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**CERTIFIED ACCOUNTING TECHNICIAN (CAT)  
STAGE 3 EXAMINATIONS  
S3.6: PUBLIC FINANCIAL MANAGEMENT**

**DATE: WEDNESDAY 27, AUGUST 2025  
MARKI NG GUIDE AND MODEL ANSWERS**

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**SECTION A**  
**Marking guide**

Questions	Answers	Marks
1	A	2 Marks
2	C	2 Marks
3	B	2 Marks
4	C	2 Marks
5	B	2 Marks
6	D	2 Marks
7	B	2 Marks
8	C	2 Marks
9	B	2 Marks
10	B	2 Marks
Total marks for this section		20 Marks

**Model Answers.**

**QUESTION ONE**

**Answer: A**

- Holding accountable all government entities including calling them for public hearing over the use of public funds is the role of the Public Accounts Committee (PAC).
- Other options are not the correct answers because they are the responsibilities of Rwanda Supreme Audit Institution-Auditor General

**QUESTION TWO**

**Answer is C. (ii), (iii) and (iv) only are the correct answer.**

- A is not correct because it includes (i). The primary objective is to deliver services to the general public only. Making profits as well returns to the government entities is not the characteristics of public sector rather it is the characteristics of private sector
- B is not correct because it excludes (iv).
- D is not correct because it includes (i).

**QUESTION THREE**

**Answer: B**

- A financial external audit involves the external auditor examining an organization's financial statements and providing a view on the fairness of the information presented
- A is not correct because compliance audit is concerned with whether the audited body has complied with relevant regulations and standards
- C is not correct because value for money audit aims at proving that the entity operates economically, efficiently and effectively
- D is not correct because materiality audit does not exist. This is just a distractor

## QUESTION FOUR

### Answer: C

- Recurrent expenditure covers ongoing operational costs like salaries and utilities, while development expenditure focuses on investments for future growth, such as infrastructure or new equipment.
- Offices consumables, salaries and wages for public servants, water and electricity are defined as recurrent expenditure
- A is not correct because it includes the development expenditure of costs for school construction
- B is not correct because it includes costs for roads construction which is development expenditure
- D is not correct because it also includes Cost for bridge construction, and, construction of new office

## QUESTION FIVE

### Answer: B

- Once the national priorities are discussed and agreed among the stakeholders, National Medium Term Expenditure Framework (MTEF) covering a period of 3 years drafted and communicated to the budget agencies, the institution will start preparing the agency budget that shows the clear plan of expenditure allocations to different programmes and sub-programmes based on the institutional strategic priorities.
- A is not correct because the procurement plan is prepared after preparing the budget
- C is not correct because the financial report is prepared at the end of the year
- D is not correct because conducting an internal audit is part of the final stage of the PFM cycle

## QUESTION SIX

### Answer D

A well designed IFMIS is characterized by the following characteristics.

- It is a management tool,
- It provides a wide range of non-financial and financial information,
- It is an integrated system,
- It has positive impact on fighting corruption,

Other options are not correct because they exclude some of the characteristics

## QUESTION SEVEN

### Answer: B

- Internal audit unit provides assurance through independent appraisal that internal control systems and processes are in place and effective.
- A is not correct because Internal audit is neither a substitute for management ownership of risk, nor for review systems that should be in place to ensure that risk management processes are carried out.
- C is not correct because In Rwanda, the internal audit of the public sector is headed by the Office of the Chief Internal Auditor (OCIA), which is part of the Ministry of Finance and Economic Planning (MINECOFIN).
- D is not correct because The Internal Audit Charter is published by MINECOFIN and it is applied to ALL government entities

## QUESTION EIGHT

### Answer: C

- (ii), (iii) and (iv) only
- A is not correct because it includes (i) which is not a risk, rather a benefit of IFMIS and excludes other correct options
- B is not correct because it excludes the correct option
- D is also not correct because it includes (i) which is the benefit of IFMIS not a risk

## QUESTION NINE

- **Answer: B**
- Confirmatory and predictive value are elements of relevance characteristic of good information,
- Neutral and free from error are elements of Faithful representation characteristic of good information,

## QUESTION 10

- **Answer: B**
- The accruals concept is 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
- A is not correct because March 2025 is the month when the order was made and the delivery is not yet made, once the order is received, the expenses related to office furniture are already incurred
- C is not correct because by receiving the invoice they will proceed with the invoice but the expense is already recorded by the time the office furniture is received
- D is not correct because June 2025 is the actual date of payment but since it is on accrual basis the expense was already recorded before by recognizing accounts payable. Once the payment is made, payables will be debited against cash.

