# NOVEMBER 2017 PROFESSIONAL EXAMINATIONS
# PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
# CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

## STANDARD OF THE PAPER

The standard and the choice of the questions were satisfactory since both the coverage and weighting structure of the Public Sector Accounting and Finance (PSAF) Paper seemed to have been followed. This is quite fair because it provided the candidates enough flexibility to answer the variety of topics in the PSAF syllabus appropriately. Again, the type, relevance and quality of the questions provided in the examination were well-balanced. There were no questions deemed to be sub-standard by the moderators and examiners during the coordination. The interpretation of two of the questions however appeared to be problematic in the minds of the candidates, for example, Question 1(C) and Question 1(D). Question 1(C) is about the current statutory rate of the District Assembly Common Fund and Question 1(D) appears to be too discretionary. It would be appreciated if there would be more clarity of questions. However, the quality of most of the questions was of good standard.

## PERFORMANCE OF CANDIDATES

Scripts that were marked and moderated indicated poor performance in many centres, but there were equally good scripts presented in some centers. This is not surprising because of the structure of preparation in different centers. Candidates' performance may also be a function of better teaching facilities available in some centres. Generally most candidates fared better in question 4, that is, Preparation of Financial Statement. The weaknesses of many candidates were exhibited in the theory questions.

### Understanding of Questions

One could describe the overall understanding of the examination questions by candidates as 60% fair and 40% weak. However, there were a handful of good and excellent answers that were given by some candidates indicating that they were well-prepared for the examination.

### Nature of Answers Presented

The nature of answers presented by candidates in the examination generally depended on various factors, such as skills and experience acquired in practical Public Sector Accounting and Finance work by some candidates.

One can also conclude that the nature of answers presented by the candidates also depended on the structure of the questions derived from the syllabus, more especially, the learning outcomes, and the weighting and integration of the topics. Therefore there was a reasonable number of candidates who presented valuable answers to questions, and an equally very high number of candidates who gave very poor answers to questions.

## QUESTION ONE

a) With the adoption of the International Public Sector Accounting Standards (IPSAS), public sector financial reports are to be prepared on accrual basis in line with the financial laws of Ghana.

**Required:**
Explain **FOUR** transitional challenges that are likely to be encountered when migrating from the current system of reporting to the accrual basis. **(6 marks)**

b) The Public Accounts Committee of Parliament has bemoaned the state of financial reporting in the Metropolitan, Municipal and District Assemblies (MMDAs). According to the Chairman, the financial statements fall short of confirmatory and predictive value. In fact, the financial statements are characterised by errors, omissions and misstatements, and as if this is not enough, the final reports are approved at a later year. The citizens also complain seriously about their inability to appreciate the information reported robbing them of their right to assess accountability of the government.

**Required:**
Explain **FOUR** qualitative characteristics that the final reports of MMDAs fall short of in accordance with ***IPSAS 1: Presentation of Financial Statements***. **(4 marks)**

c) The following information were produced by the Ministry of Finance for the 2015 fiscal year:

| | **GH¢ million** |
|---|---|
| Grants | 1,130.70 |
| Non Tax Revenue | 4,358.70 |
| Taxes on income and Property | 9,238.30 |
| Taxes on Domestic Goods and Services | 7,061.70 |
| International Trade Taxes | 4,051.10 |
| Other taxes | 161.40 |

**Required:**
The 1992 Constitution and the District Assemblies Common Fund Act 455 requires Parliament to annually allocate portions of national revenue into the District Assemblies Common Fund (DACF) for distribution to local governments. From the above:

i) Calculate the statutory total amount to be transferred into DACF required by law and grant policy for the 2015 fiscal year. **(4 marks)**

ii) Assuming that Parliament approves for an equal distribution of the DACF for 2015 to all local governments, how much would one typical local government in Ghana receive as its share of the DACF for the 2015 fiscal year for development. **(2 marks)**

d) In every economy there exists dichotomy of sectors: public sector and the private sector. These two sectors co-existed in every economy symbiotic fashion. Most often private sector is hailed for superior performance in terms of economy, efficiency and accomplishment leading to the view that public sector should be done away with completely.

