:

	(K)
Total Contract Price	2,000,000
Cost Incurred to date	1,200,000
Value of work certified	1,600,000
Cost of Work Certified	1,160,000
Estimated costs to completion	250,000
Payments on account (progress payments)	1,700,000

The accounting policy is to measure percentage completed of construction contracts as the proportion of value of work certified over the contract price.

Required:

In accordance with IPSAS 11 construction contracts, calculate and clearly state:

(a) Amounts to be reported in the statement of financial performance and statement of financial position for the year ended 31 December 2022.

(10 marks)

(b) How the answer to part (a) above would differ, if estimated cost of completion amounted to K900,000 rather than K250,000.

(10 marks)

[Total: 20 Marks]

QUESTION FOUR

South Eastern Council (SEC) provides essential services to the inhabitants through the use of levies and taxes that it collects on a monthly basis. At the end of the year, financial statements are prepared and its performance analysed using ratios. This enhances accountability and confidence to resource providers who want to know how the council is using their levies and taxes. The other way of analyzing performance is to compare actual and budgeted results on the statement of change in net debt. This provides key accountability information which is integral to evaluating its performance in achieving its operations and spending plans. It is further expected that financial statements will include notes to accounts.

Included in the financial statements are the following extracts for the year ended 31 December 2022:

	K'000
Police and social services expenditure	120,000
Debt service payments	80,000
Sales tax collections	70,000
Local and state mandated costs	100,000
General obligations long-term projects	60,000
Capital /outlay	90,000
Notes and accounts payables	45,000
Total taxes and fees receivable at the year-end	92,000
Miscellaneous expenditure	240,000

Other relevant information:

The city /town population was 4,000,000 people

Municipal population was 2,000,000 people

Total resources K5,000,700,000

The sales tax rate is 16%

Required:

(a) Explain, giving four (4) reasons for the importance of performance and financial management to the users of financial statements.

(6 marks)

- (b) Explain two (2) advantages and two (2) disadvantages of analyzing financial statements of South Eastern Council using ratios. (4 marks)
- (c) Explain any five (5) weaknesses in the public sector reporting. (5 marks)
- (d) Using appropriate information above, calculate any two (2) of the following ratios:
- (i) Ratios of economic vitality. (2½ marks)
- (iii) Ratios of financial independence and flexibility. (2½ marks)
- [Total: 20 Marks]**

QUESTION FIVE

Lusangazi District is a newly created District in Country C. The Government of Country C embarked on construction of infrastructure in Lusangazi District. Some of the Infrastructure that is being constructed are schools, hospitals, District administration offices and staff accommodation. The country has had challenges in deploying fully qualified staff especially in the health and education sectors. Members of the public have been complaining of poor service delivery. One of the members of the public informed the District Development Co-ordinating Committee (DDCC) meetings that a nurse should be able to complete the plastering of an average bone in 45 minutes. It was however noted that one of the nurses was working 55 hours each week, and actual number of tasks completed was 70. The meeting was further informed that each nurse is supposed to work 10 hour shift 5 days a week.

Members of the public lamented that they did not understand why public service has continued to perform below the expectation of the citizens in comparison with the private sector.

Required:

- (a) For the nurse described in the scenario, calculate the following ratios:
- (i) Production/Volume ratio (1 mark)
- (ii) Capacity ratio (1 mark)
- (iii) Efficiency ratio (1 mark)
- (b) As District Accountant, for Lusangazi, prepare a memo to the District Health Director
- (i) Comparing the strategy of the Private and Public Sector Hospitals. (14 marks)
- (ii) Explain the causes of poor performance of the public sector. (3 marks)

[Total: 20 Marks]

END OF PAPER

**PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES
SUGGESTED SOLUTIONS**

SOLUTION ONE

- (a)
(i) **Explain the difference between cash basis of accounting and accrual basis of accounting**

Under Cash basis;

- (1) Revenues are reported in the statement of financial performance in the period in which cash is received.
(2) Expenses are reported in the statement of financial performance in the period cash is paid out.

Under Accrual Basis ;

- (1) Revenues are reported in the income statement when they are earned which is before cash is received.
(2) Expenses are reported in the income statement in the period in which they match up with related revenues, occur or expire which is usually different from the period payment is made out.

