



CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATION

S3.6 PUBLIC FINANCIAL MANAGEMENT

DATE: FRIDAY, 27 AUGUST 2021

INSTRUCTIONS:

1. Time allowed: **3 hours**.
2. This examination has **three** sections: **A, B and C**.
3. Section A has **10** multiple choice questions equal to 2 marks each.
4. Section B has **2** questions equal to 10 marks each.
5. Section C has **3** questions equal to 20 marks each.
6. All questions are compulsory.

SECTION A

1 Public financial management (PFM) is concerned with:

- A The sustainability, effectiveness, and governance of public expenditure
- B Designing the types of expenditures and systems of the government
- C Managing the portfolio of government's investments
- D All of the above

(2 Marks)

2 To achieve its Sustainable Development Goals (SDGs) a country should increase its spending as much as possible because this will benefit future generations: Is this statement True or False?

- A It is true
- B It is false
- C It is partially true
- D It is not clear

(2 Marks)

3 What risks are associated with weak fiscal reporting processes?

- i. Fiscal policy may not have an impact on economic activity.
 - ii. It is difficult to make government accountable for their policies.
 - iii. Selection of investment projects may not rely on standard criteria.
 - iv. Government may easily use secret or off-budget fiscal procedures.
 - v. Fiscal decisions may not be informed by the reality of budget execution.
 - vi. Policymakers may not be aware in a timely manner of the need for a fiscal adjustment.
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- A (i), (v), (vi)
 - B (ii) and (iii)
 - C (iv), (v) and (vi)
 - D (ii), (iv), (v) and (vi)

(2 Marks)

4 One of the aims of fiscal policy is to allocate resources efficiently and distribute wealth in an equitable way. Which among the following are the functions of governments in reference to the economist Richard Musgrave's theory?

- i. Equity

- ii. Sustainability
- iii. Allocation
- iv. Distribution
- v. Management
- vi. Stabilization

- A (i), (ii) and (iii)
- B (iv), (v) and (vi)
- C (ii), (iv) and (vi)
- D (iii), (iv) and (vi)

(2 Marks)

5 In a certain country, as a result of an economic recession, we observe the following changes in government fiscal balance. **For the items below, please indicate which one is associated an automatic stabilizer**

- A Unemployment benefits increase by \$2 billion due to a temporary one-year increase of the allowance for the young unemployed to ease off the impact of the recession for young people.
- B Unemployment benefits increase by \$15 billion due to a significant rise in the number of unemployed workers.
- C The government decides to spend \$27 billion for highway and bridge construction and repairs.
- D Temporary corporate income tax rebates, amounting to \$1 billion, are granted to companies which invest in research and development.

(2 Marks)

6 Fiscal responsibility frameworks are sophisticated PFM frameworks. The PFM Frameworks have notions of medium-term fiscal framework, medium-term budget framework, fiscal responsibility, fiscal transparency, fiscal discipline, and fiscal policy. **Which of the following relates to Fiscal Discipline?**

- A A set of institutional arrangements for allocating resources to sectors and/or ministries on a multiyear basis.
- B The use of government spending and revenue to influence a country's economy.
- C The ability of policymakers to constrain fiscal policy by committing to macroeconomic stabilization and long-term fiscal sustainability
- D A set of institutional arrangements for setting multiyear fiscal objectives, which includes medium-term macroeconomic forecasts and targets for fiscal aggregates.

(2 Marks)

7 What characteristics are required for an entity to be classified as a public corporation?

- i. Separate legal entity
- ii. Capable of generating a financial gain
- iii. Controlled by private sector
- iv. Controlled by the government
- v. Semi Government
- vi. Purpose of engaging in market production

- A (i), (ii) , (iii) and (iv)
- B (i), (iii), (iv) and (vi)
- C (i), (ii), (v) and (vi)
- D (i), (ii), (iv) and (vi)

(2 Marks)

8 Consider two countries: X and Y. Country X has a 20% tax-to-GDP ratio while Country Y's tax ratio sits at 15%. Which of the following is true?

