

**APRIL 2022 PROFESSIONAL EXAMINATIONS  
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**GENERAL COMMENTS**

The standard of the question paper administered was very good. The question paper was clear, practical, unambiguous and extensive coverage. However, the performance of the candidates was not reflective of the quality of the questions administered. The general performance was below the previous performances. In all, only 18% of the candidates who sat for the paper passed, as against 34% pass rate in the November 2021 examinations. Prospective candidates are encouraged to give the necessary attention to the paper and prepare for it accordingly.

**STANDARD OF THE PAPER**

The question paper is made up of five questions, eleven sub-questions and seventeen sub-sub questions. In all, twenty-four test items were put to the candidates. The test items were largely testing understanding (20%), application (65%), analysis (10%) and evaluation (5%) in relation to the Bloom's Taxonomy (Armstrong, 2016). This is consistent with the learning outcomes set out in the examination syllabus. The standard of the paper is comparable to the previous years. Nevertheless, exam setters are encouraged to explore innovations in making the questions more practical and interactive.

**PERFORMANCE OF CANDIDATES**

Despite the impressive quality and standard of the paper, candidates performed poorly. The performance fell below the previous years' 34%, 23% and 20% in November 2021, May 2021, and November 2020 diets respectively.

**NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

Generally, the candidates demonstrated strengths in certain aspects of the subject, as reflected in the responses produced to the questions in those areas. Some of these areas of strength are:

- Preparation of financial statement. Question 2 required candidates to prepare financial statements of a transport service agency of government in accordance with the International Public sector Accounting Standards (IPSAS). Most candidates scored above-average marks in this question, indicating their familiarity with financial reporting in the public sector.
- Appreciation of accrual policy of accounting. Most candidates demonstrated in depth understanding of the full accrual accounting system in the public sector.
- Budget performance reporting. Question 3b tested candidates on how to prepare budget performance report and the question was well answered by most candidates, except that some failed to analyse the budget outturns in the corresponding reports.

In spite of the above strengths, candidates were challenged in several other areas which could be attributed to poor preparation for the examinations. The areas of weakness include:

- Application of theories or principles. Candidates were poor in applying principles they have learnt to real-life situations. For example, Question (1b) required the candidates to apply the qualitative characteristics of financial report to a given financial statements, and some candidates failed to do so but rather focused on explaining the characteristics without linking them to the financial statement.
- Inability to account for Public Private Partnership arrangements under IPSAS 32-Service Concession Arrangement: Grantor. Most candidates demonstrated a lack of knowledge in the subject matter. However, few candidates did well.
- Expression of understanding. Some candidates were unable to express themselves well and therefore failed to put forward a convincing argument.
- Public Expenditure and Financial Accountability (PEFA). Many candidates were weak in this area as shown by the responses to Question (3a-ii & iii). Some candidates seem to have no idea of the PEFA framework.

## QUESTION ONE

- a) Accrual basis of Accounting has been recommended as the best approach to ensure accountability and transparency in the management of public funds. Despite its favourable advantages, many countries are yet to implement a full accrual public sector accounting system.

**Required:**

Discuss **FOUR (4)** reasons why many countries have not been able to implement a full accrual public sector accounting system. **(10 marks)**

- b) The Financial Statements below were submitted on 15 February 2021, to the Finance and Administration Committee of Makambi District Assembly for consideration. Some members of the committee condemned the quality of the financial statements on two grounds:
- That, it is unacceptable to disclose the budget amounts in the financial statement for external publication.
  - That, the financial statements lack quality and therefore should be rejected outright by the Committee.

**Makambi District Assembly**  
**Statement of Financial Performance for the year ended 31 December 2020**

	Actual GH¢'000	Budget GH¢'000
<b>Revenues</b>		
Decentralised transfers	341,000	304,100
Internally Generated Fund	117,000	187,300
Donations and grants	<u>34,000</u>	<u>25,000</u>
	<b><u>492,000</u></b>	<b><u>516,400</u></b>
<b>Expenses</b>		
Compensation for employees	318,900	300,000
Use of goods and services	114,000	145,000
Consumption of fixed assets	12,000	-
Interest	9,000	9,400
Subsidies	500	800
Other expenses	<u>8,600</u>	<u>6,600</u>
	<b><u>463,000</u></b>	<b><u>461,800</u></b>
<b>Net operating result</b>	<b><u>29,000</u></b>	<b><u>54,600</u></b>

**Statement of Financial Position as at 31 December, 2020**

	GH¢'000
<b>Non-Current Assets</b>	
Property, plant and equipment	1,200,000
Investment	<u>300,000</u>
	1,500,000
<b>Current Assets</b>	
Receivables	23,000
Loans	50,000
Cash and Bank	<u>160,000</u>

	233,000
	<b><u>1,733,000</u></b>
<b>Liabilities and Funds</b>	
Loans	900,000
Payables	106,000
Accumulated fund	<u>727,000</u>
	<b><u>1,733,000</u></b>

**Required:**

- i) Discuss the merit or otherwise on the first ground of condemnation of the financial statements presented to the Finance and Administration Committee. **(2 marks)**
- ii) Using an appropriate framework of assessing the quality of a general-purpose financial statement under the Conceptual Framework, assess the quality of the financial statements presented to the Finance and Administration Committee to the extent that the information available allows. **(8 marks)**

**(Total: 20 marks)**

## QUESTION TWO

Citizen Transport Corporation (CTC) is a Public Transportation company in Ghana, which seeks to provide reliable and affordable means of transport for commuters within villages, towns, and cities as well as provide intercity movement and transport consultancy services.

