Unlimited possibilities

CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.6: PUBLIC FINANCIAL MANAGEMENT

DATE: WEDNESDAY 28, FEBRUARY 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question	Answer
1	**B**
2	**C**
3	**D**
4	**C**
5	**A**
6	**C**
7	**A**
8	**A**
9	**D**
10	**D**

Section A-Marks allocation	**Marks**
2 marks for each collect answer	2
Total marks for this section	**24**

Model Answers

QUESTION ONE

The Correct Answer is B

The correct answer is B. i and ii only are the correct answers. The role of the cabinet is to provide the strategic guidance on resource allocation. The cabinet also approves the broad strategic objectives and priorities for budgetary policies.

A is not correct because it leaves out the second role of approving the broad strategic objectives and priorities for budgetary policies.

C is not correct because it includes (iii) which is the role of the parliament-chamber of deputies

D is not correct because iv is not correct. The cabinet approves the Budget Framework Paper before it goes to parliament.

QUESTION TWO

The Correct Answer is C.

Budget ring fencing.

Ring fencing means that the specific amount appropriated can only be spent on specific activities prescribed in the agreement

A is not correct because grant agreement condition is general. It does not limit its self on the fact of spending only the amount for intended activities. They may be other conditions in the grant agreement.

B is not correct because Budget Appropriation is where money is set aside for a specific purpose during the budgeting purpose. But when there is a clear matching of incomes and related expenditure, this will be referred to as ring-fencing to ensure that the funds are only and only spent for the specific activities.

D is not correct because there is a correct answer

QUESTION THREE

The Correct Answer is D

This is tax evasion. The fact that the selling agent was not issuing the EBM invoice to all customer is tax evasion which is a deliberate misrepresentation of financial affairs to reduce the tax liability due.

A is not correct because tax administration is the mandate of the tax collection authorities. Tax Administration means the verification of a tax return or claim for credit, rebate, or refund; the investigation, assessment, determination, litigation or collection of a tax liability of any person; the investigation or prosecution of a tax-related crime

B is not correct because Tax avoidance is the management of financial affairs within the constraints of the tax regime to minimize the amount of tax paid. Tax avoidance is, therefore, not illegal. Individuals or companies may employ financial advisors to look for loop holes in the tax laws in order to minimize tax payable.

QUESTION FOUR

The Correct Answer is C

Bilateral aid flows from the donor government directly to the recipient government.

A and B are not correct because they are types of grants

D is not correct because Multilateral aid is a donor aid that involves multilateral agencies. Multilateral represents contributions from government sources to multilateral agencies where it is then used to fund the multilateral agencies' own programmes

QUESTION FIVE

The Correct Answer is A

In the sourcing, market research is an important stage. Sources of information for market research can be varied and include internal documents, such as former contracts or previous short lists of suppliers.

B is not correct because the definition provided here is the Request for expression of interest (REOI).

The Request for information (ROI) - used to request specific information in relation to the procurement, such as technical specifications, supply availability or price indications

C is not correct because conduct procurement market research on internet, such as through regional trade directories or online communities of professional service providers is one of the market research in procurement process.

D is not correct because, only the first statement is correct.

QUESTION SIX

The Correct Answer is C

It is the responsibility of the implementing entities, not the auditor general, to ensure value for money. The auditor general will only perform the audit to assess how public entities ensured value for money.

All other options are the meaning of value for money in public procurement.

QUESTION SEVEN

The Correct Answer is A-

Treasury Single Account

The Consolidated cash in a single central account in public sector is known as the treasury single account (TSA). Other names are not correct, just distractors

QUESTION EIGHT

The Correct Answer is A

Market research is defined as the key element of procurement sourcing where the procuring entity identifies relevant suppliers and products that could meet the needs of the organization in terms of the supplies they wish to procure

B is not correct because shortlisting is the process that follows the market research whereby the procuring entity prepares a list of shortlisted suppliers basing on the pre-determined criteria.