- A Country X is a high-income country and Country Y is a low-income country.
- B Country X has a higher GDP than Country Y.
- C Country X has more tax revenues than Country Y.
- D None of the above.

(2 Marks)

9 Consider two excise taxes, one on good A, whose demand is inelastic, and the other one on good B, whose demand is elastic. For which tax is it easier to calculate the impact of an increase in excise tax rate?

- A Tax on good A
- B Tax on good B
- C Both A&B
- D None of the above

(2 Marks)

10 Citizens Budgets are designed to present key public finance information to a general audience. When developing a Citizens Budget, the government should consult civil society and the public to identify what information is most useful and how it should be presented. What is a Citizen's Budget?

- A A budget designed with the citizen's input
- B A budget designed with the citizen in mind
- C A budget which includes full documentation
- D A version of the budget which is easy to understand

(2 Marks)

SECTION B

11 Medium-Term Budget Framework (3) is concerned with determining multiyear plans for government spending and it involves allocation and redistribution of resources, while Medium Term Fiscal Framework (MTFF) is concerned with setting multiyear fiscal targets and it involves macroeconomic stabilization. Furthermore, MTFF supports fiscal discipline and macro stability but do not directly lead to efficient allocation of resources. Thereafter MTBF helps in efficient allocation of resources as it prioritizes and manages revenue and expenditure over multiple years. The Ministry of Finance lays out the MTFF as it sets the constraints (ceilings), and line Ministries are expected to do multiyear spending plans as per MTBF guidelines.

- a) **What are the "prerequisites" that would ideally be in place before the introduction of MTBF?** (2 Marks)
- b) **What are the characteristics of Poor budget credibility of any public entity?** (4 Marks)
- c) **What criteria should be met to ensure effective public participation in budget preparation of a country?** (4 Marks)

(Total :10 Marks)

12 Once the budget is approved by the Government, budget execution is the next stage when financial resources are made available to and used by the Executive towards achieving the purposes and objectives set out in the approved budget.

- a. **What are the three key aspects of government budget execution?** (3 Marks)
- b. **How does Budget Execution relate to the Budget Cycle?** (3 Marks)
- c. **What should be included in a budget circular?** (2 Marks)
- d. The Ministry of Health ordered medicines worth Frw 1000,000 on July 20, 2020. Medicines worth Frw 700,000 were received and verified on August 5, 2020. Normal credit term is one month after delivery. The Ministry pays the supplier Frw 500,000 on September 3 2020, and does not make any other payment until end October 2020 when the next supply of medicines worth Frw 300,000 is received. **What are outstanding commitment amounts and arrears as at end September 2020?** (2 Marks)

(Total: 10 Marks)

SECTION C

13 In any economy, the market should determine its own equilibrium through the price mechanism and the Government should normally intervene in the case of market failures.

- a) Describe the purposes of the fiscal policy as a tool used by the Government to intervene in the market. (10 Marks)**
- b) State and explain approaches to budgeting (8 Marks)**
- c) Poor budgeting may lead to macroeconomic instability in any country. What are the key symptoms of the macroeconomic instability in a country? (2 Marks)**

(Total: 20 Marks)

14 Cash flow planning is an integral and critical element of public expenditure management

- a) Why is proper cash planning important for effective budget implementation? (5 Marks)**
- b) What are the key expenditure control tools would you recommend for better budget management? (5 Marks)**
- c) What are the key basic principles of budgeting that are essential to assess the soundness of the budget? (5 Marks)**
- d) Why is budgeting still a concern in most developing countries? (5 marks)**

(Total: 20 Marks)

15

- a) The Government of Rwanda has put much efforts to link planning and budgeting functions. In line with this, a lot of reforms including program budgeting and annual planning consultations have been introduced and implemented. What do you think are the effects of the disconnection between planning and budgeting and what are the characteristics of good gudgeting? (10 Marks)**
- b) Effective cash management implies the efficient utilization of the limited budgetary resources available to the government. What are the basic requirements for the effective cash management? (7 Marks)**
- c) A large part of the efforts to strengthen fiscal transparency involved new fiscal reporting and transparency standards. What are the new standards for fiscal reporting? (3 Marks)**

(Total:20 Marks)

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