**Required:**
Identify **FOUR** consequences an economy is likely to face in the absence of public sector. **(4 marks)**

**(Total: 20 marks)**

## QUESTION TWO

a) A public sector institution has recently had its operations enhanced and modified such that they qualify as Government Business Enterprise (GBE) within the meaning of IPSAS 1. The management of the institution in preparing their financial report for 2015 realised that the existing financial laws and regulations does not support their new status.

**Required:**
Describe **FOUR** challenges Public Institutions (like the one in the preamble) face in the preparation of their financial statements when some financial laws and regulations needed to support reporting on their new status and operations have become obsolete. **(4 marks)**

b) The Ministry of Public Works has in a recent audit report identified that majority of their stores (including vehicles) are no more needed and must be disposed off.

**Required:**
Recommend **FIVE** steps required to be followed by the Ministry to dispose off their stores. **(5 marks)**

c) The District Chief Executive (DCE) of Coaltar District Assembly on his appointment has no knowledge in public financial management, including public procurement. Prior to his appointment he was an ardent listener of the proceeding of the Public Accounts Committee (PAC) of Parliament and he realised that most heads of departments were often blamed for not using the competitive tendering process in procurement.

On assumption of office, he gave a strong directive that all procurements in the Assembly should go through a competitive tendering process and that not even a pesewa' purchase should take place outside this directive. He insisted that public procurement should produce value for money.

**Required:**
As the District Finance Officer (DFO) of Coaltar District Assembly,

i) Write a memorandum to the new District Chief Executive explaining **THREE** circumstances under which the directive will not be appropriate. **(3 marks)**

ii) Suggest any other **THREE** methods of procurement that may be appropriate and lawful in the absence of a competitive tendering process. **(3 marks)**

d) The Ministry of Information has proposed in its annual procurement plan for 2015 to procure some of its goods, works and services using established private sector or commercial practices permitted by the Public Financial Management (PFM) regulations and laws.

**Required:**

i) Identify **TWO** circumstances under which the Ministry can use established private sector or commercial practices to procure goods, works and services under their budget. **(2 marks)**

ii) Explain **TWO** advantages of using established private sector or commercial practices to procure goods, works and services by a public sector institution. **(3 marks)**

**(Total: 20 marks)**

## QUESTION THREE

a) The Minister of Finance is mandated by law to develop a budgetary system throughout the public sector. Recently the government have moved away from Activity Based Budgeting to Programme Based budgeting system for many reasons.

**Required:**

i) Distinguish between ***Activity Based Budgeting*** and ***Programme Based Budgeting***. **(4 marks)**

ii) Explain **FOUR** advantages that Programme Based Budgeting has over the Activity Based Budgeting **(8 marks)**

b) Revenue management is a challenge in many public organisations, including the Damsa District Assembly in which you are currently engaged as Finance Officer responsible for revenue management and control. There are rampant revenue losses resulting from delayed or unbanked collection, failure to assess and collect revenue, inappropriate use of value books and poor record keeping, among others. Consequently, your Assembly has persistently failed to meet its revenue budget over the years and the Ministry of Local Government has recently cautioned the District Chief Executive (DCE) and task him to improve the revenue performance of the Assembly or face dismissal.

In a meeting with the DCE, he put it bluntly: "the Revenue Officer should do something about this immediately else I will fire him before I am fired. My head and your head are on the chopping board; you know it".

**Required:**

As the Finance Officer responsible for revenue, describe **FOUR** ***revenue management*** and ***control measures*** you would put in place for the Assembly to remedy revenue losses pointed out in the case. **(8 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

a) Below are extracts from the books of a Local Government Authority for the period ended 31 December 2015.

