

**JULY 2023 PROFESSIONAL EXAMINATION
PUBLIC SECTOR ACCOUNTING & FINANCE (PAPER 2.5)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

GENERAL COMMENTS

In general, the questions were clear, unambiguous, precise and free of errors. The time allocated to the paper was commensurate with the task required. The test items were standard and consistent with the weights allocated to the examination syllabus. The coverage of the paper was as broad as the syllabus coverage, indicating 100% coverage of the syllabus content. The candidates' responses to the questions were satisfactory. The performance has also improved significantly, from 24.08% in the March Diet to 31.9%. The general paper quality is commendable.

STANDARD OF THE PAPER

In line with the approved examination syllabus, the paper consisted of five questions out of which the candidates were required to attempt all questions. The questions were equally weighted. Each question was structured into sub-questions and sub-sub questions to achieve a wider coverage of the syllabus. In all, the paper has five (5) major questions, eleven (11) sub-questions and seven (7) sub-sub-questions, providing approximately 100% coverage of the syllabus. Concerning the level of knowledge tested in line with Bloom's Taxonomy (Armstrong, 2016), the test items fall largely within application and analysis, which is consistent with the learning outcomes set out in the syllabus. The standard of the paper is comparable to the previous years. Nevertheless, exam setters are encouraged to continuously explore innovative ways of making the questions interesting and practical to resonate with the realities of the times. The examiners should endeavour to use simple expressions and words in the construction of the test items.

GENERAL WEAKNESSES OF CANDIDATES

The Candidates, over the years, have suffered from the following weaknesses in general:

- The inability of candidates to provide responses that are consistent with the requirements of the questions. Some of the responses are on the subject matter but did not answer the particular question before the candidates. This made some of the candidates deviate in their answers to the questions.
- **Limited coverage of the syllabus.** The examination syllabus covers nine major topic areas, which are all examinable. However, for whatever reasons, some candidates have specialised in a few of these areas, including the preparation of the financial statement, and therefore were not able to attempt all the questions thereby minimising their chances of passing. Observably, such candidates start well in say the first two questions attempted and take a nose dive in the subsequent questions.
- **Poor time management.** It was noted that some candidates spent too much time allocated to certain questions, most often the preparation of the financial statement, and therefore were unable to complete the paper within the stipulated time.

- **Poor organisation of responses.** Some candidates failed to communicate their ideas and understanding effectively in their responses. Some also failed to organise the responses professionally. For example, some candidates mixed up the sub-questions in the presentation making it difficult for examiners to trace responses in the answer booklet. Candidates should follow strict instructions on the answer booklets and do the needful as required of prospective professional accountants.
- **Complete lack of knowledge.** Some of the candidates seem to gamble with the examination without any serious preparations. The responses of some candidates showed that they have no knowledge of the subject at all but decided to sit for the paper.

QUESTION ONE

- a) A public sector entity is transitioning from cash basis of accounting to accrual basis of accounting for the 2022 financial year. You are a member of the transitional committee set up to ensure smooth change over.

Required:

Discuss **FIVE (5)** conditions for seamless transition from cash basis of accounting to accrual basis of accounting. **(10 marks)**

- b) You are the Head of Finance of Public Sector Reform Secretariat, Office of the President. You have received the following e-mail from the Chief Executive Officer.

“Dear Head of Finance,

I have been invited by Office of Head of Civil Service to attend a seminar on the theme ‘Fundamentals of Public Financial Reporting’. Among the topics listed for discussion are the following:

- i) Qualitative Characteristics of Financial Information. **(3 marks)**
- ii) The bases of measurement of public sector assets. **(3 marks)**
- iii) The Statutory Roles of Internal Auditors of Public Sector Entities. **(4 marks)**

I am aware of your expertise in public financial management and will greatly appreciate if you could prepare some briefing notes for me to bridge my knowledge gap prior to the conference”.

Required:

As Head of Finance and a recipient of the e-mail, provide your response in a memo to the Chief Executive officer.

(Total: 20 marks)

QUESTION TWO

Ayigya Central Hospital is a Public Hospital established in the Ashanti Region, which serves several Communities in the Municipalities. Its Trial Balance for the year ended 31 December 2022 is provided below.

