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**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION**

S3.6 PUBLIC FINANCE MANAGEMENT

DATE: WEDNESDAY, 27 JULY 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

QUESTION	CORRECT ANSWER	Marks
QUESTION 1	C	2
QUESTION 2	D	2
QUESTION 3	B	2
QUESTION 4	D	2
QUESTION 5	B	2
QUESTION 6	B	2
QUESTION 7	A	2
QUESTION 8	D	2
QUESTION 9	D	2
QUESTION 10	C	2
Total Marks		20 Marks

QUESTION ONE

The correct answer is C. This is because expense is one of the disadvantages of charging for public services. It is one of the arguments by the opponents of services charges which states that the charging system can be costly for the public sector organization involved, particularly if more complex payment systems such as discretionary price are introduced

A is not correct answer because Equity is the advantage of service charges. This support the argument of charging services charges for public services as the payment is directly related to the benefit received. This is in contrast to taxation, where the amount paid is not related to any benefit received. Equity means that non-user or infrequent users of a public services do not substitute regular users

B is not a correct answer because value is also the advantage of service charges as the individuals will only pay a charge that fits (or does not exceed) the benefit of the service they are expecting to receive.

D is not a correct answer because Services quality is also the advantage of charging service charges as the people who are paying for a service, they usually demand a certain level of quality and this demand is often higher than if the service is being provided for free

QUESTION TWO

The correct answer is D- because all options provided are correct

A is not the correct answer because IFMIS role goes beyond the provision of data

B is not a correct answer because options A and C are also correct as far as the use of IFMIS in budgeting process is concerned

C is not a correct answer because options A and B are also correct as far as the use of IFMIS in budgeting process is concerned

QUESTION THREE

The correct answer is B. Because The MTEF provide a way of overcoming the weakness and criticisms of the annual budget which is short-sighted while many public sector programs cover several years

A is not correct because MTEF has nothing to do with the funding because it still covers annual budgets of multiple years

C is not correct - because MTEF is not short term in nature. Rather it is medium term and it serves as the link between long-term strategic objectives and short-term budgets

D is not a correct answer because there is a correct answer among the answers provided which is B

QUESTION FOUR

The correct answer is D. Because performance audit /value for money audit is an audit that is undertaken to review an organizations activity to provide a conclusion about the economy, efficiency and effectiveness with the aim of ensuring that public institutions are spending wisely

A is not a correct answer because financial external audit involves the external auditor examining an organizations financial statements and providing a view on the fairness of the information presented

B is not a correct answer because compliance audit is concerned with whether the audited body has complied with relevant regulations and standards by examining relevant policies and procedures for instance

C is not a correct answer because Efficiency/better use audit is not the type of audit. Efficiency is assessed while performing value for money/performance audit

QUESTION FIVE

The correct answer is B– Sustainable procurement - involves considering social and environmental factor, as well as financial, when making Procurement decision. It is the process of making purchasing decision that meet an organization need for goods and services in a way that benefits not only the organization but society as a whole, while minimizing its impact on the environment

A is not a correct answer since responsible procurement is not the widely used procurement terminology. Though, procurement entities are supposed to making procurement decisions responsibly by address cross cutting objectives.

C is not a correct answer because though sustainable procurement covers all these 3 aspects: Social, Economic and Environmental, the appropriate terminology used as defined by the United Nations and the ISO is Sustainable Procurement

D is not a correct answer because there is a correct answer among the answers provided which is B and others are not correct.

QUESTION SIX

The correct answer is B because it includes all the benefits of IFMIS given in the question and it excludes (iii) which is not a benefit of IFMIS

A is not the correct answer because it excludes point (ii) which is also a benefit of using IFMIS

C is not is not correct because it includes (iii) which is not a benefit of IFMIS

D is not a correct answer because it excludes point (i) which is a benefit of using IFMIS and includes point (iii) which is not a benefit of IFMIS

QUESTION SEVEN

The correct answer is A. The budget cycle is composed of the following sequential stages: Budget Formulation- Budget Approval-Budget Execution-Budget Evaluation. The budget is formulated by aligning it with the MTEF with effective participation by stakeholders in the process. Then, the budget goes through the approval stage by the legislature, which is able to effectively scrutinize government plans. Afterwards, the budget is executed by the budget entities with ongoing monitoring in place to enable the effective application of controls. Finally, the budget is evaluated whereby the financial reports are subjected to independent external audit and scrutiny which finally to assist in the formulation of future budget.