## **SECTION B**

### **QUESTION 11**

#### **Marking guide:**

<b>a) differentiate tax base from tax rate</b>	<b>Maximum marks</b>
Award 2 marks for the correct definition of tax base	2 Marks
Award 1 mark for the correct example of tax base	1 Mark
Award 2 marks for the correct definition of tax rate	2 Marks
Award 1 mark for the correct example of tax ratee	1 Mark
<b>b) practical actions that the government might take to reduce tax evasion</b>	
Award 1 mark for each correct action up to a maximum of 4 points	4 Marks
<b>Total</b>	<b>10 Marks</b>

#### **Model answer**

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

Example:

- Income is tax base for pay as you earn tax and income tax
- Expenditure is a tax base for value added tax

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

**Example:**

- 30% is the income tax rate
- 18% is the VAT rate

- b) 4 practical actions that the government might take to reduce tax evasion**

- Investigate cases of tax evasion
- Compile case reports and make recommendations for prosecution
- Penalize or close down companies failing to fulfil their tax obligations
- Increase onsite visits and liaise with the hospitality and construction sectors
- Increase tax education and sensitize tax payers with implications of non-compliance

### **QUESTION 12**

#### **Marking guide:**

	<b>Maximum marks</b>
a) Award 1 mark for the correct listing of the way up to a maximum of 3 ways	3Marks
Award 1 mark for the correct explanation of the way up to a maximum of 3 ways	3Marks
b) Award 1 mark for each correct method explained up to a maximum of 4 methods	4 Marks
<b>Total</b>	<b>10 Marks</b>

## Model answer

### a) Three (3) ways through which payment systems can be implemented within a TSA?

Centralization of cash balances can be achieved through a TSA, which is either a single account or a set of linked accounts through which all cash transactions are made. There are a number of ways that payments systems can be implemented within a TSA including:

#### Three (3) ways through which payment systems can be implemented within a TSA

**1. A single account and centralized controls** – under this system all requests for payments and justifying documentation are sent by individual public sector organizations to the central Treasury Department. The Treasury Department is then responsible for making the payments from the single account, and managing outstanding invoices and arrears.

**2. Payments are made directly by public sector organizations using the TSA** – control is maintained by the central Treasury Department by setting limits for the overall level of transactions that can be made by individual entities or the public sector as a whole but individual transactions are not controlled centrally.

**3. Payments are made by public sector entities from their own subaccounts of the TSA** – in this case, control is maintained by the central Treasury Department by providing cash to the subaccounts as payments are made or payment orders accepted up to a specified limit. The accounts are cleared at the end of each day and a consolidated position of balances achieved.

**b)** In many public organizations, the handling of cash can present challenges related to security, efficiency, and financial management. As technology advances, there are increasing opportunities to reduce cash usage and streamline financial processes

Below are some effective ways to reduce the use of cash in an organization include:

- **Paying employees electronically:** This could be through bank transfers or direct deposits, which eliminates the need for physical cash payments.
- **Paying suppliers electronically:** Similar to employee payments, paying suppliers via bank transfer reduces the handling of cash and simplifies financial transactions.
- **Receiving taxes electronically:** Encouraging electronic tax payments eliminates cash handling and increases efficiency in the collection process.
- **Banking all cash at the end of each day:** Ensuring that all physical cash is deposited into the bank daily reduces the amount of cash held on-site and minimizes risks.
- **Implementing controls for securely recording and storing money:** By having secure systems and protocols in place, organizations can better manage any remaining cash, reducing the potential for theft or mishandling.