C is not correct because pre-qualification is where suppliers of particular goods, services or works are assessed against pre-determined qualification criteria, and only those suppliers who comply with the criteria are invited to tender

D is not correct because management of suppliers is useful for procuring organizations to continuously identify new suppliers which could broaden the market for products and services procured

QUESTION NINE

The Correct Answer is D

The National strategy for Transformation (NST-1) is the strategic document that contains the key strategic interventions for the 7 years government program (2017-2024)

Vision 2020 is no longer in use; it was embedded in the NST-1 since 2017 and all unfinished business of vision 2020 were carried forward in the NST-1

B is not correct because the RPF manifesto is also captured under NST-1

C is not correct because the previous year's action plan can only be referred to while elaborating the budget to get an idea of the activities to deliver on the strategic interventions prescribed in the NST-1

QUESTION 10

The Correct Answer is D

All the mentioned options (i), (ii), (iii) and (iv) are practical steps to minimize tax evasion.

All other options are not correct because they exclude other steps.

SECTION B

QUESTION 11

Marking guide

	Maximum marks
Award 2 marks for each correct features up to a maximum of 5	10 Marks
Total	**10 Marks**

Model answers

Given the fact that, the OAG of Rwanda is a member of the International Organization of Supreme Audit Institutions (INTOSAI) which issue the International Standards of Supreme Audit Institutions (ISSAI), **it must ensure** compliance with ISSAI 11-Guidelines and Good Practices Related to SAI audit Independence.

The following are key features that confirm that the OAG of Rwanda complies with the above standard:

1. The Rwandan Legislation specifies the conditions for appointments, re-appointments, employment, removal and retirement, of the Auditor General who is the head of
2. The Rwanda OAG is be empowered with a broad remit, such as to audit the use of public monies, resources, or assets, legality and regularity of the accounts for government or public entities; quality of financial management and reporting; and economy, efficiency, and effectiveness of government or public entities operations.
3. The Rwanda OAG has unrestricted access to information, by having adequate powers to obtain access to all the necessary documents and information, for the proper discharge of their statutory responsibilities.
4. The Rwanda OAG has a right and obligation to report on the results of their work to the parliament. Specifically, article 167(2) of the Constitution provides that the Office of the Auditor General of State Finances submits to the President of the Republic, the Cabinet, the President of Supreme Court and the Prosecutor General a copy of the audit report
5. The Rwanda OAG is free to decide the content of their audit reports and present them to the competent authorities.
6. The Rwanda OAG has human, material, and monetary resources required to fulfil their responsibilities

All these features are in compliance with the provisions of the International Standards of Supreme Audit Institutions ISSAI 11-Guidelines and Good Practices Related to SAI audit Independence, which sets out principles, guidelines and good practices in relation to the independence of Supreme Audit Institution (SAI)

QUESTION 12

Marking guide

	Maximum marks
Sub-section a)	
Explaining Five (5) characteristics that are distinctive for public sector entities and which underpin the need for a distinctive approach to financial management in government entities. (award 2 Marks per each characteristic to the maximum of 5)	10 Marks
Total	**10 Marks**

Model Answers

The primary objective of public sector entities is to deliver services to the public, rather than to make profits or generate a return for investors as opposed to private entities. This implies that the public sector needs a different way of presenting financial information.

Indeed, there are several key differences between the public and private sectors which lead to distinct characteristics of financial management in the public sector. Below are the distinctive characteristics for public sector entities and which underpin the need for a distinctive approach to financial management in government entities:

1. **Goods and services purchased by the government entities are funded through taxation**:

The relationship between citizens and those who use services and the state is based on rights, the public interest, and funding through taxation. In the private sector, individuals usually have a choice over whether to purchase goods and services and who to purchase them from. Ultimately, they can, at least theoretically, withhold resources and exit markets. This is not the case in the public sector, where state funded goods and services are provided by the state and must be funded through taxes or compulsory fees and charges.

2. **Lack of equity ownership**:

Public sector entities do not act to enhance the economic position of the entity for the benefit of the owners, as would be the case in the private sector. Instead, the focus of public sector entities is on public interest. Therefore, there is a need for a distinctive financial management approach to ensure public accountability

3. Required government transparency:

As individuals and other entities are required to pay taxes in order for services to be made available, these taxes must be spent by government in the public interest, to high standards of ethics and governance, and in a manner that promotes value for money. There must therefore be

transparency as to how public resources have been used, and government officials must act with
fairness, integrity, and be accountable to citizens and service users.