	GH¢'million	GH¢'million
Accumulated Fund		2,759
Donations		4
Withholding Taxes		270
Patients Fees		2,222
Drugs and Medications Sales		985
Drugs Purchase	810	
Inventory of Drug @ 1/01/2022	165	
Inventory of Stationery @ 1/01/2022	27	
Ultra Sound Revenue		348
Laboratory Service Fees		688
Travel and Transport	13	
Seminar and Conferences	120	
General Cleaning	93	
Consulting Specialist Fees		37
Clinical Consumables Purchased	18	
Established Post Salaries (iv)	2,109	
Casual Labour (iv)	154	
13% SSF Contribution	20	
Extra Duty Allowances	778	
Purchases of Stationery	95	
GoG Subvention		2,257
Repairs and Maintenance	105	
End of Service Benefits	23	
Surgical Fees (ii)		180
Eye Care Fees		270
Laboratory Equipment (iii)	825	
Building (iii)	1,800	
Motor Vehicles (iii)	1,200	
Software (iii)	15	
15% Fixed Deposits (2022-2023)	150	
NHIS Claims Receivables (v)	1,350	
Loans and Advances	25	
Sundry Payables		216
Ambulance Service Fees		228
Dental Fees		168
Mortuary Fees		37
Bank Loans		225
Interest	5	
Fixed Deposit Interest		15
Other Expenses	53	
Bank Balance	956	
	10,909	10,909

Additional information:

- i) Inventory as at 31 December, 2022 consist of Drugs and Stationery amounting to GH¢50 million and GH¢20 million respectively.
- ii) Four patients who paid GH¢25 million to the Hospital intending to undertake a heart surgery are scheduled to have their surgery done in February, 2023. This amount is included in Surgical Fees.
- iii) The fixed assets in the trial balance were acquired at the beginning of the year. It is the policy of Hospital to provide for consumption of fixed assets using the straight-line method;

Asset	Useful life
Laboratory Equipment	5 years
Building	50 years
Motor Vehicles	10 years
Software	5years

- iv) Salaries and other emoluments outstanding relating to casual labour during the year amounted to GH¢8 million.
- v) Provision for Bad Debt relates to NHIS Claims Receivables in the Trial balance. Provision for Bad Debt is 2%.

Required:

- a) Prepare a Statement of Financial Performance for Ayigya Central Hospital for the year ended December 31, 2022. **(10 marks)**
- b) Prepare a Statement of Financial Position for Ayigya Central Hospital as at December 31, 2022. **(10 marks)**

(Total: 20 marks)

QUESTION THREE

- a) PEFA is a methodology for assessing public financial management performance. It identifies 94 characteristics (dimensions) across 31 key components of Public Financial Management (indicators) in 7 broad areas of activity (pillars).

Required:

In reference to the statement above, explain the **SEVEN (7)** pillars of PEFA. **(10 marks)**

- b) The Financial Statements of the Consolidated Fund of Ghana for the year ended 31 December 2022 and 2021 are presented below:

Consolidated Fund of Ghana		
Statement of Financial Performance for the year ended 31 December		
	2022	2021
	Actual	Actual
	GH¢'million	GH¢'million
Revenues		
Tax revenues	27,000	21,030
Non tax revenues	2,670	2,400
Grants and Donations	<u>720</u>	<u>900</u>
Total revenue	<u>30,390</u>	<u>24,330</u>
Expenditures		
Compensation of employees	12,150	11,566
Goods and services	5,400	2,405
Consumption of fixed capital	195	202
Interest	8,100	8,817
Social benefit cost	150	136
Subsidies	108	258
Grants	270	166
Other expenditure	<u>3,402</u>	<u>2,940</u>
Total expenditure	<u>29,775</u>	<u>26,490</u>
Net Operating result	<u>615</u>	<u>(2,160)</u>

Consolidated Fund of Ghana		
Statement of Financial Position as at 31 December		
	2022	2021
	Actual	Actual
	GH¢'million	GH¢'million
Assets		
Non-Current Assets		
Property Plant and equipment	412,590	300,000
Capital work in Progress	5,700	6,000
Equity investment	90,000	150,000
Loans receivable	<u>5,250</u>	<u>0</u>
	<u>513,540</u>	<u>456,000</u>
Current Assets		
Loan receivable and loans	4,252	3,750
Inventory	6,525	7,201
Cash and Cash equivalent	<u>1,020</u>	<u>(7,680)</u>
	<u>11,797</u>	<u>3,271</u>
Total Assets	<u>525,337</u>	<u>459,271</u>

Fund and Liabilities

Fund

Accumulated Fund	(150)	2,010
Operating Surplus	<u>615</u>	<u>(2,160)</u>
	<u>465</u>	<u>(150)</u>

Current Liability

Payables	5,572	13,021
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Long term liabilities

Domestic Debt	240,525	198,000
External debt	<u>278,775</u>	<u>248,400</u>
Total liabilities	<u>524,122</u>	<u>459,421</u>
Total funds and liabilities	<u>525,337</u>	<u>459,271</u>

Additional Information:

- 1) The Statistical and economic data of the two years are as follows:

	2022	2021
Population	30.8 million	29.5 million
Gross Domestic Product (GH¢)	768,000,000,000	552,500,000,000

- 2) Capital Assets acquired in 2022 and 2021 amounted to GH¢255,200,000,000 and GH¢141,600,000,000 respectively.