| | **GH¢** |
|---|---|
| Rates | 27,115.16 |
| Non-Governmental Agencies | 1,000.00 |
| Grants – District Development Facility | 888,828.37 |
| Lands and Royalties | 113,563.50 |
| Rents of Lands, Buildings | 14,855.20 |
| Licences | 55,394.22 |
| Fees | 139,784.70 |
| Fines, Penalties and Forfeits | 14,231.00 |
| Miscellaneous and Unidentified Revenue | 27,345.50 |
| Established Posts | - |
| Non-Established Posts | 41,503.62 |
| Other Allowances | 40,231.05 |
| Casual labour | 7,576.45 |
| Materials /Office Supplies | 34,628.40 |
| Utilities | 5,286.20 |
| General Cleaning | 358.50 |
| Rentals | 6,260.07 |
| Transport | 90,724.05 |
| Repairs and Maintenance | 10,568.40 |
| Training, Seminars, Conferences | 46,013.70 |
| Consulting Services | 1,500.00 |
| Special Services | 37,904.00 |
| Other Charges / Fees | 1,735.4 |
| Grants – DACF | 459,992.60 |
| Constituency's Share of the Common Fund | 39,000.00 |
| GOG – Grant | 206,845.97 |
| Donors | 595,086.20 |
| Other expenses | 11,163.44 |

| **Below The Line Accounts** | **GH¢** |
|---|---|
| Cash and Bank | 200,740.71 |
| Receivables | 29,100.97 |
| Equity Investment | - |
| Infrastructure, Plants and Equipment | 322,929.71 |
| Work-in-progress | 125,064.79 |
| Accounts Payables | 5,000.00 |
| Deposits and Other Trust Monies | 25,000.00 |
| Accumulated Fund | 1,002,096.58 |

**Required:**
Prepare a Revenue and Expenditure Statement for the year ended 31 December 2015 and a Statement of Financial Position as at that date. **(Show workings)** (**20 marks)**

## QUESTION FIVE

a) The Minister of Finance has recently called on Citizens not to be Spectators but participate in the art of governance by demanding accountability from duty bearers and public officers.

**Required:**
Explain **FIVE** ways in which duty bearers and public officers can ensure ***public accountability*** in the management of Public Funds. **(5 marks)**

b) Public-Private Partnership (PPP) has been identified as a good source of mobilizing resources to support development at both national and substantial levels. Before approvals of Public Private Partnerships (PPPs) are considered by governments, there are many important economic, social, political, legal, and administrative aspects, which should be carefully assessed. PPPs have various limitations which should be taken into accounts while they are being considered.

**Required:**
i) Identify **FOUR** of such limitations. **(4 marks)**
ii) Identify and explain **FOUR** different types of PPP arrangements a public sector institution can enter into allowable by the PPP regulations of Ghana. **(6 marks)**

c) Value for money (VFM) is derived from the optimal balance of benefits and costs on the basis of total cost of ownership. The nature of public financial management is such that it involves discretionary decision-taking on behalf of government at all levels. Value for money is therefore not a choice of goods or services which is based on the lowest bid price but a choice based on the whole life costs of the project or service.

**Required:**
Identify **FIVE** mechanisms that can be used to achieve ***"value for money***" in public sector management. **(5 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

## QUESTION ONE

a) **Challenges when adopting IPSAS which will slow the speed of the transition to accrual accounting include:**

- Set up of business process, such as CoA, IFMIS and ICT
- **Change management** - whether the changes are being driven from the top down, or bottom up. For example, changes driven by the top level of government may be mandatory for all entities within that government and may have fixed time frames;
- **The current basis of accounting** used by the entity, the capability of existing information systems, and the completeness and accuracy of existing information particularly in relation to assets and liabilities;
- **Misconception between Management personnel** concerning the impact of change to the budgeting basis;
- **The level of political commitment** to the adoption of accrual accounting and the system of government and the political environment; and
- The capacity and skills of the staff and organizations responsible for implementation of the changes.

**(1.5 marks for 4 points =6 marks)**

b) **Qualitative characteristics a**re the attributes that make the information provided in financial statements useful to users. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The four principal qualitative characteristics are **understandability, relevance, faithful representation and comparability.**

- **Understandability**
  Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information .Information about complex matters should not be too difficult for certain users to understand.
- **Relevance**
  Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.
- **Materiality**
  The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statement. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

- **Faithful Representation**
  For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transaction and other events, and not merely their legal form.
- **Substance Over Form**
  If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transaction or other events is not always consistent with their legal form.
- **Neutrality**
  Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.
- **Prudence**
  Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.
- **Completeness**
  The information in financial statements should be complete within the bounds of materiality and cost.
- **Comparability**
  Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports. Comparability applies to the: Comparison of financial statements of different entities; and Comparison of the financial statements of the same entity over periods of time. An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

**(Any 4 points for 4 marks)**

**c)**

i) **the total amount required to be transferred into the District Assemblies Common fund required by law for the 2015 fiscal year;**

Under Article 252 of the 1992 Constitution the DACF is to be calculated at not less than 5% of total national tax revenue. Currently it stands at 7.5% of total national tax revenue.