4. Government monopoly in the provision of public goods and services:

Government is often a monopoly provider of state funded goods and services, and in the absence of competition and a profit motive to determine a fair way in which to allocate scarce resources, achieving value for money can be challenging. While input measures may be readily available, measuring outputs and outcomes is also often far more difficult, which further complicates financial decision-making.

5. Government competing objectives

There are many complex and competing objectives faced by governments, and operating in a political environment adds additional pressures. Delivery of certain services may be deemed necessary for wider social or political reasons, even if from a strict financial management perspective such decisions do not lead to an optimal use of resources.

6. Accountability towards different stakeholders

A challenge can arise from other parts of government or external providers of funding, who may also have both legitimate expectations as to how resources will be utilized, and their own stakeholders to satisfy. Service delivery at a local level, for example, may be subject to different decision-making and accountability mechanisms, and external donors may require resources to be used in a certain manner that does not coincide with government priorities.

SECTION C

QUESTION 13

Marking guide

	Maximum marks
Sub-section a)	
Award 1 mark for the definition of PFM Award 1 mark for each correct element of PFM up to the maximum of 7 elements.	8 Marks
Sub-section b)	
i) Award 1.5 marks for the proper definition of tax base and 1.5 marks for the proper definition of tax rate ii) Award 3 marks for each correct tax base to the maximum of 3 tax bases	3 Marks 9 Marks
Total	**20 Marks**

Model Answers

a)

Public Financial Management (PFM) is the system by which financial resources are planned directed and controlled to enable and influence the efficient and effective delivery of public service goals

In the context of the Government of Rwanda, there are seven key elements in the PFM cycle as described below:

1. National priorities

The PFM cycle starts with the planning process, setting out the key policy priorities and fiscal targets for the government or public sector as a whole. In Rwanda, the planning function is coordinated by the National Development Planning & Research (NDPR) at MINECOFIN

The planning in both central and local government must be aligned to national priorities, as well as inform the budgeting process.

The national priorities are reflected in the vision 2050 and in the National Strategy for Transformation-NST1. This will be narrowed down into medium term plan

2. National MTEF

The MTEF is the medium-term expenditure framework or medium-term budgetary framework which basically provides the link between long term strategic and the shorter term annual budgeted expenditure. The MTEF usually covers three or four years. In Rwanda, the National Budget Department of Minecofin is responsible for preparing the MTEF.

After the elaboration of national priorities, these will be narrowed down into medium term expenditure to overcome the challenge of short-sighted budget we focus on 1 fiscal year.

3. Agency budget and MTEF

During this stage of the PFM cycle, the budget agencies (government institutions that receive funds in line with the Finance Law) will plan their expenditure allocations to their programmes and sub-programmes based on their strategic priorities.

In Rwanda, the national MTEF is communicated to the budget agencies through the Budget Call Circular.

Each budget agency will have a MTEF which comprises their programme and subprogramme allocations for the budget year under preparation and the following two years

4. Finance Law

The MINECOFIN in Rwanda prepares an annual Budget Framework Paper and Draft Finance Law which is submitted to Cabinet and Parliament for approval. The Draft Finance Law and supporting notes provide a summary of the planned revenue and expenditure for the year.

Rwanda's Organic Budget Law (OBL), sets out the implementation of budgets for central government and other public sector entities. The OBL provides the legal basis of the role and responsibilities of a Chief Budget Manager

5. Budget execution

Once the budget is approved, the public entities are given rights to apply the organizational resources. There should be predictability and control in the budget execution, with standard procedures and processes being followed. Budget execution runs from July to June in Rwanda, covering the full financial year. During this period there will be expenditure, procurement, and treasury management.

6. Accounting and monitoring

While executing the budget, public entities should exercise due diligence to ensure that public funds are neither misused nor misappropriated. Accounting and monitoring are important elements of the PFM cycle. The accounting element refers to revenue collection, procurement of goods or services, data entry for income and expenditure, as well as reconciliations.

The monitoring aspect relates to comparing the actual income and expenditure for a period (from the accounting component) against what was planned in the budget. This monitoring process should be undertaken at least monthly and should consider factors that may impact on any variances identified, such as whether the item was under the control of the budget holder.

7. Reporting and audit

The final stage of the PFM cycle involves reporting and audit elements. Reporting relates to the production of the financial statements, which should include the statement of revenue and expenditure, statement of financial position, notes to the financial statements and a budget execution report.