The following financial information relates to CTC, as at 31 December, 2020.

	<b>DR</b>	<b>CR</b>
	<b>GH¢'000</b>	<b>GH¢'000</b>
Vehicle Valuation Service		4,575,000
Establish Post	2,940,000	
Allowance	856,670	
Luggage Fees		655,600
Legal Cost	25,059	
GoG Subvention		1,540,000
Consultancy Cost	588,500	
Non- Establish Post	1,253,600	
Seminars Cost	500,000	
Parcel Services		906,600
Investment Income		8,600
Purchase of Spare Parts	10,250,000	
Spare Parts Inventory (1/01/2020)	785,700	
Receivables	371,550	
Payables		182,840
Plant and Machinery	3,000,000	250,000
Motor Vehicle	14,755,000	852,000
Building	12,900,000	756,000
Software	995,500	150,000
Investment	1,345,000	

Other Incomes		211,430
Cash and Bank	294,818	
Training and Workshop Cost	104,000	
Salaries and Emoluments	2,372,200	
Other Expenses	71,000	
Withholding Tax		90,500
Vehicle Insurance Premium	658,700	
Workman Compensation Premium	889,800	
Utilities Bills	560,053	
Fees from Driving School		9,996,270
20% Loan		16,500,000
End of Service Benefits	298,000	
Fuel and lubricant	1,550,780	
Printing of tickets	399,160	
Car Washing Cost	58,780	
License Renewals for Drivers	78,870	
Passenger Fare and Ticketing		20,022,630
Accumulated Fund		<u>1,205,270</u>
	<b>57,902,740</b>	<b>57,902,740</b>

**Additional information:**

- 1) CTC uses accrual accounting basis in the preparation of its Financial Statements in line with Public Financial Management Act, 2016 (Act 921), Public Financial Management Regulation 2019 L.I 2378 and the International Public Sector Accounting Standards (IPSAS).
- 2) The loan in the trial balance represents funds advanced by Government from the Consolidated Fund to CTC to procure fleet of buses in 2010. The repayment of the Loan was scheduled to end in 2015. However due to liquidity challenges facing the corporation, the Loan is still outstanding. On the basis of this, the Minister of Finance after assessing the liquidity profile of CTC, made specific provision for Bad Debt on Loans Receivable by waiving 50% of the loan outstanding. This was made in line with Section 53 of the Public Financial Management Act 2016, (Act 921).
- 3) Provision is to be made for Interest on the remaining Loan.
- 4) Salaries and other emoluments outstanding during the year amounted to GH¢12,500,000 while that of use of goods and services other than workshop and seminars amounted GH¢15,750,000
- 5) Inventories included in use of goods and services available at the end of the year were as follows:

	Spare Parts
	GH¢' 000
Historical Cost	900,000
Replacement Cost	802,000
Net Realisable Value	995,000

- 6) In 2019 CTC bought a Machinery amounting to GH¢30,000,000. This amount was wrongly recognised in the 2019 Financial Statement as an expense instead of an Asset. However, this Machine is still in use.
- 7) CTC uses straight line basis in depreciating their Capital Assets. Assets and their useful life details are provided below:

Assets	Useful Life
Plant and Machinery	15 years
Motor Vehicle	20 years
Building	30 years
Software	10 years

- 8) CTC plans to change its accounting policy in the recognition, measurement, presentation or disclosure of inventory in the financial statements. This will be done in line with *IPSAS 3: Accounting policies, Changes in Estimate and Errors*.

**Required:**

In compliance with IPSAS and relevant legislations, prepare for CTC:

- Statement of Financial Performance for the year ended 31 December 2020. **(9 marks)**
- Statement of Financial Position as at 31 December 2020. **(7 marks)**
- Explain **TWO (2)** Guiding Principles for formulating accounting policy. **(2 marks)**
- Explain **TWO (2)** Condition that mandate a change in accounting policy. **(2 marks)**

**(Total: 20 marks)**

**QUESTION THREE**

- a) The goal of the Minister for Finance is to build a robust, resilient, open and orderly Public Financial Management (PFM) system for the country by the end of 2022. This ambitious target has a huge budgetary implication for the government this time as a result of the difficult fiscal position imposed by the COVID-19 pandemic. The Minister is however optimistic that investing more in PFM systems today will produce the expected outcome in the immediate future.

**Required:**

- Discuss **THREE (3)** challenges of the current Public Financial Management systems of the country. **(3 marks)**
  - Explain **THREE (3)** expected outcomes of an open and orderly Public Financial Management system of the country. **(3 marks)**
  - Explain **FOUR (4)** ways by which the Public Expenditure and Financial Accountability (PEFA) framework can help the Minister build an orderly and open Public Financial Management system for the country. **(4 marks)**
- b) Below is the Revenue and Expenditure Extract of Nkong District Assembly for the year ended 31 December, 2020.

	<b>Annual Budget GH¢' 000</b>	<b>Revised Budget GH¢' 000</b>	<b>Actual Performance GH¢' 000</b>
Decentralised Transfer	32,000	35,000	42,000
Internally Generated Fund	56,000	45,000	33,000
Compensation	23,000	20,000	25,700
Goods and Services	13,000	18,000	24,000
Non -Financial Asset	18,000	15,000	12,000

**Required:**

- i) Prepare a Budget Performance Report of Nkong District Assembly based on the extract above. **(5 marks)**
- ii) Write a report analysing the Budget Outturn while assessing the likely causes of the variances during the year. **(5 marks)**

**(Total: 20 marks)**

#### **QUESTION FOUR**

- a) Banky Construction Ltd has tendered for several contracts that were advertised, but, in each case, they fail to win these contracts. The company is now worried about their situation, as it may lead to liquidation of the company. They have just contacted you for advice on how to reverse this unfortunate downturn.