Total National Tax Revenue can be calculated as:

| | **(GH¢ million)** |
|---|---|
| Taxes in income and Property | 9,238.30 |
| Taxes on Domestic Goods and Services | 7,061.70 |
| International Trade Taxes | 4,051.10 |

| | |
|---|---|
| Other taxes | 161.40 |
| Total National Tax Revenue | **20,512.50** |

**7.5% DACF can be calculated as follows:**

7.5% X (GH¢ million 20, 512.50 ) = GH¢ Million 1,538.44

Total Common fund for 2015 is **GH¢ Million 1,538.44**

**(4 marks evenly spread using ticks)**

ii) Amount of Common fund Per MMDAs for the 2015 fiscal year.

$$\frac{\text{GH¢ Million } 1{,}538.44}{\text{MDAs}} = \textbf{GH¢ Million 7.1224}$$

**(2 marks)**

d) Public sector plays a vital role in the development of any economy. Public sector being the monopoly in the hands of government is considered to be very important organization. Below are consequences on the economy without its existence-

- **Slow Economic Development:** Economic development mainly depends upon industrial development. Huge capital is required for establishment of such heavy & basic industries. This capital required for these industries is easily & readily made available by public sector but it is practically not possible for a private sector to run these industries.
- **Lack of Regional Development:** Private sector usually neglect backward area. But public sector organizations set up their units in economically backward areas. By this public sector removes regional imbalance & brings regional development.
- **High Unemployment:** Various public sector organisations operating in Ghana needs lot of manpower & this provide employment to unlimited individuals according to their education, experience & abilities. Without this there will be high unemployment.
- **Bad Service Motive**: Public sector organizations are working with the only motive of providing public utility services to society at large irrespective of profit.
- **Lack of Infrastructure:** Rapid industrial growth in a country needs sound infrastructure. Infrastructural industries require huge capital for construction of Roads, Railways, Electricity & many such industries. Private sector is unable to have such huge capital & that also without any high return but public sector can easily afford to provide all infrastructural facilities.
- **No Protection to Sick Industries:** Public sector, to prevent sick unit closing down, takes over their responsibility & prevent many people from getting unemployed not only this but it prevents unnecessary locking of capital, land, building, machinery, etc.

**(Any 4 points for 4 marks)**

**(Total: 20 marks)**

**QUESTION TWO**

**a) Challenges Public Institutions face in the preparation of their financial statements**

**i) New Innovations**

Sometimes financial regulations designed to promote financial soundness and reporting may prevent desirable changes and interfere with the ability of the financial system to adapt to new technology and innovations.

**ii) Span of Time**

Span of time may result in population increases, environmental changes and changes in organisational structures. All these changes may impinge on the goals of a public entity and cause delays in the processes for the preparation of financial reports.

**iii) Cost Benefit**

Generally, the cost of providing financial information should not exceed the benefits to be derived from financial reports. Therefore if existing financial regulatory framework results in more expensive means of preparation of financial statements the regulations tend to lose their relevance.