Required:

- i) Compute the following accounting ratios for the two respective years (2022 and 2021).
- Debt to Gross Domestic Product
 - Capital Spending as a percentage of Gross Domestic Product
 - Wage Bill as a percentage of Total Tax Revenue
 - Debt per Capita
- (4 marks)**
- ii) Based on the result in question i) above, write a report discussing and analysing the Financial Performance and Financial Position of the nation. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

- a) A public sector entity may not dispose of a store item, an equipment or a plant unless such an item is certified as **Obsolete, Unserviceable or Surplus (Redundant)**. Disposal of store items can be effected using one of the **four** methods prescribed by the Public Procurement Amendment Act, 2016 (Act 914).

Required:

- i) Explain the terms “**Unserviceable**” and “**Surplus**” as contextualised above. **(4 marks)**
- ii) Explain each of the **FOUR (4)** methods of disposal of public stores and equipment prescribed by the Public Procurement Amendment Act, 2016 (Act 914). **(6 marks)**
- b) A public university has engaged a private estate developer to construct a hostel for its candidates under Build-Operate and Transfer arrangement over 25 years. Under the

arrangement, the university reserves the right to fully control services the operator offers and any significant residual interest. The hostel can only be used to provide accommodation for candidates of the university. The university prepares its financial statements in compliance with the International Public Sector Accounting Standards (IPSAS). The Director of Finance is uncertain whether the hostel facility is a service concession asset or not.

Required:

- i) In reference to the above, explain the term a *service concession asset* under *IPSAS 32: Service Concession Arrangement: Grantor*. (1 mark)
- ii) Discuss **TWO (2)** conditions necessary for recognition of a service concession asset, and indicate whether the hostel facility qualifies for recognition under IPSAS 32. (6 marks)
- iii) Outline **THREE (3)** disclosures that the grantor should make in the notes to the financial statement in respect of concession asset. (3 marks)

(Total: 20 marks)

QUESTION FIVE

- a) The following transactions relates to Tham District Assembly (TDA):
 - i) The estimated internally generated funds of the Assembly for the fourth quarter of 2021 and first quarter of 2022 are given below:

	Oct 2021 GH¢000	Nov 2021 GH¢000	Dec 2021 GH¢000	Jan 2022 GH¢000	Feb 2022 GH¢000	Mar 2022 GH¢000
Fees and Charges	300,000	320,000	310,000	400,000	450,000	420,000
Licenses	120,000	120,000	200,000	180,000	140,000	160,000
Property rate	800,000	1,200,000	1,000,000	900,000	900,000	1,300,000
Fines and Penalties	50,000	50,000	40,000	60,000	80,000	80,000

- ii) The revenue policy of the Assembly is as follows:

Source of revenue	Collection Policy
Fees and Charges	100% of Fees and Charges are expected to be collected in the month of estimation.
Licenses	Licenses are collected in the month following the month of estimation.
Property rate	Property rate are collected in the third month after the month of estimation.
Fines and Penalties	Fines and Penalties are collected on the spot.

- iii) Experience shows that about 10% of the amount owed in respect to property rate is never received.

- iv) Decentralised transfer is estimated at GH¢2,000,000 and GH¢1,800,000 for the first and second quarters of 2022 respectively. The decentralised transfers are often released in second month of each quarter, except first quarter which is released in the last month.
- v) Goods and services are paid two months in arrears. The projected expenses in the Assembly's 2021 and 2022 budgets are as follows:

Oct 2021 GH¢000	Nov 2021 GH¢000	Dec 2021 GH¢000	Jan 2022 GH¢000	Feb 2022 GH¢000	Mar 2022 GH¢000
365,000	280,000	280,000	290,000	200,000	320,000

- vi) The Assembly budgets to acquire equipment and furniture amounting to GH¢300,000,000 in the month of February 2022. It has planned that 50% of the amount will be paid in the month of purchase and the balance paid equally over the following two months. The equipment and furniture will be depreciated at the rate of 10% per annum.
- vii) The cash and cash equivalent balance at the end of 2021 financial year was GH¢63,000.

Required:

Prepare a Cash Flow Forecast for the first quarter of 2022, showing clearly the forecast for each month and the quarter as a whole. **(10 marks)**

- b) The Ghana Integrated Financial Management Information System (GIFMIS) was launched to eradicate or reduce the endemic challenges in the public financial management system. Many experts hailed it as the panacea for the developmental challenges of Ghana.