**Required:**

Explain **FOUR (4)** challenges that are likely to be the reason why they are failing to win contracts. **(4 marks)**

- b) Explain the following terms and practices as used in Public Procurement
  - i) Tender Security
  - ii) Least Cost Selection
  - iii) Tender Evaluation Panel
  - iv) Board of Survey **(6 marks)**
- c) Discuss how each of the elements of Financial Statements listed below are recognized and measured under *IPSAS 32: Service Concession – Grantor*;
  - i) Service concession asset
  - ii) Liability
  - iii) Revenue **(10 marks)**

**(Total: 20 marks)**

#### **QUESTION FIVE**

- a) Budgeting is an essential element of Public Financial Management and it is a requirement of the Constitution and other Public Financial Management enactments. Budgeting is a process that requires the engagement and participation of citizens for accountability purposes. The prime objective of budgeting is to set out the financial plans of government for the ensuing year and how government plans and programmes will be financed.

**Required:**

- i) Explain **TWO (2)** provisions in the 1992 Constitution relating to budgeting. **(4 marks)**
- ii) Explain *Citizen's Budget* and identify **THREE (3)** of its benefits in Public Financial Management. **(5 marks)**
- iii) Explain the role of budget guidelines in budgeting and identify **FOUR (4)** items of information to be expected in a budget guideline. **(6 marks)**

- b) A Public Sector entity that applies IPSAS is currently faced with a particular financial transaction for which no IPSAS exist for dealing with the issue. The management is undecided on the choice of accounting policy to apply.

**Required:**

Discuss how the matter can be dealt with by management of the entity. **(5 marks)**

**(Total: 20 marks)**



## SOLUTION TO QUESTIONS

### QUESTION ONE

- a) Reasons why countries have not implemented a full accrual public sector accounting system:
- Accruals accounting financial statements are more technical and relatively more difficult to understand by users. Users require some technical knowledge to understand such statements.
  - A lot of subjective judgments can go into the determination of some estimates or the making of provisions. Relevant accounts are therefore difficult to prepare and can also be manipulated easily to suit the preparer's desires.
  - It requires significant investment in time and human capacity to produce accrual basis financial statements.
  - To the extent that budgets and other requirements are cash based; accrual basis accounting fails to demonstrate compliance with budgetary estimates.
  - Users of financial information such as legislators, tax payers, public sector officers etc. may require a lot more technical guidance and support to appreciate the utility of accrual based financial reports compared to financial statements based on other basis of accounting.
  - High cost of implementation discourages poor countries from implementation of the accrual public sector accounting system.
  - Lack or weak political commitment towards implementation of accrual public sector accounting system. Political leadership often fails to prioritize the implementation of accrual accounting.

(Any 4 points fully explained @ 2.5 marks each = 10 marks)

b)

**i) Disclosure of budget information in the financial statement.**

The first ground for disapproving the financial statements is that it discloses the budget information in the financial statement which the committee finds unacceptable. This ground of rejection is weak and unfounded as the International Public Sector Accounting Standards 24 provides for presentation of budget information in the general-purpose financial reports. IPSAS 24 requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities which are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results. Therefore, the position of

the Finance and Administration Sub-Committee is not in tandem with the requirements of the Standards.

(1 mark for explaining the position of IPSAS 24; 1 mark for relating it to the IPSAS 24's position = 2 marks)

ii) **Evaluating the quality of the financial statement**

The Conceptual framework of general-purpose financial reporting provides for the assessment of the quality of financial statement using the qualitative characteristics (QCs) of the financial statement, which include relevance, faithful representation, timeliness, understandability, comparability and verifiability. Therefore, the appropriate framework for assessment is QCs Framework:

- **Relevance:** Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. In the case, the financial statements presented is capable of helping users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. Thus, based on the available information, the financial statement is relevant.
- **Faithful representation:** To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. In this case, there is no evidence of omission, bias or material error in the financial statement therefore the statement is assumed to be faithfully represented. However, cash flow statement is conspicuously missing in the set of the financial statements, which may negatively affect completeness of the information.
- **Timeliness:** Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful. Under the Public Financial Management Act 2016, covered entities are required to submit their financial statement to relevant authorities within two months after the end of the financial year. In this case the financial statement was submitted on February 15, 2021 and therefore it can be said to be timely.
- **Understandability:** Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability. In the current case, understandability is undermined by lack of notes to the accounts which will

provide information on the accounting policy used and how the figures are aggregated. Therefore, the financial statement is limited in providing understanding to the users.

- **Comparability:** Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. The financial statements provided budget and corresponding actual amounts for purposes of comparability. Thus, it meets the requirement of comparability.
- **Verifiability:** Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. It implies that different knowledgeable and independent observers could reach general consensus that information represents the economic and other phenomena that it purports to represent without material error or bias; or an appropriate recognition, measurement, or representation method has been applied without material error or bias. In this case, the financial statements are submitted together with audit opinion which indicates that there is some level of verification. However, the kind of audit opinion raised on the financial statement is unknown from the available data therefore the verifiability cannot be conclusively assessed.