**iv) Quality of Financial Reports**

If existing financial laws and procedures do not enhance the quality of financial reporting, the objectives of providing financial information may be compromised

**(4 points for 4 marks)**

**b) Steps to be followed when Disposing off stores**

i) Identify of item of store or equipment to be disposed off

ii) Head of department convenes a Boar of Survey (BOS) to make technical assessment of the store or equipment to be disposed and make recommendation in a report to the head. Head of department based of BOS report seek approval from the appropriate quarters (e.g minister).

iii) The disposal process is initiated based on the method approved for use (transfer to other government institutions, public tender or public auction)

iv) The stores and vehicles are valued by an approved and reputable public or private professional agency with the requisite technical knowledge;

v) In case of public auction, the following procedures are followed:

   a. The stores and vehicles are valued by an approved and reputable public or private professional agency with the requisite technical knowledge;
   b. The valuation report is submitted to the office of the President and head of the Agency;
   c. The value submitted is used as the selling price (bargaining bench-mark) to the public auction;
   d. A date for auction is agreed with the head of the agency or department;

e. An advertisement is placed in the national newspapers for the date and place of the auction and the items to be auctioned;
f. On the auction day the highest bidder above the bench mark wins.

**(5 points for 5 marks)**

c)

**MEMO**

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DATE: xx/xx/xx
TO: District Chief Executive
FROM: District Finance Officer
SUBJECT: **Re-Directives on Procurement Methods in the Assembly**

I write to you some concerns I have about your new directive on public procurement in the assembly. I agree that competitive tendering ensure value for public moneys through competition and fairness. The Procurement Act 663 also emphasizes the importance of the competitive tendering in securing judicious use of public resources in public procurement. However, the current directive will not be appropriate in all circumstances.

**i) Circumstances under which competitive tendering will not be appropriate.**

- Diseconomy in procurement where cost incurred in procurement far exceeds the value of the goods, services and works procured. This is normally the case with low value goods and services in which case alternative method will have been appropriate.
- Impracticability of the directive where there is only one or few supplier or contractor for the goods, services, and works
- Where there is a time constraint due to urgency or catastrophic event, competitive tendering may cause undue delay.
- Competitive tendering will not be appropriate when national security is at stake.
- It is also not appropriate when it is not feasible for the procurement entity to formulate detailed specifications for the goods, services or works.

**(Any 3 points for 3 marks)**

**ii) Other methods allowed by the Procurement Act in absence of competitive tendering include**

- Two-stage tendering
- Restricted tendering
- Single sourcing
- Request for quotation

Thank you

**(Any 3 points for 3 marks)**

**d) The following circumstances are required for a Procurement Entity to use commercial practises**

- The procurement entity must be legally and financially autonomous and must operate under commercial law
- The existence of the procurement entity must be beyond contention that public sector procurement procedures are not suitable, considering the strategic nature of the procurement.

**(2 points for 2 marks)**

- **Advantages of using established private sector or commercial practises**
- Ensures value for money;
- Provide competition and transparency to the extent possible.

**(2 points for 3 marks)**

**(Total: 20 marks)**

**QUESTION THREE**

**a)**

**i) Activity Based Budgeting Vs Programme Based Budgeting**
**The following are the differences between ABB and PBB**

- ABB links resources allocation to the activities required to be undertaken in order to achieve a desired output but PBB assigns resources to measurable result to be achieved.
- ABB emphasis the relationship between activities and cost thereby producing much detail on overheads whereas PPB focus on the linkage between programme funding level and expected result of the programme.
- ABB produces detail information on cost on each activity thereby making control cumbersome but PPB aggregates cost information at programme level rather than activity level.
- ABB provides full costs of programmes and services which are more transparent and available for planning, budgeting and decision making whereas PPB consolidates the cost information thereby limiting transparency and available of full cost information for planning, budgeting and decision making

**(2 marks each for any 2 differences explained = 4 marks)**

**ii) Advantages of PBB over ABB**

- It provides a framework for measuring the performance of the MDA expenditure programmes.
- It enables effective management of resources to achieve government outcomes or objectives since the emphasis is on programmes attainment rather than a mere performance of activities

- It promotes process accountability and transparency that enables the public to judge the fiscal stewardship of the managers.
- It provides a specific linkage between resources allocation and strategic policy objectives of the MDAs. That is, it establishes closer link between resources allocated and what has been done with it.
- It makes budget evaluation and control much focus and conclusive. It becomes very easy to measure which programme outcomes are achieved and those that are not.

**(2 marks each for any 4 points explained = 8 marks)**

(3 Revenue management and control measures to remedy revenue losses.