## SECTION C

### QUESTION 13

#### Marking guide

	<u>Marks</u>
a. Award 1 mark for a correct stage and 1 mark for a correct explanation	8 marks
<b>b) i)</b>	
Award 2 marks for the correct definition of profiling	2 marks
Award 1 mark for each correct advantage of profiling up to a maximum of 3 advantages	3 marks
<b>ii)</b>	
Award 1 mark for the calculation of monthly profiling	1 mark
Award 1 mark for the calculation of profiled budget	1 mark
Award 1 mark for the correct figure of actual expenditure	1 mark
Award 2 marks for the correct calculation of variance	2 marks
Award 1 mark for the brief explanation of the variance	1 mark
Award 1 mark for the table format	1 mark
<b>Total Marks</b>	<b>20 Marks</b>

#### **Model Answer**

a) The four stages of the budget cycle in Rwanda—**Formulation, Approval, Execution, and Evaluation**—are integral to ensuring effective Public Financial Management (PFM). Below is an overview of each stage and its contribution to PFM in Rwanda:

**1. Formulation of the Budget:** The formulation stage involves creating a budget based on the government's overall strategy, such as Vision 2050. This stage ensures that the budget is aligned with national and medium-term goals, reflecting priorities like infrastructure development and public service goals.

#### **Contribution to PFM:**

- The budget is designed to support the implementation of public policies and achieve strategic national goals. By aligning annual budgets with long-term plans (e.g., Vision 2050), the formulation ensures that public spending is directed towards prioritized sectors.
- Stakeholder participation, which is a key part of the formulation process, ensures that different sectors and entities have a say in the budget, promoting transparency and inclusiveness in PFM.
- The process also addresses fiscal constraints, ensuring that budgets are realistic and based on available resources, contributing to sustainable financial management.

**2. Approval of the Budget:** After formulation, the budget is submitted to the legislature (Rwanda's Chamber of Deputies) for approval. The Chamber reviews and scrutinizes the budget, ensuring that government plans are in line with national priorities and that spending is justified.

**Contribution to PFM:**

- The approval process allows for external oversight, ensuring that the executive's proposed plans are carefully examined and validated by the legislature.
- This stage enhances accountability and transparency, as legislators debate and approve the allocations, ensuring that public funds are spent according to national priorities.
- The decentralization aspect also promotes local governance and accountability by involving local councils in the approval of decentralized budgets.

**3. Execution of the Budget:** Once approved, the budget enters the execution phase, where funds are allocated and spent according to the approved plan. The government, through the Executive (President, Prime Minister, and Cabinet), is responsible for the effective application of the budget, ensuring that funds are used for their intended purposes. Budget appropriations (such as specific funds for education or health) are adhered to, and monitoring systems are put in place to track spending.

**Contribution to PFM:**

- Predictability and control are central to this stage. Adhering to set procedures ensures that the allocated funds are spent as planned, preventing wastage and mismanagement.
- The use of Programme-Based Budgeting (PBB) links financial inputs to performance targets, ensuring that spending aligns with actual performance and outcomes, which increases efficiency and effectiveness in resource use.
- Ongoing monitoring and reporting mechanisms, such as by Chief Budget Managers, enable timely tracking of budget execution, which aids in controlling expenditures and improving decision-making.

**4. Evaluation of the Budget:** After the budget has been executed, the evaluation stage assesses how well the financial resources were utilized and whether the budget was executed in accordance with its objectives. In Rwanda, the Auditor General reviews the financial report and submits an audit report to Parliament. This ensures that the funds were used appropriately and that any issues, such as misuse or misappropriation, are identified and addressed.

**Contribution to PFM:**

- The evaluation stage strengthens fiscal discipline and accountability, helping to identify areas of improvement for future budgeting cycles.
- Independent external audits promote transparency and help detect any misuse of funds, contributing to the integrity of the public finance system.
- This evaluation informs future budget formulation, ensuring that lessons learned from past budgets are incorporated into the next cycle, enhancing the effectiveness and responsiveness of public financial management.