**(1 mark each for explaining 4 qualitative characteristics; 1 mark for relating it to the case in point = 4 points for 2 marks each = 8 marks)**

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

Question one was divided into two sub-questions, (a) and (b). In question (a), the candidates were asked to discuss why many countries failed to implement the full accrual public sector accounting system. The question was clear and very practical, allowing candidates to demonstrate their command over the accrual accounting policy implementation issues in the public sector. It is consistent with the outcome weight assigned in the syllabus. The second sub-question provided a practical scenario on financial reporting in the public sector, testing the candidates' understanding and application of the relevant standard, specifically IPSAS 24, and the qualitative characteristics of general-purpose financial reporting in the public sector.

The question was an application question that call for full application of candidates' pool of knowledge. The 10-mark question was excellent in standard. In all, question one was very clear, practical, unambiguous and consistent with the outcome weight in the syllabus.

**QUESTION TWO**

a)

<b>CITIZEN TRANSPORT CORPORATION</b>			
<b>STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING</b>			
	<b>31/12/2020</b>		
	<b>Note</b>	<b>GH¢'000</b>	<b>GH¢'000</b>
<b>REVENUE</b>			
GoG Subvention	2	1,540,000	
IGF		36,376,130	
Grants		<u>8,250,000</u>	
Total Revenue			46,166,130
<b>EXPENDITURE</b>			
Compensation	5	7,732,970	
Goods and Services	6	15,663,152	
Interest		1,650,000	
Consumption of Fixed Assets		1,469,300	
Other expenses		<u>71,000</u>	
Total Expenditure			(26,586,455)
Surplus			<u><b>19,579,708</b></u>

(9 marks evenly spread using ticks)

b)

<b>CITIZEN TRANSPORT CORPORATION</b>			
<b>STATEMENT OF FINANCIAL POSITION AS AT 31/12/2020</b>			
	<b>Note</b>	<b>GH¢'000</b>	<b>GH¢'000</b>
<b>ASSETS</b>			
<b><u>Non-current Asset</u></b>			
PPE	11	27,455,250	
Intangible Asset: Software	11	745,950	
Investment		<u>1,345,000</u>	29,546.200
<b><u>Current Asset</u></b>			
Cash and Cash equivalent		294,818	
Inventory		802,000	
Receivable		<u>371,550</u>	1,468,368
Total Asset			<u><b>31,014,568</b></u>
<b>LIABILITIES AND FUNDS</b>			
<b><u>Current Liabilities</u></b>			
Payables	7	1,951,590	
<b><u>Non-Current Liabilities</u></b>			
Loan		<u>8,250,000</u>	10,201,590
Accumulated Fund			<u>20,812,978</u>
Total liabilities and Funds			<u><b>31,014,568</b></u>

(7 marks evenly spread using ticks)

**NOTES**

<b>2. IGF</b>	<b>GH¢'000</b>	<b>6. Interest</b>	<b>GH¢'000</b>
Vehicle Valuation Service	4,575,000	Loan (20%x8,250,000)	<u>1,650,000</u>
Luggage fees	655,600		
Parcel Service	906,600	<b>7. Payable</b>	<b>GH¢'000</b>
Investment Income	8,600	Salaries payable	12,500
Other Income	211,430	G/S Payable	15,750
Fees from Driving School	9,996,270	Interest payable	1,650,000
Passenger fare and ticket	<u>20,022,630</u>	Withhold tax	90,500
	<u><b>36,376,130</b></u>	Payable per trial balance	<u>182,840</u>
			<u><b>1,951,590</b></u>
<b>4. Compensation</b>	<b>GH¢'000</b>		
Est. post	2,940,000	<b>8. Grants</b>	<b>GH¢'000</b>
Allowance	856,670	50%x16,500,000 =	8,250,000
Non-Est. post	1,253,600		
Employees compensation	2,372,200		
End of service benefit	298,000	<b>9. Stock of Spare Parts</b>	<b>GH¢'000</b>
Salaries outstanding	<u>12,500</u>	Spare parts (opening)	785,700
	<u><b>7,732,970</b></u>	Add: Purchases	10,250,000
		Less closing stock	<u>(802,000)</u>
<b>5. Goods and services</b>	<b>GH¢'000</b>	Spare parts available for use	<u><b>10,233,700</b></u>
Legal cost	25,059		
Consultancy cost	588,500	<b>10. Loan</b>	<b>GH¢'000</b>
Seminars cost	500,000	50%x16,500,000 =	<u><b>8,250,000</b></u>
Training and Workshop	104,000		
Vehicle insurance premium	658,700		
Workman Com. Prem.	889,800		
Utility bills	560,053		
Fuel and lubricant	1,550,780		
Printing of ticket	399,160		
Car washing cost	58,780		
License ren. For drivers	78,870		
G/S Payable	15,750		
Spare parts available for use	<u>10,233,700</u>		
	<u><b>15,663,152</b></u>		

<b>12. Fixed Assets Schedule</b>					
	<b>Plant and Machinery</b>	<b>Motor Vehicle</b>	<b>Building</b>	<b>Software</b>	<b>Total</b>
Cost	3,000,000	14,755,000	12,900,000	995,500	30,650,500
Addition	<u>30,000</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>30,000</u>
	3,030,000	14,755,000	12,900,000	995,500	31,680,500
Depreciation					
Accum. Depn.	(252,000)	(852,000)	(756,000)	(150,000)	(2,010,000)
Chg. for the yr.	<u>(202,000)</u>	<u>(737,750)</u>	<u>(430,000)</u>	<u>(99,550)</u>	<u>(1,469,300)</u>
	<u>454,000</u>	<u>1,589,750</u>	<u>1,186,000</u>	<u>249,550</u>	<u>(3,479,300)</u>
NBV	<u><b>2,576,000</b></u>	<u><b>13,165,250</b></u>	<u><b>11,714,000</b></u>	<u><b>745,950</b></u>	<u><b>28,201,200</b></u>