**i) Delayed or unbanked collection**

- I would ensure that all revenues are banked immediately.
- One measure to achieve this is through arrangement with banks to facilitate direct deposit by the payers into the bank account of the Assembly.

**ii) Failure to assess and collect revenue**

- All revenue payers should be identified and levied appropriately.
- Revenue collectors should be trained and motivated to perform their duties efficiently.
- Electronic means should be used to effect revenue collection.

**iii) Inappropriate use of value books**

- Security and custody of the value books should be ensured.
- Ensure that only approved values books acquired from Controller and Accountant General is used.
- The head of finance should ensure property custody of stock of value books and this value books should be issued out to only responsible staff. Proper records should be maintained for issue of value books.

**iv) Poor recording keeping**

- Responsible officer should be appointed for record keeping over revenue. The cash receipt book or transcript should be updated regularly. Implementing approved accounting software be effective measure to improve record keeping process.

**(2 marks each for every point well explained=8 marks)**

**(Total: 20 marks)**

**QUESTION FOUR**

**Revenue and Expenditure Statement for the Period Ended 31 December 2015**

| **Revenue** | **Note** | **GH¢** |
|---|---|---|
| Rates | | 27,115.16 |
| Donors, Grants and Relief | | - |
| Non-Governmental Agencies | | 1,000.00 |
| Grants – Districts | | 888,828.37 |
| Interest | | - |
| Lands and Royalties | | 113,563.50 |
| Rents of land, buildings | | 14,855.20 |
| Licenses | | 55,394.22 |
| Fees | | 139,784.70 |
| Fines, Penalties and Forfeits | | 14,231.00 |
| Miscellaneous unidentifiable revenue | | 27,345.50 |
| **Total Revenue** | | **1,282,117.65** |
| **Expenditure** | | |
| Compensation of Employees | (1) | 89,311.12 |
| Goods and services | (2) | 234,978.72 |
| Consumption of fixed capital | | - |
| Interest | | - |
| Grants*** | (3) | 1,300,924.77 |
| Other expenses | | 11,163.44 |
| **Total Expenditure** | | **1,636,378.05** |
| Surplus /deficit for the period | | (354,260.40) |
| Accumulated surplus as at 31/12/13 | | 1,002,096.58 |
| Accumulated surplus as at 31/1/14 | | **647,836.18** |

**STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2015**

| **Assets** | **GH¢** | **GH¢** |
|---|---|---|
| **Current Assets** | | |
| Cash Balances | 200,740.71 | |
| Receivables | 29,100.97 | |
| Prepayments | - | |
| Total Current Assets | | 229,841.68 |
| **Non-Current Assets** | | |
| Equity Investment | - | |
| Infrastructure, Plant & Equipment | 322,929.71 | |
| Work-in-progress | 125,064.79 | |
| Total Non-Current Assets | | 447,994.50 |
| Total Assets | | 677,836.18 |

| | | |
|---|---|---|
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts Payables | 5,000.00 | |
| Deposits & Other Trust Monies | 25,000.00 | |
| Short-term Borrowings | | 30,000.00 |
| **Total Current Liabilities** | | |
| Non-Current Liabilities | | 30,000.00 |
| **Total Liabilities** | | 647,836.18 |
| NET ASSETS | | |
| **CONTRIBUTED BY** | | |
| Surpluses (Deficits | | (354,260.40) |
| Accumulated Surpluses | | 1,002,096.58 |
| Net Worth | | 647,836.18 |

**Workings**

**Compensation of Employees**

| | |
|---|---|
| Non-Established Post | 41,503.62 |
| Other Allowances | 40,231.05 |
| National Insurance Contribution | 7,576.45 |
| | **89,311.12** |
| **Goods & Services** | |
| Materials /office supplies | 34,628.40 |
| Utilities | 5,286.20 |
| General Cleaning | 358.50 |
| Rentals | 6,260.07 |
| Transport | 90,724.05 |
| Repairs & Maintenance | 10,568.40 |
| Training, Seminars, Conference | 46,013.70 |
| Consulting Services | 1,500.00 |
| Special Services | 37,907.00 |
| Other Charges/Fees | 1,735.40 |
| | **234,978.72** |
| **Grants** **** | |
| Grant – DACF | 459,992.60 |
| MP's Common Fund | 39,000.00 |
| GOG Grant | 206,845.97 |
| Donors | 595,086.20 |
| | **1,300,924.97** |