**b) i.** Profiling is how the total annual budget is split across the months to show the timing of the budget spend over the year. It is the process of allocating an annual budget across different months based on the expected timing of expenditure, rather than distributing it equally. It helps provide a realistic view of how and when funds are expected to be spent

**3 advantages:**

- Profiling is crucial for budget monitoring as it could determine whether a budget heading shows an over spend or not



- Profiling provides improved accuracy in variance reporting – Profiling ensures that budget monitoring reports reflect actual performance, minimizing misleading overspend/underspend signals.
- Profiling helps better cash flow planning – Knowing when funds will be needed helps manage liquidity and resource allocation throughout the year.
- Profiling supports decision-making and accountability – Accurate profiling allows managers and stakeholders to assess whether actual expenditures are aligned with planned activities.

## ii. Equally monthly profiling

- Annual budget: FRW 24 million
- Monthly profile:  $\text{FRW } 24,000,000/12 = 2,000,000$
- July to December (6 months) = FRW 12,000,000
- Actual expenditure July to December 2024= FRW 17,000,000
- Budget monitoring table

Budget heading	Budgeted for the year July 2024 to June 2025	Profiled Budget (RWF)- July 2024- June 2025 (6 months)	Actual Expenditure (RWF)- July 2024- June 2025 (6 months)	Variance (RWF)- July 2024-June 2025 (6 months)
Cultural and related events	24,000,000	12,000,000	17,000,000	(5,000,000) overspend

Under equal monthly profiling, this report indicates an overspend of RWF 5 million, which might be misleading since most of the spending was due to a one-off planned event (National Culture Week) in November.

## QUESTION 14

### Marking guide

	Maximum marks
Sub-section a)	
Award 2 marks for each correct arguments in support of services charges=Advantages, to the maximum of 3=6 marks in total)	10 Marks
Award 2 marks for each correct arguments against service charges=Advantages, to the maximum of 2=4 marks in total)	
Sub-section b)	
Tax avoidance 2 marks for listing and 3 marks for explanation	5 Marks
Tax evasion 2 marks for listing and 3 marks for explanation	5 Marks
Sub-total	10 Marks
<b>Total</b>	<b>20 Marks</b>

### Model Answers

a. Service charge is another method through which governments can obtain additional revenue by charging to individuals and organizations either for government provided goods and services or as a fine.

### **Advantages of charging for public services**

Some of the key arguments in support of charging for public services include:

- **Equity:** where the payment is directly related to the benefit received. This contrasts with taxation, where the amount paid is not related to any benefit received. Equity means that nonusers or infrequent users of a public service do not substitute regular users.
- **Value:** individuals will only pay a charge that fits (or does not exceed) the benefit of the service they are expecting to receive.
- **Usage:** paying directly for a service can also affect behavior. For example, if you must pay each time, you see a doctor it might mean that you visit the doctor less – of course this in itself can have advantages and disadvantages.
- **Service quality:** if people 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. This expectation of a certain service quality can also impact on the accountability of the service provider.

### **Disadvantages of service charges**

There are also arguments against charging for public services. Although equity is a potential advantage of service charges, it can also be an argument against such charges. In fact, the fundamental argument against charging for public services is that public services should be available to everyone, irrespective of whether they are able to pay for it. Where charges for public sector services have been introduced, some public sector organizations have introduced discretionary prices, where those who are less able to afford to pay are offered reduced prices or even no charge. For example, concessions may be offered for children, unemployed, disabled or the elderly.

The key disadvantages of charging for public services include:

- **Equity:** some argue that all public services should be available to everyone, irrespective of the ability to pay.
- **Expense:** establishing and running a charging system can be costly for the public sector organization involved, particularly if more complex payment systems such as discretionary prices are introduced. The public sector organizations would need to assess whether the costs of administering the charging system (in addition to providing the public service itself) were worth the charges being received.
- **Expectation:** there is often an expectation, especially in some countries, that public services are and should be provided free. This means that members of the public tend to be unaware of the cost of providing such services, as well as a reluctance for charging to be introduced.

### **b. 2 main ways through which taxpayers may escape taxes or minimize tax liability**

The government of Rwanda has put in place all necessary mechanisms to ensure the effective collection of taxes. However, with any tax enforcement, there is always the temptation for taxpayers to illegally avoid paying tax or at least use tax knowledge to reduce the amount of tax liability.