Required:

In reference to the above, explain **FIVE (5)** challenges that the GIFMIS promises to address in the public financial management in Ghana. **(5 marks)**

- c) In accordance with Article 175 of the Constitution of the Republic of Ghana, the Public Funds of Ghana consist of the Consolidated Fund, Contingency Fund and such Other Funds as may be established by or under the authority of an Act of Parliament. Other Funds established by or under the authority of an Act of Parliament include District Assembly Common Fund (DACF), Ghana Education Trust Fund (GETF) and Petroleum Holding Fund (PHF)

Required:

With respect to each fund (DACF and PHF), outline **THREE (3)** sources of income. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

- a) Conditions for seamless transition to accrual basis are
- **A clear mandate:** There is a need for a clear mandate from the appropriate level of the government stating what the reforms will encompass, the expected timing and the authority of various government bodies to initiate the changes required. A clear mandate gives relevant officials and entities the power to initiate change and oversee the reforms.
 - **Political commitment:** Political commitment from both the governing body, or those elected representatives who oversee the governing body, and the opposing party is generally required to secure initial approval for the proposed changes and to provide continuing support for the changes when obstacles or opposition are encountered
 - **The commitment of central entities and key officials:** One reason the active support and leadership of top governmental officials and politicians is required is that changes to the basis of accounting, together with other financial management reforms such as the devolution of authority for resources, involve changes to the power structure. Key people who are prepared to publicly stand by the changes may also fulfil the role of “fixers” when things go wrong.
 - **Adequate resources (human and financial):** A variety of skills are required to manage and maintain a change to the accrual basis of accounting. Identification of the types of skills required, and planning to ensure the availability of those skills is critical to the success of the transition.
 - **An effective project management structure:** Project management generally involves splitting the project into separate components that can then be managed by individuals with the appropriate skills and experience. A reform project should have documented framework or philosophy, an implementation plan and a clear assignment of responsibility.
 - **Adequate technological capacity and information systems:** The adoption of accrual financial reporting in conjunction with other public sector reforms often involve changes to a wide range of information systems. Entities contemplating a transition to accrual accounting need to perform an assessment of all existing systems that link to the financial reporting system.
 - **The use of legislation:** The process of drafting legislation and consulting key groups on the proposed changes has a number of benefits. The use of legislation provides formal authority for the changes and demonstrates the strength of the

government's commitment to the changes. The consultation process that usually accompanies legislative changes provides an opportunity to inform and educate other political parties and influential groups within government of the benefits of the changes.

(Any 5 points @ 2 marks each = 10 marks)

b)

i) Qualitative Characteristics of Financial Information

Fundamental qualitative characteristics distinguish useful financial reporting information from information that is not useful or misleading:

- Relevance, and
- Faithful representation

Enhancing qualitative characteristics distinguish more useful information from less useful information.

- Comparability
- Verifiability
- Timeliness
- Understandability

Constraints on Information Included in General Purpose Financial Reports

- Materiality
- Cost-Benefit
- Balance Between the Qualitative Characteristics

(3 marks)

ii) The Bases of Measurement of Public Sector Assets

- Historical Cost
- Current Value
 - ✓ Market Value
 - ✓ Replacement cost
 - ✓ NRV/Net selling price
 - ✓ Value in use

(3 marks)

iii) The Statutory Role of Internal Auditors of Public Sector Entities

- Appraise and report on the soundness and application of the system of controls operating in the covered entity;
- Evaluate the effectiveness of the risk management and governance process of a covered entity and contribute to the improvement of that risk management and governance process;
- Provide assurance on the efficiency, effectiveness and economy in the administration of the programmes and operations of a covered entity; and
- Evaluate compliance of a covered entity with enactments, policies, standards, systems and procedures.

(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Most candidates have a good understanding of the bases of accounting (Cash Accounting and Accrual Accounting). However, many of them do not understand the requirement of the question. Whereas the question required candidates to discuss the necessary conditions for a successful transition from a cash basis to an accrual basis of accounting, many discussed the differences between cash basis and accrual basis of accounting. This resulted in poor performance in the question by some candidates. Concerning sub-section (b), most candidates were able to explain the qualitative characteristic and bases of measurement of assets very well but were not able to provide the statutory role of internal auditors in the public sector. The part was poorly answered.