Provides a better picture of an organization's financial position at the end of the financial year. The reason being that all assets that were earned are reported and all liabilities that were incurred are reported on the balance sheet.

(ii) **STATEMENT OF CASH RECEIPTS AND PAYMENTS AS AT 31ST DECEMBER 2018**

	Notes	Actual Controlled by Government Year Ending 31st December 2019
RECEIPTS		
Direct Tax	1	15,006,886,114
Non-Tax Revenue	2	511,302,155
External Assistance		
Other Grants and AID	3	332,926,825
External Borrowing		
Proceeds from Borrowing	4	523,625,000
Total Receipts		16,374,740,094
PAYMENTS		
Personal Emoluments		6,412,780,212
Goods and Services		3,334,322,742
Financial Charges		1,565,208,085
Grants to Local Authorities		1,215,579,440
Social Benefit		1,151,755
Capital Expenditure		21,902,406
Total Payments		12,550,944,640

Increase/(Decrease) in cash		3,823,795,454
Cash/(deficit) at the beginning of the year		(4,105,480,275)
Cash/(deficit) at the end of the year		(281,684,821)

Note: Aggregation of Income according to Chart of Accounts

Tax

1. Income Tax	15,000,000,320
Customs and Exercise	2,905,801
VAT	3,979,993
Total	15,006,886,114

Non- Tax

2. Fees and Fines	135,187,054
Interest	176
Fuel Levy	358,555,272
Medical Levy	17,559,653
Total	511,302,155

3. External Assistance

Grants from EU	203,818,125
Norway	129,108,700
Total	332,926,825

4. External Borrowing

Exim Bank	523,625,000
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- (b)
- (i) You are Director of Finance at the Ministry of Finance, you have been requested to prepare a presentation for the Accountant General , stating the key consideration to be taken into account when accounting for revenue in according with IPSAS 9.
- (1) Revenue is to be measured at the fair value of the consideration received. This includes, where material, discounting the value of the consideration which will be received in the future.
 - (2) Revenue arising from the sale of goods should be recognized when all the criteria have been satisfied.
 - (3) When the outcome of a process of a contract to supply services can be reliably measured, revenue should be recognized by stage of completion, otherwise recognize revenue only to the extent of expenses recoverable.
 - (4) Where there are several components to a transaction e.g. entity sells goods and services together, then the revenue recognition rules should be applied to each component separately, that is revenue attributable to the sale of goods will be recognized immediately whilst the revenue associated with provision of services

will be deferred and recognized over the period during which the service is performed.

(5) There are also general rules for the recognition of interest, royalties and dividends.

(6) All costs associated with the revenue should be accounted for in the same period as the revenue recognized. This is in line with the matching concept.

(ii)

(1) Collect taxes from individuals or businesses according to prescribed laws and regulations.

(2) Reconciliation of revenue collected with documentation from tax payers.

(3) Prepare reports on revenue collected for onward submission to the treasury for consolidation in the financial report.

SOLUTION TWO

(a) The following are characteristics of a public sector organisation;

(i) In a **non-exchange transaction**, a public sector entity receives value from another entity without giving approximately equal value in exchange. The quality of service from an individual or group of individuals may not be related to the level of taxes assessed. For instance taxation is a legally mandated compulsory non-exchange transaction between individuals or entities and the government. In addition, public sector organisations are accountable to government. They also prepare budgets that they submit to government as a way of demonstrating compliance with legal requirements relating to public finances.

(ii) **The nature of public sector programmes and the longevity of the public sector**

A lot of public sector programmes are long term and the ability to meet commitment depends upon future taxation and contributions. They have a lot of commitments and the taxes collected may not be enough to cover all the needs. They may not have powers to recognise a liability or an asset as defined in the elements of financial statements. Although political control may change, public entities have the ability to exist and at times can be bailed out by the state whenever they have financial difficulties.

(iii) **Nature and purpose of assets and liabilities in the public sector**

Their assets are held to create and provide a service rather than holding them to generate cash flows. Most of their assets they hold such as military entities are specialised in nature. They may need considerable adaptation for them to be used by other entities. The government and other public sector organisations may hold such assets as cultural symbols or for religious purposes or treasures. Such assets are therefore not held for resale such as various waterfalls.