PPE= P/M+M/Y+ BUILDING  
=27,455,250

**Statement of Accumulated Fund for the year ended 31/12/2020.**  
**GHC'000**

Balance b/f	1,205,270
Add. Prior Year Adjustment	<u>28,000</u>
Balance Restated	1,233,270
Add Surplus	<u>19,579,708</u>
Balance c/f	<u><b>20,812,978</b></u>

*Overall mark allocation: Maximum of 64 ticks @ 0.25 = 16 marks*

c) **Guiding principles for formulating accounting policy**

When management is formulating accounting policy the guiding principle is that the policy should results in information that is:

- Relevant to the decision-making needs of users
- Reliable, in that the financial statement:
  - ✓ Represent faithfully the financial position, financial performance, and cash flows of the entity.
  - ✓ Reflect the economic substance of transactions, other events and conditions, and not merely the legal and form.
  - ✓ Are neutral, i.e., free from bias
  - ✓ Are prudent
  - ✓ Are complete in all material aspects
  - ✓ Consistent

**(2 points @ 1 mark each = 2 marks)**

**d) Change in Accounting Policy**

An entity shall change an accounting policy only if the change:

- Is required by an IPSAS; or
- Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.

**(1 marks each for 2 point = 2 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Question two examined candidates on preparation and presentation of financial statements for a transport agency of government. It also tested them on accounting policy formulation and change in line with the IPSAS 3: Accounting Policies, Changes in Accounting Estimate and Errors. The question was standard, however the reference to the entity in the question as a "public transport company" may have caused some confusion in the minds of candidates as to whether it should be treated as a government business enterprise (GBE) or not. Nevertheless, the additional information to the trial balance made it clear that the entity applies IPSAS in the preparation of financial statement.

**QUESTION THREE**

**a)**

**i) Challenges of PFMS in Ghana**

The following are some of the challenges the current PFM in Ghana is facing:

- Poor integration of the sub-systems of public financial management. The various PFM systems are stand alone and therefore integration of the systems for efficient output is lacking. This is the reason why the Ghana Integrated Financial Management system (GIFMIS) have been implemented.
- Excessive human interface in the PFM process  
Over reliance on the human being to conduct the PFM leads to abuse of systems and procedure to achieve personal ends.
- Human factor  
Integrity of the management of public financial management system is often questioned due to increasing cases of corruption and other forms of malfeasance.
- Non-compliance to laws  
There are adequate laws and rules to govern the public financial management but most often these laws are disregarded in the discharge of public financial management responsibilities.
- unpredictability of budgetary releases  
Most often, budget is approved but timing of release is unpredictable. This makes the budget unreliable.
- Weak Accountability and Transparency. External scrutiny and audit is weak and sanctioning regime is very poor.

**(Any 3 points @ 1 mark each = 3 marks)**

**ii) Outcome of an orderly and open PFM system**

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives. An open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes:

- **Aggregate fiscal discipline:** effective control of the total budget and management of fiscal risks.
- **Strategic allocation of resources:** planning and executing the budget in line with government priorities aimed at achieving policy objectives.
- **Efficient service delivery:** using budgeted revenues to achieve the best levels of public services within available resources

**(3 points @ 1 mark each= 3 marks)**

**iii) PEFA Framework can help the Minister of Finance in establishing an orderly and open PFMS in the following ways:**

- It provides a framework for understanding the outcomes of an orderly and effective PFM which will serve as a guide and direction for the configuration of the system
- It sets out seven pillars of PFMS that can serve as the building block of an effective PFMS for the country.
- It set out the indicators of effective PFM which could be used to assess the effectiveness of the PFM of the country.
- It provides snapshot of the weakness and strength of the PFM system upon which the Minister will endeavour to improve.
- It set out clearly the dimensions of measuring the indicators of the PFM that will help in developing check list for better system.

**(Any 4 points @ 1 mark each = 4 marks)**

b)

i)

**Anum District Assembly  
Revenue and Expenditure Extract of Anum District Assembly for the year ended  
31 December 2020**

	<b>Revised Budget</b>	<b>Actual Performance</b>	<b>Budget Outturn</b>	<b>Budget Outturn percentage (%)</b>
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>%</b>
Decentralised Transfer	35,000,000	42,000,000	7,000,000	20.00
IGF	45,000,000	33,000,000	(12,000,000)	(26.67)
Compensation	20,000,000	25,700,000	(5,700,000)	(28.50)
Goods and Services	18,000,000	24,000,000	(6,000,000)	(33.33)
Non -Financial Asset	15,000,000	12,000,000	3,000,000	20.00

**(20 ticks @ 0.25= 5 marks)**



ii)

### REPORT

**From**

**To**

**Date**

**Subject: ANALYSIS OF ANUM DISTRICT ASSEMBLY BUDGET REPORT**

On the side of Revenue, the performance of the Assembly was not encouraging since they made average revenue out turn of (6.67%). A closer examination on the revenue recovered indicate that IGF reduced by 26.67% over the budget. This could be as a result of not supervising the collections of these revenue. Covid 19 effects on performance of business and other economic activities of the Districts could also be the cause.

However, on the side of Decentralised Transfers the Assembly's performance was encouraged since they generated greater revenues against the budget by 20%. The budget report shown above indicate that the total spending of Anum District Assembly was in excess of (16.42%) represented by total expenditure outturn.