B is not correct because it brings the budget evaluation before approval and execution, yet it should be the last stage.

C is not correct because it includes budget preparation, which is part of budget formulation, and it excludes budget approval, which is very key

D is not correct because it includes budget preparation and Budget review and omits budget approval, which is very key.

QUESTION EIGHT

The correct answer is D because Auditing revenue and expenditures of the state, as well as other local administrative entities and government projects and auditing the finances of the public sector, verifying whether the expenditures were in conformity with laws and regulation in force and sound management and whether they were necessary are the responsibilities of the OAG

A is not a correct answer because it includes one responsibility and excludes the other responsibility described in B

B is not a correct answer because it includes one responsibility and excludes the other responsibility described in A

C is not a correct answer because it describes the responsibilities of the OAG but it also mixes it with the responsibilities of the Public Accounts Committee (PAC)

E is not a correct answer because it includes both the correct option of carrying out all audits of accounts efficient management, control of the functioning of state organizations and the wrong option of inviting the heads of public institutions to provide explanation on the use of public funds during public hearing that captures the responsibilities of Public Accounts Committee (PAC)

QUESTION NINE

The correct answer is **D**. All options are the benefits brought by e-procurement

QUESTION 10

The correct answer is **C** because a proportionate tax (or flat rate tax) is where a single tax rate applies. This is in between progressive and regressive taxes

A is not correct because it is not a type of taxes

B is not correct because **Progressive taxes** mean that the taxes represent a large proportion of an individual's income as that individual's income rises

D is not correct because **Regressive taxes** are where the taxes paid is a large proportion of poorer individual's income than a richer person

SECTION B

QUESTION 11

Marking guide

Sub-Section (a)	
Identifying the list of other sources of government revenue in the scenario (Award 1 mark for every correct source of revenue identified and discussed) See below: Note: Do not award marks for the Pay as you Earn (PAYE) and external grants	
i. Discussion on Charges on imported goods	1
ii. Discussion on Payment on started business activities	1
iii. Discussion on Fees on mining industries	1
iv. Discussion on Penalties on business companies, which did not issue an EBM receipt to their customers,	1
v. Discussion on Sale of government unused assets	1
vi. Discussion on Dividends declared by government business enterprises	1
Sub-Total	6
Sub-Section (b)	
Correct definition of tax base	2
Correct definition of tax rate	2
Sub-Total	4
Total	10

Model answers

a) A part from taxes and international aid (i.e. grants and donor aid) there are other potential sources of revenue available to government.

In the given scenario other sources of revenues identified are:

1. Charges on imported goods
2. Payment on started business activities
3. Fees on mining industries
4. Penalties on business companies, which did not issue an EBM receipt to their customers,
5. Sale of government unused assets and,
6. Dividends declared by government business enterprises.

1. Charges on imported goods

When a company has imported goods a levy or tax has to be charged on those goods and this is known as customs duties and tariffs, which are part of other sources of revenue to government. These duties and tariffs may vary depending on country and nature of those goods.

Note that goods that meet certain Customs Rules of Origin will enjoy preferential community tariffs. E.g., member states of East African Community enjoy the later due to East African Community Customs Act signed by member states. Goods are generally subject to import duty of:

- 0% for raw materials and capital goods
- 10% for intermediate goods
- 25% for finished goods

2. Payment on started business activities

Government bodies may issue **licenses** which will be required by individuals or businesses to carry out certain activities. In Rwanda district charge a **trading license fee**, which is paid by any person who starts up a profit-oriented activity in the country. The trading license fee is calculated on the basis of turnover. For the taxpayer registered for VAT, the trading license tax is based to their respective turnovers of the previous year, as follows:

Turnover	Tax due in FRW
From FRW 1 to FRW 40,000,000	60,000
From FRW 40,000,001 to FRW 60,000,000	90,000
From FRW 60,000,001 to FRW 150,000,000	150,000
Above FRW 150,000,000	250,000

This fee is known as trading license and is part of other sources of revenue for the government

3. Fees on mining industries

Royalties as other potential source of government revenue might come from tax due for the extraction of minerals. This means that holders of mining rights are liable to mineral royalty on minerals produced under their respective licenses.

4. Penalties on business companies, which did not issue an EBM receipt to their customers

Every business is required to comply with laws, regulations or pay required taxes. Due to noncompliance government bodies may choose to enforce fines or impose penalties. e.g., a VAT registered company not issuing EBM receipts to its client, or a driver violating traffic lights may be charged a fine or penalty due to noncompliance. These fines or penalties are part of other sources of revenue to government.