Once the financial statements are produced, they must be reviewed by the external auditor, with an opinion given on whether the financial statements give a true and fair view or are free

from material misstatement. This external audit of the financial statements is a statutory requirement.
In Rwanda, the external audit of public sector entities is undertaken by the Office of the Auditor General of State Finances (OAG).
Once the auditor general has provided the report to the parliament, the public accounts committee will scrutinize it and may call upon respective institutions for public hearing on the use of public funds.

b)
Difference between tax base and tax rate
i) A tax base is the value of assets, property or transactions which are subject to a specific tax. A tax rate is the amount to be applied to the tax base to calculate the amount of tax payable

Example of tax bases: income, expenditure, wealth, etc.
Examples of tax rates: VAT=18%, PAYE schemes, Corporate Income tax: 30%

ii) As described above, A tax base is the value of assets, property or transactions which are subject to a specific tax

Thus, the main tax base options potentially available to governments – include: income, expenditure, value added, profits, capital gains, property value, inheritance, wealth, specific transactions.

1. Income
An income tax base is where tax is levied on earnings, such as salaries and wages. Income tax is often collected through Pay as You Earn (PAYE) schemes, where the tax is deducted from the gross earnings by the employer with net earnings (after tax has been deducted) being paid to individual employees. Another type of income-based tax is for companies or private firms based on their profits. In Rwanda, company tax is currently payable at 30% on computed taxable profits.

2. Expenditure
An expenditure base is where taxes are paid on what a person spends. There are often different types of taxes depending on the nature of expenditure, such as sales taxes. A specific type of expenditure tax is value added tax (VAT).
VAT is a consumption-based tax levied in the supply chain at each point where value is added to a good or service. Supplies of goods and services for VAT purposes are either exempt, zero rated or standard-rated. The standard rate of VAT in Rwanda is currently 18%.

3. Wealth

Wealth based taxes are taxes paid on what is owned, such as property or stocks and shares Specific examples of wealth taxes are capital gains and inheritance taxes.

---**Capital gains** – this is a tax base option that is utilized by the Government of Rwanda, whereby tax is charged on the 'gain' or increase in value of the capital owned. Capital gains tax is applicable in Rwanda at the rate of 30% on capital gains arising from the disposal of immovable commercial property and sale of shares, excluding shares listed on the Rwanda Stock Exchange.

---**Inheritance** – this is a tax payable on an individual's estate when they die. For example, a percentage would be payable where an individual leaves asset above a certain threshold.

---**Property value** where a tax is payable based on the value of the property owned.

QUESTION 14

Marking guide

	Maximum marks
Sub-section a)	
Meaning of cashflow forecasting	**2 Marks**
Explaining how cash flow forecasting works	**3 Marks**
Sub-section b)	
Cash & bank balance	1.5
Add:	
Cash sale (20%)	1.5
Cash collections from credit sales	1.5
Total cash inflows	1.5
Less:	
Cash outflow	
Cash Purchases (10%)	1.5
Payment to trade creditors	1.5
Wages	1.5
Other expenses	1.5
Total cash outflows	1.5
Cash balance (closing)	1.5
Sub-Total	**15 Marks**
Total	**20 Marks**

Model Answers

a) **Cash flow forecasting is** the forecasting of cash inflow, such as revenue received from taxes and other sources, and cash outflows from expenditure.

The cash flow plans should be developed based on the approved budget, enabling the execution of the budget.
As part of budget implementation planning prior to the start of the financial year, cash plans should be developed that should be integrated with the budget plan and provide a forecast of expected monthly cash inflows and outflows. These cash plans should lead on from the approved budget. Forecasts should be developed for each public sector entity, and these should then be consolidated centrally to provide an overall government position.