However, a close examination of individual expenditure items reveals that compensation of employee's appropriation was exceeded by 26%. This could be largely financed by virement of moneys from non-financial Assets. These could also be financed from IGF Goods and Services was also over- spent by 33.33% and this may affect services delivery capacity of Anum District Assembly since operational expenses such as training, workshop and Conferences which are very critical to staff have to be sacrificed.

Again, purchases of capital assets during the period was reduced as there was a positive outturn of 20%. This could be as a result of cut made to meet the excess expenditure on compensation of employees and Goods and Services.

In conclusion, the overall budget implementation was not encouraging as Anum should have taking care of spending within the budget as far as compensation of employees and Goods and Services Expenditure are concerned.

**(1 mark for introduction and conclusions. Any 4 points @ 1 mark each = 5 marks)**

**(Total=20 marks)**

### **EXAMINER'S COMMENTS**

Question three had two sub-questions. Sub-question (a) examined candidates on public financial management and the public expenditure and financial accountability (PEFA) framework. The questions were very clear and practical. The marks allocated were in line with the weight assigned in the syllabus. The second sub-question tested candidates on the analysis and discussion of financial performance of a district assembly. Candidates' understanding of budget performance reporting and analysis of budget outturn was tested in the question. The mark allocated is consistent with the weight assigned in the syllabus. In all, question three was a high-quality question.

## QUESTION FOUR

a) Their Challenges are likely to be;

A tenderer shall be disqualified in public procurement process base on the following reasons:

- Where the tenderer does not possess the necessary professional and technical qualifications and competence,
- Where the tenderer has inadequate financial resources,
- Where the tenderer does not have necessary equipment and other physical facilities,
- where the tenderer does not have managerial capability, reliability, experience in the procurement object
- the tenderer does not have adequate personnel to perform the procurement contract;
- where the tender does not possess the legal capacity to enter into the contract;
- where the tenderer is in receivership, bankrupt or in the process of being wound up,
- where the tenderer has its business, activities suspended and subjected to legal proceedings that would materially affect its capacity to enter into a contract;
- The tenderer has not fulfilled its obligations to pay taxes and social security contributions

(Any 4 points @ 1 mark each = 4 marks)

b) Terms and practices used in Public Procurement

- **Tender Security**

Tender security means an amount to secure the fulfilment of any obligation of a contractor, supplier or consultant, which may take the form of a financial deposit, a surety bond, or an irrevocable letter of credit.

- **Least Cost Selection**

A procurement entity may use least-cost selection procedures for small value assignments where the assignment is of a standard or routine nature and well-established practices and standards exist

- **Tender Evaluation Panel**

It is an ad hoc committee that is set up by the Entity Tender Committee when contract needs to be awarded. Their role is to evaluate tenders and send their recommendation to the Entity Tender Committee to use it as a base to award the contract.

- **Board of Survey**

It is composed anytime there is the need to dispose off government Stores or Assets. They are to examine the condition of the Stores or Assets to be disposed and submit report to the head of Entity Tender Committee on the condition of the assets and best method of disposing these assets

(1.5 mark for each term explain = 6 marks)

c)

## **i) Service concession asset (SCA)**

### **Initial recognition**

The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

- The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- The grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

In case of whole life asset, the grantor shall recognize an asset if the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price. Grantor's control over the residual asset is not required since the asset is used up completely or significantly during the service concession arrangement period.

Where an existing asset of the grantor meets the conditions of recognition of SCA the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with IPSAS 17, Property, Plant, and Equipment or IPSAS 31, Intangible Assets, as appropriate.

### **Subsequent recognition**

After initial recognition or reclassification, service concession assets shall be accounted for as a separate class of assets in accordance with PSAS 17 or IPSAS 31, as appropriate.

### **Measurement of service concession asset**

The grantor shall initially measure the recognizable service concession asset at its fair value. Where the asset is an existing asset of the grantor which was reclassified, it shall be measured at the carrying amount in line with IPSAS17 or IPSAS 31.

## **ii) Service Concession Liability**

Service concession arrangements that create service concession assets, correspondingly create service concession liabilities. For example, when an operator constructs an incinerator worth GH¢ 4,000,000 for a District Assembly, the Assembly will record asset of GH¢4,000,000 and a liability worth the same amount.

### **Recognition**

Where the grantor recognizes a service concession asset, the grantor shall also recognize a service concession liability.

### **Measurement**

The liability recognized shall be initially measured at the same amount as the service concession asset (fair value), adjusted by the amount of any other

consideration (e.g. cash) from the grantor to the operator, or from the operator to the grantor.

**iii) Recognition of other revenues**

The grantor shall account for revenues from a service concession arrangement, other than revenues recognized under grant of rights to the operator, in accordance with IPSAS 9, Revenue from Exchange Transactions. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

- An upfront payment or a stream of payments;
- Revenue-sharing provisions;
- A reduction in a predetermined series of payments the grantor is required to make to the operator; and
- Rent payments for providing the operator access to a revenue generating Asset

In all these instances, the grantor accounts for these payments in accordance with IPSAS 9. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

**1.5 marks each for recognition of 3 elements = 4.5 marks**  
**1.5 marks each for measurement of 3 elements = 4.5 marks**  
**1 mark for overall explanations=1 mark**  
**(10 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Question four was in three sub-questions. The first examined the practical implications of tendering from the tender's perspective. The next tested the understanding of some key terms in public procurement and the last sub-question examined candidates on accounting for public private partnerships. The requirements of the questions were very clear and precise. The quality of the question is commendable.