QUESTION TWO

Nsuta-Appiah Municipal Assembly Financial Performance Statement for the year ended 31st December, 2021

	GH¢' million	GH¢' million
REVENUE		
Decentralised transfers		2,257.00
Non Tax Revenue		5,160.50
Grants and Donations		<u>4.00</u>
		<u>7,421.50</u>
EXPENSES		
Compensation of Employees		3,092
Use of Goods and Services		1,376
Consumption of Fixed Assets		324
Interest		5
Grant		-
Other Expenses		<u>80</u>
		<u>4,877.00</u>
Surplus for the Period		<u><u>2,544.50</u></u>

Nsuta-Appiah Municipal Assembly Statement of Financial Position as at 31st December, 2021

	GH¢' million	GH¢' million
ASSETS		
Non-current Assets		
Plant, Property and Equipment	3,504	
Intangible - Software	12	
Financial Assets	<u>150</u>	
		3,666
Current Assets		
Cash and Bank	956	
Inventory	70	
Receivables	<u>1,356</u>	
		<u>2,382</u>
Total Asset		<u>6,048</u>
LIABILITIES AND FUND		
Current Liabilities:		
Payables	519	
Non-current liabilities:		
Long Term Loan	<u>225</u>	

Total Liabilities	744
Accumulated Fund	<u>5,304</u>
Total Liabilities and Fund	<u>6,048</u>

Statement of Accumulated Fund for the year ended 31.12.2021

	GH¢'million
Balance brought forward	2,759
Surplus for the Period	<u>2,544.50</u>
Balance carried forward	<u>5,303.50</u>

Workings:

1. Internally Generated Fund		GH¢'million
Patients Fees		2,222
Drugs and Medications Sales		985
Ultra Sound Revenue		348
Laboratory Service Fees		688
Consulting Specialist Fees		37
Surgical Fees	180	
Less unearned revenue	<u>25</u>	155
Eye Care Fess		270
Ambulance Service Fees		228
Dental Fees		168
Mortuary Fees		37
Fixed Deposit Interest	15.00	
Add Outstanding	<u>7.50</u>	<u>22.5</u>
		<u>5,160.50</u>

2. Compensation for Employees		
Established Post Salaries		2,109.00
Casual Labour	154.00	
Payables	<u>8.00</u>	162.00
13% SSF Contribution		20.00
Extra Duty Allowances		778.00
End of Service Benefits		<u>23.00</u>
		<u>3,092.00</u>

3. Use of Goods and Services

Inventory of Drug at beginning	165.00	
Drugs Purchase	810.00	
Inventory of drug at close	<u>(50.00)</u>	925.00
Inventory of Stationery at beginning	27.00	
Purchase of Stationery	95.00	
Inventory of Stationery at close	<u>(20.00)</u>	102.00
Travel and Transport		13.00
Seminar and Conferences		120.00
General Cleaning		93.00
Clinical Consumables Purchased		18.00
Repairs and Maintenance		<u>105.00</u>
		<u>1,376.00</u>

4. Other Expenses

Per TB	53.00
Provision for bad debt	<u>27.00</u>
	<u>80.00</u>

5. Consumption of Fixed Asset Schedule

Cost	Building	Motor Veh	Lab Equip	Software	Total
Purchase	1,800.00	1,200.00	825.00	15.00	3,840.00
	1,800.00	1,200.00	825.00	15.00	3,840.00
Depreciation					
Charge for the year	36.00	120.00	165.00	3.00	324.00
	36.00	120.00	165.00	3.00	324.00
Carrying amount 31/12/21	1,764.00	1,080.00	660.00	12.00	3,516.00

6. Payables

Casual Labour	8.00
Withholding tax	270.00
Sundry Payables	216.00
Unearned revenue	<u>25.00</u>
	<u>519.00</u>

7. Receivables

NHIA Claims Receivables	1,350.00	
Less Bad Deb Proxv - 2%	27.00	1,323.00
Loans and Advances		25.00
Outstanding FD Interest		<u>7.50</u>
		<u>1,355.50</u>

EXAMINER'S COMMENTS

Most of the candidates were very conversant with the preparation of financial statements of public hospitals and therefore the question was very well answered. The weaknesses of some candidates in this question were in the classification of the accounts items under the Chart of Accounts. A few also have challenges with the treatment of unearned revenues resulting from surgical fees. In all, the performance of candidates was very good in this question and it is the most popular question among candidates as almost all candidates attempted it.

QUESTION THREE

- a) PEFA is built on Seven Pillars:
- Budget reliability.
 - Transparency of public finances.
 - Management of assets and liabilities.
 - Policy-based fiscal strategy and budgeting.
 - Predictability and control in budget execution.
 - Accounting and reporting.
 - External scrutiny and audit.