Most of the liabilities for such entities are incurred for providing a no-exchange service. There liabilities may also be incurred when providing services to citizens that are affected by floods.

(iv) **The regulatory role of public sector entities**

Many governments have the power to regulate public sector entities that operate in certain sectors of the economy, either directly or through created bodies such as the energy regulation board or Water regulatory bodies. The main aim of public sector organisations is to provide the public with a service so as to meet public expectation and interest. They are also regulated by government and at times there can be government interference as opposed to private sector organisations.

(b) The following are **pervasive constraints** on information:

(i) Materiality

(ii) Cost may outweigh benefits.

(iii) Achieving an appropriate balance between the qualitative characteristics.

(iv) GPFs may not meet all the needs of all public entities as they have different objectives that are not well defined.

(c) **Some resource providers that may rely on GPFs for decision making but are not primary users are;**

(i) Residents who pay taxes and/or receive benefits but are not citizens.

- (ii) Multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government.
- (iii) Those that fund and benefit from, the service provided NY international government organisations.
- (iv) Government statisticians, analysts, media, financial advisors, public interest and lobby groups.
- (v) Regulatory and oversight bodies such as audit institutions , subcommittees or legislature or other governing body , central agencies and budget controllers, entity management and rating agencies.
- (vi) In some cases, lending institutions and provider of development funds and other assistance.

SOLUTION THREE

	K	K
(a) Total Contract Sum		2,000,000
Cost Incurred to date	1,200,000	
Estimated cost to completion	<u>250,000</u>	
Total Costs		<u>1,450,000</u>
Expected Surplus on Contract		550,000

Entries in the Statement of Financial Position and Financial Performance will be as follows:

	Statement of Financial Performance	Invoice	Statement of Financial Position
Revenue	1,600,000	(1,700,000)	(100,000)
Cost of Sales	<u>(1,160,000)</u>	(1,200,000)	<u>40,000</u>
Attributable	440,000		(60,000)

IPSAS 11 disclosure note:

Cost incurred to date	1,200,000
Add Surplus	440,000
Less: Payments on account (progress payments)	<u>1,700,000</u>
Gross Amount due to Customers	(60,000)

Statement of Financial Position

Current Liabilities

Gross amount due to customers	60,000
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Entries on Statement of Financial Performance

Cost of sales	1,160,000	
Work in progress	<u>40,000</u>	
Bank		1,200,000

	K	K
(b) Total Contract Price		2,000,000
Cost incurred	1,200,000	
Estimated cost to completion	<u>900,000</u>	
Total		<u>(2,100,000)</u>
Expected Loss		(100,000)

	Statement of financial Position	Invoice	Statement of Financial Performance
Revenue	1,600,000	(1,700,000)	(100,000)
Cost of Sales	<u>(1,160,000)</u>	(1,200,000)	<u>40,000</u>
Attributable Surplus	440,000		(60,000)
Balancing figure	<u>(540,000)</u>		<u>(540,000)</u>
Expected loss	(100,000)		(600,000)

IPSAS 11 disclosure note

Cost incurred	1,200,000
Loss recognized to date	(100,000)
Payments on account (progress payments)	<u>(1,700,000)</u>
Gross amount due to customers	(600,000)

Statement of Financial Positions

Current Liabilities

Gross amount due to customer	600,000
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Statement of Financial Performance

Cost of Sales	540,000
Liability	540,000

SOLUTION FOUR

- (a) Users of financial information would need financial information for the following reasons:
- (i) In order to assess whether the entity provided its services in an efficient manner.
 - (ii) To assess whether resources are currently available for future expenditure and to what extent there are restrictions attached to their use.
 - (iii) In order to assess whether or not the burden on future years tax payers of paying for current services has changed.
 - (iv) To assess whether the entity's ability to produce services has improved or deteriorated compared with the previous year.

(b) Advantages of analyzing financial statements using accounting ratios

- (i) Ratios communicate aspects of the entity's overall economic situation more broadly and succinctly than financial statement data alone.
- (ii) Ratios help in understanding how certain valuables may influence each other and help to determine a variety of financial aspects.
- (iii) Ratios can help to compare how other local authorities are performing.