***** An alternative treatment is to treat grant*** as revenue to the Assembly since the question was not clear on whether the grant is expenditure or revenue.**

**(20 marks evenly spread using ticks)**

**QUESTION FIVE**

**a) Mechanisms for ensuring public accountability**

- **Disclosure** - Making information available to stakeholders;
- **Organisational Structure** - Defines clearly the authority and responsibilities of individual office holders;
- **Reporting** - Provision of financial, administrative and other relevant entity reports to government and other stakeholders;
- **Transparency** - Making information available at no or low cost Openness to stakeholders
- **Predictability** - Adherence to law and regulation that are clear and known in advance, uniformly and effectively enforced

**(5 points for 5 marks)**

**b)**

- **Limitations of Public Private Partnership**
- Not all projects are feasible (for various reasons: political, legal, commercial viability, etc.)
- The private sector may not take interest in a project due to perceived high risks lack technical, financial or managerial capacity to implement the projects.
- A PPPs projects may be more costly unless additional costs (due to higher transactions and financing costs) can be offset through efficiency gains.
- Change in operations and management control of an infrastructure asset through a PPP may not be sufficient to improve its economic performance unless other necessary conditions are met. These conditions may include appropriate sector and market reform, and change in operational and management practices of infrastructure operations.
- Development, bidding and ongoing costs in PPP projects are likely to be greater than for traditional government procurement processes - the government should therefore determine whether the greater costs involved are justified. A number of the PPP and implementation units around the world have developed methods for analyzing these costs and looking at Value for Money, e.g., UK Treasury. For a broader discussion of Value for Money, go to Financing.
- There is a cost attached to debt – While private sector can make it easier to get finance, finance will only be available where the operating cash flows of the project company are expected to provide a return on investment (i.e., the cost has to be borne either by the customers or the government through subsidies, etc.)
- Some projects may be easier to finance than others (if there is proven technology involved and/ or the extent of the private sectors obligations and liability is clearly identifiable), some projects will generate revenue in local currency only (eg water projects) while others (e.g. ports and airports) will provide currency in dollar or other international currency and so constraints of local finance markets may have less impact.

- Some projects may be more politically or socially challenging to introduce and implement than others - particularly if there is an existing public sector workforce that fears being transferred to the private sector, if significant tariff increases are required to make the project viable, if there are significant land or resettlement issues, etc.
- There is no unlimited risk bearing – private firms (and their lenders) will be cautious about accepting major risks beyond their control, such as exchange rate risks/risk of existing assets. If they bear these risks then their price for the service will reflect this. Private firms will also want to know that the rules of the game are to be respected by government as regards undertakings to increase tariffs/fair regulation, etc. Private sector will also expect a significant level of control over operations if it is to accept significant risks
- Private sector will do what it is paid to do and not more than that – therefore incentives and performance requirements need to be clearly set out in the contract. Focus should be on performance requirements that are out-put based and relatively easy to monitor
- Government responsibility continues – citizens will continue to hold government accountable for quality of utility services. Government will also need to retain sufficient expertise, whether the implementing agency and/ or via a regulatory body, to be able to understand the PPP arrangements, to carry out its own obligations under the PPP agreement and to monitor performance of the private sector and enforce its obligations
- The private sector is likely to have more expertise and after a short time have an advantage in the data relating to the project. It is important to ensure that there are clear and detailed reporting requirements imposed on the private operator to reduce this potential imbalance
- A clear legal and regulatory framework is crucial to achieving a sustainable solution (for more, go to Legislation and Regulation)
- Given the long-term nature of these projects and the complexity associated, it is difficult to identify all possible contingencies during project development and events and issues may arise that were not anticipated in the documents or by the parties at the time of the contract. It is more likely than not that the parties will need to renegotiate the contract to accommodate these contingencies. It is also possible that some of the projects may fail or may be terminated prior to the projected term of the project, for a number of reasons including changes in government policy, failure by the private operator or the government to perform their obligations or indeed due to external circumstances such as force majeure. While some of these issues will be able to be addressed in the PPP agreement, it is likely that some of them will need to be managed during the course of the project.