The **2 main ways** through which taxpayers may escape taxes or minimize tax liability. s

With any tax, there is the temptation for taxpayers to avoid paying tax or at least reduce the amount of tax they pay.

There are two main ways this is achieved: Tax avoidance and tax evasion.

Firstly, by **tax avoidance** which is the legal management of financial affairs within the constraints of the tax system to minimize the amount of tax paid. Tax avoidance is legal as it works within the constraints of the tax system. Individuals or companies may employ financial advisers to find loopholes within the tax system that can be taken advantage of in order to reduce the amount of tax payable. Although the services of such a specialist would cost, their fees are often less than the tax saved so are a cost-effective option.

The second way to reduce the amount of tax paid is through **tax evasion** which is the deliberate misrepresentation of financial affairs in order to reduce the tax liability due. Tax evasion is illegal. For example, a company may deliberately report lower profits, so they are liable to pay less tax. Another example of tax evasion is where a hotel does not register its employees, paying them cash. These employees are not within the Pay as You Earn (PAYE) scheme meaning they don't pay personal income tax on their earnings. This results in reduced tax being earned by the government.

Although tax avoidance is legal there are ethical issues around whether individuals and companies should try to reduce their contribution to public services.

## QUESTION 15

### Marking guide

	Marks
<b>a)</b> Correct shortcomings of incremental budget	2
Award 2 Marks each for well explained 4 approaches	8
<b>b)</b> Explanation:	
Definition of revenue and capital budgets	2
Award 1 Mark On each element of difference	4
Mechanisms:	
Award 1 Mark each element of mechanism	4
<b>Total</b>	<b>20</b>

**NB: Award any logical idea that is not in the marking scheme but relevant.**

### Model answers:

a) Two shortcomings of incremental budgeting:

- Resource misallocation: Incremental budgeting is based on adjustment to the previous period's budget, hence inefficient allocation of resources.
- Limited adaptability: Incremental budgeting may be less adaptable to changes in external environment since it relies heavily on historical data.

### Other budgeting approaches:

- Zero-Based Budgeting (ZBB): ZBB requires each department or function to justify its entire budget from scratch starting with a baseline of zero. Every expenditure must be justified, and

decisions based on the merits.

- Activity-Based Budgeting (ABB)/ Program-Based: ABB links budgeting to a specific activity or processes within the organization. It allocates resources based on the expected level of activity for each department.
- Performance-Based Budgeting (PBB): PBB focuses on the outcomes and results that an organization aims to achieve. Budget allocation is tied to a specific performance goal.
- Recurrent and Development Budgeting: Recurrent, also known as operational budgeting, includes expenditures related to day-to-day operations and maintenance of government services. Development also known as capital budgeting focuses on expenditures that contribute to the creation of physical and social infrastructure.

**b) Difference between revenue and capital budgets outlining the mechanisms for ensuring their effective integration:**

- Revenue budgets primarily deal with day-to-day operating expenses and ongoing operational needs of the government while capital budget concentrates on long term investments and expenditure that results in the creation of physical assets.
- Revenue budgets typically cover one-year period and focuses on short term financial obligations and operational needs while capital budgeting encompasses a longer time horizon often multiple year.
- Revenue budgets are primarily funded from regular government revenue sources, such as taxes and fees while capital budget may involve a mix of revenue sources including grants, loans and other capital financing.
- Revenue budget may have limited flexibility as many expenditures are fixed covering routine operational needs while capital budget is flexible allowing for adjustments based on changing projects needs or priorities over the longer term.

**Mechanisms**

- There is a need for a unifying budgeting process that considers both revenue and capital aspects concurrently by coordinating both budgets within a single framework.
- There is need for alignment of budgeting process with government's overall strategic plan and a clear definition of long-term goals and ensure both budgets reflects these strategic objectives.
- There is a need to establish a cross functional team from various sectors to facilitate collaboration.
- Implement a Medium-Term Expenditure Framework (MTEF) that extends budget planning beyond the annual cycle. It provides a multi-year perspective allowing for integration between short-term and long-term planning.

## **End of marking scheme and marking guide**