Disadvantages

- (i) Ratios can distort comparisons by overreliance on book values rather than market values.
- (ii) Involve comparative norms which are statistically unreliable due to bias and/or small sample size.
- (iii) Ratios can be costly to track over-time, especially when norms change.

(c) The five weaknesses in public sector reporting are:

- (i) Economic and demographic information is often reported sporadically, if at all.
- (ii) Little inter jurisdictional comparison is performed.
- (iii) The impact of policies cannot be seen from financial statements.
- (iv) The development and use of data on service efforts and accomplishments not easily seen.
- (v) Performance measures are often inadequate.

(d) Ratios on economic vitality

- (i) -police and social services expenditure/total expenditure

$$=120,000/450,000 \times 100 = 27\%$$

Sales tax collected /sales tax rate

$$= 70,000/0.16 = K437, 500$$

- (ii) Ratios of financial independence

=debt service payments/total revenues

$$=80,000/500,000 \times 100 = 16\%$$

General obligations-long term /city/population

$$100,000/1,200,000 \times 100 = 8.3\%$$

SOLUTION FIVE

(a) Calculate the:

- (i) **Production/Volume ratio**
Actual output measured in standard hours/Budgeted production hours

$$\frac{70 \times 45/60}{50} \times 100 = 105\%$$

- (ii) **Capacity ratio**
Actual Production Hours worked/Budgeted Production Hours
 $55/50 \times 100 = 110\%$

- (iii) **Efficiency ratio for this nurse.**
Actual Output measured in standard hours/Actual Production Hours worked

$$52.5/55 \times 100 = 95.45\%$$

Efficiency ratio for this nurse.

Actual Output measured in standard hours/Actual Production Hours worked

$$52.5/55 \times 100 = 95.45\%$$

(b)

- (i) **Comparing the strategy of the Private and Public Sector Hospitals**

(1) General strategic goal:

Private Sector Hospitals: The focus is on competitiveness whereas;

Public Sector Hospitals : The focus is on achieving the mission

(2) General financial goals

Private Sector Hospitals : focus is on profit, growth and market share whereas;

Public sector Hospitals: focus is on cost reduction and efficiency.

(3) Values

Private Sector Hospitals : focus is on innovation, creativity, good will and recognition whereas;

Public sector Hospitals: Accountability to public, integrity, fairness.

(4) Desired outcome

Private Sector Hospitals : focus is on customer satisfaction whereas;

Public sector Hospitals: Also focus is on customer satisfaction.

(5) Stakeholders

Private Sector Hospitals : focus is on fee-payers whereas;

Public sector Hospitals: Taxpayers, Inspectors and legislators.

(6) Budget Defined by

Private Sector Hospitals : Customer demand whereas;

Public sector Hospitals: Leadership, legislators and planners.

(7) Key Success Factors

Private Sector Hospitals : Growth, earnings, market share, uniqueness and advanced technology whereas;

Public sector Hospitals: Best management practices, standardization, economies of scale and standardized technology.

(ii) **Explain the causes of poor performance of the public sector**

(1) Low Capacity Utilisation:

Most public sector institution failed to utilize their capacity which in many cases it created at a high cost.

(2) Manpower Planning

Most public sector have not made any manpower planning. Consequently, manpower is in excess of actual requirements in a number of cases.

(3) Labour Problem

One of the causes of poor performance in the public sector has been indiscipline among workers. We may also observe deteriorating labour-management relations in most large government enterprises where supervision is a very difficult task.

(4) Over-Capitalisation:

It is often alleged that most public sector projects have a common characteristic, viz., over-capitalisation. In other words, the input-output ratio is not optimum in most public sector projects.

(5) Cost Overruns:

Most of the projects implemented in the public sector take longer time to complete than was initially envisaged. Such delays raise the cost of such projects, putting extra burden on the country's scarce resources. The delay in construction time-schedule and the consequent increase in costs are largely attributable to poor and inadequate project planning.

(6) Political Interference:

In most cases, political factors, rather than commercial considerations, influence decisions about location of projects.

(7) Inefficient Management:

One of the causes of poor performance of public sector has been lack of managerial efficiency and effectiveness. Most managers cannot take operational decisions quickly.

END OF SOLUTIONS