Budget reliability: The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Transparency of public finances: Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

Management of assets and liabilities: Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Policy-based fiscal strategy and budgeting: The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Predictability and control in budget execution: The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Accounting and reporting: Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

External scrutiny and audit: Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

(10 marks)

b)

i) Computations of ratios

	2022	2021
Debt to Gross Domestic Product = $\frac{\text{Total Debt (External + Domestic)}}{\text{Gross Domestic Product}} \times 100\%$	$\frac{240,525,000 + 278,775,000}{768,000,000}$ = 67.62%	$\frac{240,525,000 + 278,775,000}{552,500,000}$ = 80.80%
Capital Spending as a percentage of Gross Domestic Product = $\frac{\text{Capital Expenditure}}{\text{Gross Domestic Product}} \times 100\%$	$\frac{255,200,000}{768,000,000}$ = 33.23%	$\frac{141,600,000}{552,500,000}$ = 25.63%
Wage bill as a percentage to Total Tax Revenue = $\frac{\text{Compensation}}{\text{Tax Revenue}} \times 100\%$	$\frac{121,150,000}{27,000,000}$ = 45%	$\frac{11,566,500}{21,030,000}$ = 55%
Debt per capita = $\frac{\text{Total Debt (External + Domestic)}}{\text{Population}}$	$\frac{240,525,000 + 278,775,000}{30,800 \text{ people}}$ = GH¢ 16,860/person	$\frac{240,525,000 + 278,775,000}{29,500 \text{ people}}$ = GH¢ 15,132.20/person

SUMMARY OF RATIOS

RATIO	2022	2021
Debt to Gross Domestic Product	67.62%	80.80%
Capital spending as a percentage of GDP	33.23%	25.63%
Wage bill as a percentage to Total Tax Revenue	45%	55%
Debt per capita	GH¢ 16,860/person	GH¢ 15,132.20/person

(4 marks evenly spread using ticks)

ii)

REPORT

Financial Statement Analysis and Discussion of the Consolidated Fund for 2021 and 2022

Introduction

In this report, the Financial Statement of the Consolidated Fund is analysed and discussed. The analysis is based on the result of some Financial Ratios computed using the 2021 and 2022 Financial Report as shown above. The themes of the Analysis are Financial Performance and Financial Position.

Financial Performance

The Financial Performance of the two years was assessed using Total Revenue as a percentage of Gross Domestic Product and wages bill as a percentage to total Revenue. Revenue as a percentage to GDP measures the contribution of revenues of Government to GDP of the country over the two years 2021 and 2022. The Revenue to GDP has deteriorated from 4.40% in 2021 to 3.96% in 2022. However, the ratio is generally moderate for both years. This implies a slight reduction in revenue mobilisation has been achieved over the years and more effort should be spent in that direction.

However, compensation of employees was the main spending items of the Government in the 2 years. Wages bill contribute 55% total tax revenue in 2021 and in 2022 it was 45% indicating a reduction in 2022, but compensation to total tax revenue is still very high. Tax per capita stood at GH¢ 712.88 per person to GH¢ 876.62 per person in 2021 and 2022 respectively. Indicating an increased in tax burden on each citizen. Overall financial performance of the Consolidated Fund for the 2 years is not encouraging and it needs more improvement on the expenditure management.

Financial Position

The Financial Position of the Fund is assessed based on Debt to GDP, Capital Expenditure as a percentage of GDP and Debt per Capita.

Debt to GDP measures the level of indebtedness of the Fund. In the periods under consideration, the debt levels were very high. In the year 2021, Debt to GDP ratio was 80.80% and in 2022 it reduced to 67.62%. Debt per capita also increased from GH¢ 16,860 per person in the years 2021, 2022 respectively. However, the rising debt is reflecting in Capital Expenditure which was increased from 25.63% to 33.23% in 2021 and 2022 respectively. This could mean that the increasing debt was used in funding capital expenditure.

Conclusion

In conclusion, the Financial Performance and Position of the Fund need much attention to improve the situation. Revenue generation and mobilisation strategies should be crafted to bring in more revenues and at the same time controlling the spending of the fund to ensure that fiscal objectives are achieved. Public Debt

management strategies should also be improved to ensure that debt is only used to finance as much as possible capital spending that are beneficial to the economy.

(Award 1 mark for introduction and conclusions. 1.25 marks for each ratio = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Sub-section (a) was fairly answered. Most of the candidates were able to state and explain all the seven pillars of PEFA. However, a few were not able to explain the policy-based fiscal strategy and budgeting (Pillar 4) and predictability of budget execution and control (Pillar 5). The ratios and reports required in subsection (b) were correctly computed and discussed by most candidates. A few of them have challenges with the amounts and the unit of measurement. For example, some computed Debt per Capital in percentages instead of cedis. Further, some candidates did not follow the format of report writing in producing their responses. Others were unable to stress the trend of performance in their analysis but were rather describing the figures they have already computed. For example, debt to GDP is 45% in 2021 and 55% in 2022, which is obvious. Candidate must avoid superficial analysis of data.

QUESTION FOUR

a)

- i) **Unserviceable:** any item of stores, plant and equipment which cannot be used for the intended purpose in its present condition due to major defects or damage, and is beyond economic repair. Classification as beyond economic repair for this purpose shall be determined on the basis that repair costs are certified to cost more than fifty percent (50%) of the current market price of a new replacement item.