## QUESTION FIVE

a)

i) Specific provisions in the constitution relating to budgeting

- **Responsibility and Authority for National Budget:** The President shall cause to be prepared and laid before Parliament at least one month before the end of the financial year, estimates of the revenues and expenditure of the Government of Ghana for the following financial year.
- **Budget system and budget presentation:** The estimates of the expenditure of all public offices and public corporations, other than those set up as commercial ventures shall be classified under programmes or activities which shall be included in a bill to be known as an Appropriation Bill and which shall be introduced into Parliament to provide for the issue from the Consolidated Fund or such other appropriate fund, of the sums of money necessary to meet that expenditure and the appropriation of those sums for the purposes specified in that bill; and (b) shall in respect of payments charged on the Consolidated Fund, be laid before Parliament for the information of members of Parliament.
- **Estimates of the Judicial Council:** The Chief Justice shall, in consultation with the Judicial Council, cause to be submitted to the President at least two months before the end of each financial year, and thereafter as and when the need arises (a) the estimates of administrative expenses of the Judiciary charged on the Consolidated Fund under article 127 of this Constitution; and (b) estimates of development expenditure of the Judiciary.
- **Laying of Estimates of Judicial Council:** The President shall, at the time specified in clause (1) of this article, or thereafter, as and when submitted to him under clause (3) of this article, cause the estimates referred to in clause (3) of this article to be laid before Parliament.
- **Restriction on alteration of estimates of Judicial Council:** The estimates shall be laid before Parliament under clause (4) by the President without revision but with any recommendations that the Government may have on them.
- **Procedure for presenting budget to Parliament:** Parliament shall prescribe the procedure for the presentation of Appropriation Bills.
- **Supplementary Estimates:** Where, in respect of a financial year, it is found that the amount of moneys appropriated by the Appropriation Act for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no sum of moneys has been appropriated by that Act, a supplementary estimate showing the sum of money required, shall be laid before Parliament for its approval.
- **Supplementary Appropriation Bill:** Where, in the case of a financial year, a supplementary estimate has been approved by Parliament in accordance with clause (8) of this article, a supplementary Appropriation Bill shall be introduced into Parliament in the financial year next following the financial year to which the estimate relates, providing for the appropriation of the sum so approved for the purposes specified in that estimate.
- **Budget period:** Notwithstanding the provisions of the preceding clauses of this article, the President may cause to be prepared and laid before Parliament, estimates of revenue and expenditure of Ghana for periods of over one year.

- **Unspecified votes:** Whenever in the estimates prepared in accordance with clauses (1) and (8) of this article provision is made for an item or vote other than for the Contingency Fund, not relating to a specific item of expenditure, any moneys voted by Parliament in respect of that item or vote shall be under the control and supervision of a Committee which shall consist of the President, the Speaker and the Chairman of the Council of State.

(Any 2 points @ 2 marks each = 4 marks)

## ii) Citizens Budget and benefit

Citizens Budget is a form of budget that summarizes and explains basic budget information. It is a report to the people, presented in an accessible format using simple and clear language they can understand. The primary purpose of a Citizens Budget is to increase their knowledge of what the government is doing and enhance their capacity to participate in governmental affairs. (2 marks)

The benefits of citizen's budget include:

- It is an effective way through which government can demonstrate that it holds itself accountable to the general public by explain crucial fiscal policy information and budget decisions in a form that is more readily understandable to ordinary people can greatly enhance the government's legitimacy in the eyes of the public.
- A Citizens Budget can also serve as a tool for civic education to engage the citizens in fiscal policy decision making.
- It is believed that sharing information on Government policies and programmes would deepen the quality of our democracy
- Citizens budget brings Government closer to the door steps of the people.
- It provides street level information on government fiscal policies and programme to the people, therefore making it easy for government to popularize its policies and programme.

(Any 3 points @ 1 mark each = 3 marks)

## iii) Role Budget guideline and content

The budget guidelines provide comprehensive information on the policies, constraints and procedures for the current budgeting at the Ministry, Departments, Agencies. The Guidelines include instructions on the processes and procedures, and preliminary budget ceilings to guide government institutions that subsist on public funds, in the preparation of their budgets. (2 marks)

The Public Financial Management Act, 2016 (Act 921) provides for the content of a budget guideline as follows:

- the economic outlook for the country;
- revenue forecasts;
- fiscal targets in relation to the fiscal principles, particularly, the need to achieve sustainable levels of public debt and fiscal balance;
- medium-term fiscal framework including key assumptions;
- the multiple year ceilings for each covered entity in line with the Fiscal Strategy Document;

- the ceilings on the required number of staff for each covered entity and the cost of appropriation for the relevant year for the public service;
- the reconciliation of any change to the previous Medium-Term Expenditure Framework arising from the discretionary policy changes, baseline parameters, and re-allocation of expenditure items;
- the selection criteria for investment projects, including provision for linking forward recurrent expenditure estimates to investments;
- the ceilings for the preparation of the budget estimates of local government authorities;
- details of expenditure under statutory funds and alignment and co-ordination of statutory funds with fiscal objectives, targets and other aspects of the budget; and;
- any other information required from a covered entity to enable the Minister prepare the annual budget in accordance with the requirements of the Public Financial Management Act 2016.

**(Any 4 points @ 1.5 marks each = 6 marks)**

b) Where no IPSASs exist on a particular accounting issue, the policy should be based on the use of management judgement. Management judgement should be influenced by a consideration of the following factors:

- Relevance to the decision needs of users;
- Reliability of financial statements;
- The requirements of IPSAS in dealing with similar or related issues;
- Recognition and measurement requirements in other IPSASs;
- Established practices.