5. Sale of government unused assets

At the end of the year, every Government Business Enterprise is requested to prepare the financial statements and make an inventory of its assets. The government may plan to sale some of its unused or old assets e.g. cars, IT equipment, office equipment, etc. Once sold, the money goes to the account of the national treasury and this is also another source of revenue to the government. The immovable commercial property will be taxed at rate of 30% as **capital gains**

6. Dividends declared by government business enterprises

State owned enterprises (SOE) are another source of revenue for the government in Rwanda, which are basically organization created by the government to carry out commercial activities. Once these enterprises are audited and dividends are declared, government is entitled to its share of dividend and this qualify to be another source of revenue for the government.

b) A tax base is the value of assets, property or transactions, which are subject to a specific tax.

Tax base may be income, expenditure or wealth

Whereas A tax rate is the amount to be applied to the tax base to calculate the amount of tax payable

QUESTION 12

Marking guide

Sub-question (a)	
Definition of financial external audit	2
Definition of compliance external audit	2
Definition of performance external audit	2
Sub-total Marks for the definitions of audit	6
Sub-question (b)	
Award 1 mark for every correct action up to 4 correct actions proposed by the student	4
Total Marks	10

Model answers

a) There are three main types of public sector external audit: **financial, compliance, and performance.**

A financial external audit involves the external auditor examining organizations financial statements and providing a view on the fairness of the information presented

A compliance audit is concerned with whether the audited body has complied with relevant regulations and standards. The external auditor will examine relevant policies and procedures, for example. The exact nature of the regulations and standards will vary by country and type of audited body

Performance audits may also be referred to as value for money (VFM) audits and it conducted with the view of assessing if a public entity is spending wisely. A performance audit is an audit that is undertaken to review an organization's activities to provide a conclusion about the economy, efficiency and effectiveness of that activity.

b) To effectively work with the team of the Auditor general and ensure the successful completion of audit exercise, the following actions will be taken:

i. First of all, since the chief budget manager has received the notification from the office of auditor general, it is the right time to arrange the information requested because the external auditor have full access to all the information, they need to effectively undertake their audit.

ii. The audit focal person will be appointed to liaise with the audit team so as to fast-track the submission of required information

iii. Before starting the audit, a pre-audit meeting will be organized to agree on the audit process, timelines for provision of information, approach for sharing audit findings

iv. As the audit goes on, we will ensure effective working together, with appropriate communication, to facilitate a smooth audit for all parties involved

v. Recommendations made by the audit team that require some particular adjustments during the audit period will be adjusted accordingly

vi. Frequent review meetings will be organized to share feedbacks on how the audit is going

vii. The closing meeting will take place at the end of the audit to share the findings

viii. Recommendations provided by the audit team shall be implemented

SECTION C

QUESTION 13

Marking guide

Differentiate incremental budgeting approach from zero based budgeting approach (Award 2 marks per approach)	4
Using incremental budgeting approach, prepare the extract of the budget of MININTERSEC for the year ended 30 th June 2022. Award 1 mark for the correct calculation of each of the following: <ol style="list-style-type: none">1) Current budget of water2) Current budget of electricity3) Salaries and wages increment to existing employees4) Increase to water bill5) Decrease to electricity bill6) Increase to the purchase of goods and services7) Increase in salaries and wages due to new staff8) Inflation on salaries and wages9) Inflation on water bill10) Inflation of electricity bill11) Inflation on purchase of goods and services12) Budget of salaries and wages for the year ended 30th June 202213) Budget of water bill for the year ended 30th June 202214) Budget of electricity for the year ended 30th June 202215) Budget of purchase of goods and services for the year ended 30th June 202216) Total budget for the year ended 30th June 2022	16