Surplus: any stores item which has not moved for a period in excess of two years, or any item of plant or equipment which has remained unused for a period in excess of one year, and where no potential use for the item can be envisaged within the Entity.

(4 marks)

- ii) Methods of Disposal of Public Stores

Transfer to Government Department or Other Public Entity.

Transfer to other government departments or other public entities with or without financial adjustment is applicable where; an asset can be usefully deployed by another procurement entity;

Actions:

The Storekeeper should:

Liaise with the recipient entity for a formal transfer of ownership and removal of the items from the premises.

Sale by Public Tender.

Items with an initial cost of GH¢ 50million or more must be disposed of by Public tender, unless the item is more than 10 years old. Sale by Public tender shall also be conducted where the estimated value of the asset, or group of asset packaged together, is of sufficient value to justify the cost of conducting a public tender.

Actions:

The Store keeper should:

Request the procurement unit to initiate a formal tender process which will include:

- Preparation of tender document
- Placement of Advertisement
- Receipt, Opening and Evaluation of Tenders
- And the items offered to the highest tenderer, subject to a reserve price.

Sale by Public Auction.

Disposal by public auction shall be conducted for items of that have an estimated value of less than GH¢ 50 million and also when sufficient items can be assembled for disposal to justify the costs of conducting the auction process.

Actions:

The Storekeeper should:

- Request the procurement unit to invite an Auctioneer to facilitate the auction of the items.
- Instructions relating to the sale should include timeframe for sale, target revenue, condition and location of assets, reserve price, and end-user restrictions. The instruction will constitute the authority for the Auctioneer to undertake the sale.

Destruction, Dumping or Burying

Disposal by destruction, dumping or burying shall be used where the asset has no residual value and cannot be converted into any other form which subsequently give it value. To ensure that the destruction, dumping or burying is proper executed, it is recommended that a committee of at least three persons supervise the process.

Actions:

The Committee should:

- Obtain approval from the relevant Environmental/Health Agency to destroy, dump or bury the items.
- Should supervise the destruction, dumping or burial, at an appropriate place.

(4 points @ 1.5 marks each = 6 marks)

b)

- i) A *Service Concession Asset* an asset used to provide public services in a service concession arrangement which is provided by the operator which operator constructs, develops, or acquires from a third party or an existing asset of the operator; or grantor which: an existing asset of the grantor; or an upgrade to an existing asset of the grantor. **(1 marks)**

- ii) Recognition of concession Asset under IPSAS: 32

It provides that 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.

In the case at hand, the university engages a private estate developer to put up a hostel for the sole occupancy of its candidates. The fees charges for the hostel is

also controlled by the University as well as the interest in residual asset after the 25 year. These are clear indication that the hostel facility is a concession asset recognizable under IPSAS32.

(6 marks)

iii) A grantor discloses the following information in respect of service concession arrangements in each reporting period:

- A description of the arrangement;
- Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);
- The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:
 - ✓ Rights to use specified assets;
 - ✓ Rights to expect the operator to provide specified services in relation to the service concession arrangement;
 - ✓ Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;
 - ✓ Rights to receive specified assets at the end of the service concession arrangement;
 - ✓ Renewal and termination options;
 - ✓ Other rights and obligations (e.g., major overhaul of service concession assets); and
 - ✓ Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and
- Changes in the arrangement occurring during the reporting period.

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

(Total: 20 marks)

EXAMINER'S COMMENTS

Many of the candidates found it difficult to explain the two terms well, however, the disposal methods were well answered by many. The question on service concession was fairly answered. However, the conditions for recognition of service concession assets were poorly answered. Generally, candidates are weak in accounting for service concession assets and liabilities.

QUESTION FIVE

a)

Tham District Assembly
Cash Flow Forecast for the First Quarter of 2022

	January GH¢'000	February GH¢'000	March GH¢'000	Total GH¢'000
Receipts				
Fees and charges	400	450	420	1270
Licenses	200	180	140	520
Property rates	720	1080	900	2700
Fines and penalties	60	80	80	220
Decentralised fees	<u>0</u>	<u>0</u>	<u>1200</u>	<u>1200</u>
	<u>1,380</u>	<u>1,790</u>	<u>2,740</u>	<u>5,910</u>
Payment				
Goods and services	280	280	290	850
Purchase of equipment and furniture	<u>1,500</u>	<u>750</u>	<u>750</u>	<u>3,000</u>
	<u>1,780</u>	<u>1,030</u>	<u>1,040</u>	<u>3,850</u>
Cash and cash equivalent at Jan 1	63	(337)	423	63
Cash surplus/deficit	(400)	760	1,700	2,060
Cash and cash equivalent at March 31	(337)	423	2,123	2,123