Once selected, it is required that accounting policies are consistently applied for the preparation of financial statements from period to period; and within each period, same policy should be applied for transactions of a similar nature. Consistent application of accounting policies.

**(5 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Question five examined candidates on budgeting in the public sector and the application of IPSAS. Sub-question (a) tested candidates' knowledge in legal framework of budgeting, citizens; budget and budget guidelines. The questions were clear and precise. The marks allocated were consistent with the weight assigned in the syllabus. Sub-question (b) examined the knowledge of candidates on treatment of transactions not covered by a specific IPSAS. The question was a good one, given that it required the application of conceptual framework of financial reporting in the public sector.

It should be noted that the paper had 100% coverage of the syllabus. Prospective candidates are therefore advised to ensure that they learn to cover all topics in the syllabus to the finest detail.

The question-by-question analysis of performance is summarised in Table 1.

Question	Requirement	Mark	General Performance	Specific Observation
<b>Question 1</b>				
a)	Discuss why countries failed to implement accrual accounting system	10	Good.	Some candidates outlined the reasons without discussing them. This negatively affected their performance.
b-i)	Disclosure of budget information in the financial statement,	2	Average.	Some candidates do not appreciate the application of IPSAS 24.
b-ii)	Qualitative characteristics	8	Good.	Most candidates correctly identify the framework Many candidates only explained the characteristics without linking it to the given financial statements. Some candidates also deviated completely. They were computing certain ratios which were not required at all.
<b>Question 2</b>				
a&b)	Preparation of financial statement	16	Very Good	Most candidates were conversant with the topic. Few could not classify the item according to the GOG chart of accounts. Some provided notes on accounting policies, which were not required.
c)	Principles for formulating accounting policy	2	Poor	Many candidates did not answer the question. Most candidates failed to identify the guiding principles in accounting policy formulation under IPSAS 3.
d)	Change in accounting policy	2	Average	Many candidates escaped the question Familiar question but not well answered.
<b>Question 3</b>				



ai)	Challenges of PFMS	3	Average	Surprisingly, many candidates could not explain two challenges of PFMs in Ghana
a ii)	PFM Outcome	3	Average	Some candidates have no idea about the PFM outcomes.
a iii)	Usefulness of PEFA framework	4	Poor	Most candidates were discussing the pillars of PEFA instead.
bi	Budget performance report	5	Very Good	Well answered. Some candidates unfortunately failed to compare the actual against the revised budget.
b ii)	Analysis Report	5	Average	Some candidates failed to prepare the report. Some failed to analyse the outturns
<b>Question 4</b>				
ai)	Why not winning tender	4	Average	Most candidates were writing down the qualifications of tenders instead,
a ii)	Explanation of terms	6	Average	Many candidates could not explain tender security and board of survey well
bi-iii)	Recognition and measurement of service concession asset, liability and revenues.	10	Very poor	Most candidates lack knowledge in the area completely. Few candidates attempted the question well.
<b>Question 5</b>				
ai)	Constitutional provision on budgeting	4	Poor	Most candidates could not identify two provisions of the Constitution on budgeting. This is worrying, as candidates must be abreast with the Constitution as a citizen.
a ii)	Citizen budget	5	Average	Some candidates have no idea about the concept.
a iii)	Role of budget guideline	6	Poor	Many candidates could not outline the content of a budget guideline
b)	Consideration in making accounting	5	Very poor	Most candidates could not handle the question well.

	policy where no IPSAS exists.			
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## CONCLUSION AND RECOMMENDATIONS

The questions were standard, balanced and very clear with extensive coverage. However, the performance of the candidates was not encouraging, as only 18% passed the paper. At an exit meeting of the examiners, the following specific weaknesses were pointed out for prospective candidates' attention:

- Most candidates failed to read and understand the requirements of the questions well before starting to produce responses. For example, question 2(b) reproduced the financial statements of Assembly and asked questions on qualitative characteristics. Meanwhile some candidates saw the financial statement and concluded that the question was on computation of financial ratio and proceeded to compute some ratios.
- Some candidates were not able to express themselves clearly and professionally.
- Many candidates could not attempt all question, likely because of poor time management in the examination.
- Some candidates over-concentrated on the preparation of the financial statement thereby ignoring the other two sub-questions following it.
- Some candidates did not prepare well for the paper and this was obvious in the poor quality of the responses to the test items.

The following recommendations were made to assist prospective candidates in improving their performance in the paper:

- candidates should prepare very well for the paper. This means that the candidate should study the ICAG Study Manual and work through the Question Bank. It is also advised that the candidate should enroll in a Partner in Learning (PIL) for quality tuition and guidance.
- Candidates must read the requirements of questions very well and plan their responses before writing them down. This way candidates will avoid deviations in their responses.
- Candidates should learn to cover all topics in the syllabus before sitting for the examination. The examination policy is to examine candidates on all aspects of the syllabus every diet.
- Time management is key in passing the examination. candidates are encouraged to allocate time to every question based on the mark or weight of the question. For example, a 10-mark question requires 18 minutes of response time. Most often, candidates spend too much time on financial reporting questions at the expense of other equally important questions.
- Candidates who have been exempted in all subjects in level 2 except for Public Sector Accounting and Finance (Paper 2.5), are advised to desist from the temptation of underrating the paper. The paper required current knowledge and practical appreciation of typical public sector financial management issues.

Those candidates must equally prepare for the paper just like all other candidates do.