Model answers

a) **Incremental budgeting** is the traditional budgeting method whereby the budget is prepared by taking the current period's budget or actual performance as a base, with incremental amounts then being added for the new budget period. These incremental amounts will include adjustments for things such as inflation, or planned increases in sales prices and costs. The current year's budget or actual performance is a starting point only. On the other hand, with **zero-based budgeting**, the budgeting process starts from a base of zero, with no reference being made to the prior period's budget or actual performance. All of the budget headings, therefore, literally start with a balance of zero, rather than under incremental budgeting, when they all start with a balance at least equal to last year's budget or spend. Every department function is then reviewed comprehensively, with all expenditure requiring approval, rather than just the incremental expenditure requiring approval. Zero-based budgeting tries to achieve an optimal allocation of resources to the parts of the business where they are most needed

b)

i. Salaries and wages budget = $((120,000,000 * 110\%) + (250,000 * 6 * 12)) * 105\% = \text{FRW } 157,500,00$

ii. Water and electricity budget = $((18,000,000 * 40\% * 110\%) + (18,000,000 * 60\% * 95\%)) * 105\% = \text{FRW } 19,090,000$

iii. Purchase of goods and services budget = $((65,000,000 * 105\%) * 105\% = \text{FRW } 71,660,000$

iv. Total Budget =

$\text{FRW } 157,500,00 + \text{FRW } 19,090,000 + \text{FRW } 71,660,000 = \text{FRW } 248,250,000$

Workings: (ALTERNATIVELY)

	Original amount (FRW Million)	Increment to existing employees (FRW Million)	Salaries for new staff (FRW Million)	Inflation (5%) (FRW Million)	Budget for June 2022 (FRW Million)
1. Salaries and wages	120	$(120 * 10\%) = 12$	$(250 * 6 * 12) = 18$	$(120 + 12 + 18) * 5\% = 7.5$	157.5

	Original amount (FRW Million)	Increase/(Decrease)	Inflation (5%) (FRW Million)	Budget for June 2022 (FRW Million)
2. Water and Electricity	18	0.72	0.54	0.909
Water	$18*40\%=7.2$	$7.2*10\%=0.72$	$(7.2+0.72)*5\%=0.396$	8.316
Electricity	$18*60\%=10.8$	$10.8*5\%=(0.54)$	$(10.8-0.54)*5\%=0.513$	10.773
Total				19.089

	Original amount (FRW Million)	Increment 5%) (FRW Million)	Inflation (5%) (FRW Million)	Budget for June 2022 (FRW Million)
3. Purchase of goods and services	65	$(65*5\%)=3.25$	$(65+3.25)*5\%=3.41$	71.66

	Budget for June 2022 (FRW Million)
Salaries and wages	157.5
Water and Electricity	19.09
Purchase of goods and services	71.66
TOTAL	248.25

QUESTION 14

Marking guide

Identifying 5 arguments (Award 1 mark for every correct argument)	5
Explanation of 5 arguments (Award 3 marks for every correct explanation of the argument up to a maximum of 5 arguments)	15
Total	20

Note: The maximum arguments to be explained and award marks are only five (5). Do not award additional marks for extra arguments

Model answers

One of the arguments that justify government intervention in economies is market failure, such market failure means that the operation of the markets distorts economic outcomes and, therefore, some measure of government intervention is required to improve efficiency. Thus, the main arguments associated with the intervention of government to redress the market failure include the regulation of:

1. Provision of public goods
2. Supply and consumption of merit and demerit goods
3. Externalities
4. Market power
5. Factor immobility
6. Information asymmetries
7. Excessive Market Volatility

Provision of public goods

Public goods or services are goods or services that are non-rival and non-excludable when used or consumed. For example: clean air and national defense. This nature of non-exclusivity often gives rise to free riding whereby consumers do not pay for the provision of the public good but continue to benefit from it as they are not excluded from using it. Finally, revenues to those supplying these goods is less than society as whole is willing to pay collectively, and an exclusively market-based provision would therefore lead to too few public goods being produce

Thus, the government needs to intervene to make sure that sufficient public goods and services are produced

Supply and consumption of merit and demerit goods

Merit Goods are positive and good for the consumer whereas Demerit Goods are thought to be bad for the consumer. Now, because consumers of merit good or demerit goods may underestimate their respective benefits or disadvantage to themselves, such as due to lack of information, the government needs to intervene to provide or encourage the supply and consumption of merit goods and discourage the supply and consumption of demerit goods. This can be seen for example through the provision of health care and education. Government

may also incur public expenditure in order to deter the use of demerit goods. For example, expenditure on health campaigns to warn people of the harmful effects of smoking cigarettes

Addressing Externalities

There are both negative and positive externalities. Externalities occur when activity produces costs and benefits that are not directly into the market, so the price mechanism does not function efficiently.

For negative externalities, a government could ensure there are robust and enforced controls on firms to prevent pollution, for instance. This ensures that the government protects other firms, households and the society at large from any harmful product or service. For positive externalities, the government can provide subsidies to firms investing in research and development, which brings benefit to the economy as a whole, or put in place patent and intellectual property regimes that enable firms to profit from investments.