**(Any 4 points for 4 marks)**

**ii) Types of PPP**

- **Build Operate and Transfer:**
  Here the private sector invests in the asset and will be granted the right to operate the asset for a specified period after which the residual asset is transferred to the public agency.
- **Build own and Transfer (BOO)**
  Under BOO the private sector builds, possess, and operate the facility and has control over profits and losses generated by the facility through time. This is similar to a privatization process except that the goods and services rendered remain public goods and services. For example, a private sector builds a bright across a river, owned it and operates it. The residual asset remains that of the private investor.
- **Build Transfer and Operate.**
  Under this arrangement, the private partner invest in building the asset and immediately concedes ownership to public agency (usually because of the restricted nature of the asset) and the public agency transfers exclusive right of use to the private partner.
- **Rehabilitate Operate and Transfer**
  The initial worn-out asset is provided by the public agency requiring the private partner to invest in revamping the asset and allowed to operate it for a specified period and residual asset transfer to the consolidated fund.
- **Design Build Operate and Transfer**
  The private sector provides financing and design, then builds, possesses, and operates the project. The public partner only provides funding while the project is being used or is active.
- **Service Concession**
  In this arrangement the public agency engages a private company to operate and maintain the facility for a specific period of time under certain contract terms. Here the public agency concedes all exclusive ownership rights to the private company without transfer of ownership. While ownership remains with public agency the private partner possesses owner rights over any addition incurred while it's being operated under its domain.
- **Maintain and Operate**
  Under this arrangement the public agency invests and owns the project and the private partner is responsible for operating and maintains the project or asset for an agreed consideration. The residual asset remains the property of the government agency.

**(1 ½ marks ( ½ for stating and 1 for explaining) each for any 4 types = 6 marks.)**

**c) Mechanisms Used to achieve value for money in public sector**

Value for Money is concerned with obtaining the best possible combination of services from the least resources. It is thus, the pursuit of economy, efficiency and effectiveness. Below are the mechanisms used to achieve value for money.

- **Economy**

  Economy is the term and condition under which an organization acquires human and material resources of the appropriate quality and standard at the lowest cost. From this procurement will be a purchasing activity whose purpose is to give the purchaser best value for money and that for complex purchases, value may imply more than just price since quality issues also need to be addressed.

- **Efficiency**

  Efficiency as the relationship between goods and services produced and resources used to produce them. An efficient operation produces the maximum output for any given set of resource inputs; or, it has a minimum input for any given quantity and quality of services provided In addition, efficiency implies practicality, especially in terms of compatibility with the government's administrative resources and professionalism.

- **Transparency & Accountability (Ethical Standards)**

  Good procurement holds its practitioners responsible for enforcing and obeying the rules. It makes them subject to challenge and to sanction, if appropriate, for neglecting or bending those rules. Accountability is at once a key inducement to individual and institutional probity, a key deterrent to collusion and corruption, and a key pre-requisite for procurement credibility.

- **Accountability, fairness and efficiency in public procurement**

  Accountability, fairness and efficiency are three cardinal pillars that procurement reforms seek to achieve in that a very fair and accountable procurement system helps in the efficient utilization of the state resources judiciously. Procurement practitioners need to be very fair in their day-to-day dealings with their suppliers and potential bidders and the public at large in order to earn the trust of the various actors within the procurement system. Accountability refers to the process of holding an individual or an organization fully responsible for actions and functions they are engaged in and over which they have authority to exercise those functions.

- **Competition**

  Competition has been regarded as one of the most important factors in attaining value for money in Public sector. This is on the premise that competition amongst bidders can lead to improvements in pricing and alternative means of delivering VFM. Competition can either be for the market (i.e. in the bidding process) or competition/contestability in the market which occurs after the contract is concluded and is in operation. On the contrary, the absence of competition or potential entry would lead to difficulties in attaining higher efficiency and value for money.

**(Any 5 points for 5 marks)**

**(Total: 20 marks)**