(Marks are evenly spread using ticks = 10 marks)

b) **Challenges that the GIFMIS**

- **Poor budgeting and budgetary control:** Public financial management has been bedevilled with poor budgeting and budgetary control leading to over spending of the budget. GIFMIS promises to provide a robust and reliable budgeting as well as effective budgetary control through prompt budget performance mechanisms.
- **Weak expenditure control:** Prior to the emergence of GIFMIS, public managers do spend on activities, programme and projects that have no provision in the budget. These unbudgeted expenditures are not committed and therefore leads to huge liability on government. However, the current system makes it impossible to spend on unbudgeted activities, programmes and projects, ensuring that every expenditure is supported by commitment. This avoids the problems of over spending and unwarranted liability.
- **Delay in financial reporting:** Financial reporting system was manual based or unintegrated and therefore making access to financial information for financial reporting purposes difficult. This delays the financial reporting process leading to untimely financial information for accountability and decision making. Fortunately, GIFMIS provides a platform that strengthens financial reporting in

the public sector, leading to the provision of timely financial information for decision and accountability.

- **Low Integrity of financial information:** The booking keeping system was unreliable data due to manual processing or unintegrated processing mechanisms. GIFMIS promises does not only offer to provide timely information but also information with integrity.
- **Poor cash management:** Managing cash resources of government has been a problem over the years as separate accounts are maintained by individual covered entities. However, GIFMIS offers opportunity for Treasury Single Accounts to boost cash management in a consolidated manner.
- **Weak revenue management:** Revenue collection and receipt has been a problem over the years. For example, tax revenues collected by some commercial banks is not transmuted for many months leading to loss of revenue to the state. GIFMIS reduces this bottleneck by allowing for real time lodgements if revenues into consolidated fund.
- **Poor human resource /payroll management:** Ghost name has been a major problem in payroll management in the public sector. GIFMIS makes it possible to integrate the human resource data into the payroll system to ensure that only qualified employees are paid. This saves government a lot of money.

(Any 5 points @ 1 mark each = 5 marks)

c)

DACF - Sources of money:

- 2.5% of VAT transferred from the consolidated fund monthly
- Other moneys allocated by parliament
- Donations, grants and gifts
- Income from investment.

PHF – Sources of Money:

- Royalties for oil and gas, additional oil entitlements, surface rentals, sale or export of petroleum and other receipts from operation.
- Revenues from direct or indirect participation in petroleum operation
- Corporate income taxes from upstream and midstream petroleum companies.
- Taxes, royalties, dividends etc from the national oil company (GPNC)
- Other related receipts such as capital gain taxes on sale of ownership of exploration, development and production rights

(3 points each @ 2.5 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Cash Flow Forecast was fairly prepared by candidates, however, most of them could not prepare the estimate for the quarter as a whole. Unfortunately, some candidates have mistaken the cash flow forecast statement for Cash Flow Statement under IPSAS 2. This demonstrates their lack of understanding of cash budgeting. The requirement of subsection (b) was misread by many candidates resulting in poor performance in the question. Instead of discussing the challenges of PFM before the implementation of GIFMIS, candidates were discussing the benefits or objectives of GIFMIS. The question was therefore not well answered, which is very surprising. Sub-section (c) asked for sources of income for DACF and PHF and the answers produced by candidates were not encouraging. Most of them provided the sources of revenue to the District Assemblies instead of the DACF.

CONCLUSIONS

The quality of the questions administered was standard and practical, and the time allocated to questions was explicit and appropriate. The performance of the candidates has improved significantly compared to the previous diets' performance. The major weaknesses of candidates are poor preparation for the examination and the inability to limit their responses to the requirement of the questions. The candidates cannot also translate the theories into practical reality scenarios in the questions.

RECOMMENDATIONS

The following recommendations are made:

- The candidates should devote ample time to prepare for the examination. They are encouraged to patronise the tuition services of Partners in Learning (PIL) and also use the ICAG Study Text and Question Banks on the subject as the main reading material. Candidates should spend at least 6 hours a week on the subject, aside from attendance of lectures. These will equip the candidates well with the requisite knowledge and increase their chances of passing the paper.
- Candidates should attend the 'Virtual Meet the Examiners programme' by the Institute before the examinations. The Institute is also encouraged to provide a timetable for the "meet the examiners" programme in advance so that the candidates can plan to attend. In addition, the intervention classes also serve as a good source of knowledge for candidates.
- The Candidate should also avoid concentrating on topic areas since the examination coverage is very broad. Candidates are encouraged to have a fair knowledge of all topics in the syllabus, as they are equally examinable.
- Time management is critical to 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.

- Those exempted from all subjects in level two except this paper should resist the temptation of under-rating it. The paper requires current knowledge and practical appreciation of public sector financial management issues. They are encouraged to prepare well, irrespective of their previous background knowledge.