Market power

Normally, Market power arises due to a lack of sufficient competition to ensure efficient markets. Barriers to entry in markets, such as high start-up costs and the existence of natural monopolies, can lead to organizations having too much market power to enable competition and pricing decision that are efficient from a societal perspective.

Therefore, government needs to intervene in this market failure scenario to protect the consumers. The government may use taxation to enable state ownership of the monopoly or establish a regulatory framework, such as competition authorities, to oversee the protection of consumers

Factor immobility

It is possible that factors are not mobile between industries, resulting in the potential for some factors to remain unemployed or underutilized.

There may be Occupational immobility resulting in the inability of new industries to expand, despite being in the nation's interest, due to the lack of appropriately skilled employees and absence of resources for training.

On the other hand, there may be also geographical immobility which occurs when there are barriers to factors being mobile between different geographical locations, again, resulting in such factor remaining unemployed or not used optimally.

Therefore, the government needs to intervene in these circumstances to provide incentives that would motivate the movement of factors of production such as subsidizing relocations for staff that are not willing to leave their families.

Information asymmetries

Information asymmetry basically occurs where the buyers and seller in a market do not have the same information. It may be, for example, that companies hold back some information to make their product more attractive to buyers. For example, food production companies can promote their products, making them particularly attractive to children through advertising and promotions of toys or gifts. It may be that buyers are attracted to these products due to the advertising and promotions without knowing, for example, that such products are unhealthy due to the high levels of sugar or fat content. Governments could intervene through the regulation and enforcement of food labeling and advertising

Excessive Market Volatility

Excessive market volatility refers to where some markets suffer from extreme fluctuations or instability and may require intervention, such as from the government, to stabilize them. One example, which is often seen in agriculture, is where long term income falls and the farmers lose bargaining power to sell their products. This can result from increased supply and reduced demand. Governments can intervene by subsidizing farmers or implementing a minimum price to be paid to farmers for particular products such as milk.

QUESTION 15

Marking guide

Sub-question (a)	
Definition of public accountability	3
Example of public accountability	2
Sub-total	5
Sub-question (b)	
Listing of 5 key users (Award 1 mark for each correct listing up to a maximum of five users)	5
Explanation of the 5 users of public sector information (Award 2 marks for each correct explanation up to a maximum of five users)	10
Sub-total	15
Total Marks	20

Model answers

a) Normally, accountability refers to the expectation to justify actions and decisions. Public accountability ensures that government officials are openly answerable for the decisions they are taking on behalf of the public.

For example: Public sector entities receive money from tax payers who may expect the public sector entity to demonstrate how they have made use of that public money.

There are associated activities linked to published financial statements that also contribute to public sector entities demonstrating accountability such as the external audit of the financial statements, giving user's assurance that the information included within the financial statements is materially correct.

In public sector, accountability may be of two types:

- **Managerial accountability** which refers to managers being held accountable for the responsibilities that have been delegate to them, and
- **Political accountability** which relates to governments who are accountable to the electorate for the authority that has been granted to them.

b) Key users of the financial statements for a public sector include:

1. The legislature (Parliament):
2. Providers of resource
3. Recipient of services or service users

4. Management of public sector organization
5. Employees
6. Taxpayers
7. Others

1. **The legislature (Parliament):** This is an organ of the government, which holds executives to account for the resources entrusted to them. They need government financial information to serve as the basis to evaluate the extent to which this executive has undertaken their required activities within the power and authority granted to them as well as the resources

2. **Providers of resource:** Such as investors, lenders and creditors: These are interested in the public sector financial information related to public debts level, income and liquidity levels so that they can be assured for their loan back

3. **Recipient of services or service users:** including citizens: They need to assess whether the public sector entity is achieving its objectives and will continue to provides related services in the future on a going concern.

4. **Management of public sector organization:** They need the financial information of their organization so as to assess how best they can finance projects and programs. They also need information on budget estimate and expenditure so as to enhance effective control of program and cost for reconciliation of actual results with expected

5. **Employees:** They need to gain assurance that the public sector has the ability to continue paying their salaries in the foreseeable future

6. **Taxpayers:** They need to understand whether the government is operating efficiently by being wise in spending and assess if it is making any surplus or deficit

7. **Others** including special interest group, auditors, regulators, governments, media and voters: They need financial information for them to make informed decisions

END OF MARKING GUIDE AND MODEL ANSWERS