Cash forecasting is vital to ensure that sufficient funds will be available when they are needed at an acceptable cost. Cash flow forecasts therefore estimate:

a) How much cash is required.
b) When the cash is required
c) How long the cash is required for.
d) Whether the cash will be available from anticipated sources

b)

Cash forecast for 2023			
	October (FRW,000)	**November (FRW,000)**	**December (FRW,000)**
Cash & bank balance	**25,500**	**23,800**	**51,000**
Add:			
Cash sale (20%)	30,600	28,900	27,200
Cash collections from credit sales	102,000	122,400	115,600
Total cash inflows	**158,100**	**175,100**	**193,800**
Less:			
Cash outflow			
Cash Purchases (10%)	8,500	7,650	5,950
Payment to trade creditors	76,500	68,850	53,550
Wages	39,100	37,400	32,300
Other expenses	10,200	10,200	8,500
Total cash outflows	**134,300**	**124,100**	**100,300**
Cash balance (closing)	**23,800**	**51,000**	**93,500**

Workings

Cash forecast for 2023			
	October (FRW,000)	November (FRW,000)	December (FRW,000)
Cash & bank balance	25500(Given)	23,800	51,000
Add:			
Cash sale (20%)	20%*153000	20%*144500	20%*136000
Cash collections from credit sales	80%*127500	80%*153000	80%*144500
Total cash inflows	158,100	175,100	193,800
Less:			
Cash outflow			
Cash Purchases (10%)	10%*85000	10%*76500	10%*59500
Payment to trade creditors	90%*85000	90%*76500	90%*59500
Wages	(50%*37400)+(50% *40800)	(50%*40800)+(50% *34000)	(50%*34000)+(50% *30600)
Other expenses	10,200	10,200	8,500
Total cash outflows	134,300	124,100	100,300
Cash balance (closing)	23,800	51,000	93,500

QUESTION 15

Marking guide

	Maximum marks
Sub-section a)	
Explaining the cash basis of accounting (award 1.5 marks for the correct explanation and 1 mark for the correct example	2.5 Marks
Explaining the accrual basis of accounting (award 1.5 marks for the correct explanation and 1 mark for the correct example	2.5 Marks
Sub-section b)	
Cash basis	5 Marks
Modified cash basis	5 Marks
Accrual basis	5 Marks
Total	**20 Marks**

Model Answers

a) cash basis or cash accounting involves recognizing, recording and reporting items when cash changes hands. So, items reported when cash is received, or cash payments are made rather than when an order is placed. The crucial point about cash accounting is the timing that cash is received or paid. Cash accounting recognizes transactions and events when cash is received or paid.

Example: A school has ordered some new office furniture on the 12 June 2023. An invoice requesting payment was received by 14 June 2023. The office furniture is delivered on 23 June 2023 and payment made in cash on 5 July 2023. The financial year runs from 1 July to 30 June. Since the payment is made on 5 July 2023. By applying cash accounting, the transaction for purchasing the office furniture will be recorded in the books on 5 July 2023 as this is when the cash actually changed hands. The fact that the school ordered the office furniture on 12 June 2023 and received the furniture on 23 June 2023 is irrelevant as no cash was exchanged on these dates.

Accrual basis of accounting follows the accrual concept where revenue and expenses are accounted for in the period in which they are incurred, rather than the period in which the cash is received or paid. The actual timing of when cash changes hands is irrelevant under accruals accounting.

Example: from the same example above, by applying accrual basis of accounting, the transaction for purchasing the office furniture will be recorded in the books on 23 June 2023 as this is when the when they receive the office furniture and can use it. Although school does not actually pay for the office furniture until 5 July 2023, they owe this money from the date when the furniture was delivered to them (23 June 2023)

b) Cash versus Accruals Accounting

Cash basis.

If applying a cash basis, the ministry department would report the purchase of the stationary in the year ending December 2023, as the hospital made the payment for the stationary on 03rd January 2023.

This means that Under cash accounting, the dates of ordering or receiving the stationary, as well as invoice dates, are irrelevant. What matters is when cash is paid.

Dr. Stationery

Cr. Bank

Modified cash basis, with one month specified period.

The Ministry department paid for the stationary on 03rd January 2023, so this would be within the one month specified period. Under such as modified cash basis, the cash payment for the stationary would actually be reported in the financial year ending 31st December 2022 when the invoice was received.

Dr. Stationery
Cr Trade payables

Accruals basis

Under an accrual's basis, the Ministry department would report the stationary purchase as expenditure in the financial year ending 31st December 2022, as the stationary was received and payment owed before the financial year end.

Although the actual payment for the stationary had not been made by 31st December 2022, the amount owing would be included as a current liability in the statement of financial position.

Dr. Stationery
Cr Trade payables

END OF MARKING GUIDE AND MODEL ANSWERS