



CERTIFIED ACCOUNTING TECHNICIAN (CAT)
STAGE 3 EXAMINATION
S3.6 PUBLIC FINANCIAL MANAGEMENT
DATE: WEDNESDAY, 01 DECEMBER 2021
MODEL ANSWERS AND MARKING GUIDE

SECTION A

Marking guide

Question Number	Correct answer	Marks
1	D	2
2	B	2
3	A	2
4	A	2
5	B	2
6	C	2
7	D	2
8	B	2
9	D	2
10	D	2
Total Marks		20

Detailed Answers

QUESTION ONE

The correct answer is D. This is because monetary policy is not an argument but a tool

A is not correct answer because market failure is one of the arguments that justify government intervention in economies. Market failure means that the operations of the market distort economic outcomes and therefore, some measure of government intervention is required to improve efficiency.

B is not a correct answer since redistribution refers to where governments actively try to move income or wealth from wealthy individuals to those in society who are less well off. This situation describes government intervention

C is not a correct answer since political ideology means the idea of the government. The ideas of the government direct the economy of the country and thus this is a form of government intervention.

QUESTION TWO

The correct answer is B- Budgets should be approved by the legislature, which should be able to effectively scrutinize government plans

A is not the correct answer since the government's national budget does not run from 30th June to 1st July but rather from 1st July to 30th June

C is not a correct answer because financial reports are not subject to dependent but independent external audit and scrutiny

D is not a correct answer since there should be both predictability and control in the budget execution

QUESTION THREE

The correct answer is A. Tax evasion is a deliberate misrepresentation of financial affairs to reduce the tax liability due and it is illegal

B is not correct since tax avoidance is the management of financial affairs within the constraints of the tax regime to minimize the amount of tax paid and it is legal

C is not correct - Tax escape is not a terminology used in tax theory

D is not correct because illegal tax does not exist in taxation

QUESTION FOUR

The correct answer is A (ii only)– The e-procurement system is known as UMUCYO

B is not a correct answer since it includes both Irembo and Umucyo - Irembo is an online platform that offers other services different from procurement

C is not a correct answer because the e-procurement system is neither referred to as e-bidding nor as E-catalog

D is not a correct answer because there is a correct answer among the answer provided which is A.

QUESTION FIVE

The correct answer is B– All the aspects provided are fundamental aspects of treasury management

A is not a correct answer since it only includes one aspect while all the three aspects provided are fundamental aspects of treasury management

C is not a correct answer because it excludes option (ii) which also a fundamental aspect of treasury management

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

QUESTION SIX

The correct answer is C - The Office of Auditor General reviews financial statements and provide independent opinion

A is not a correct answer because financial statements are produced by the budget agencies

B is not a correct answer because the preparation of annual budget framework paper and draft finance law is the responsibility of MINECOFIN

D is not a correct answer since planning expenditure allocations to programs and sub-programs is the responsibility of budget agencies.

QUESTION SEVEN

The correct answer is D because materiality is not a type of audit – so all the other three options A is not correct because compliance audit is a type of audit performed by the OAG

A, B, C are not correct answers because compliance, performance and financial audits are types of audits performed by the OAG

QUESTION EIGHT

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

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

QUESTION NINE

The correct answer is D because there is not correct answer from options A to C. The IPSAS that guide the presentation of Property, Plant and Equipment (PPE) is IPSAS 17

A is not a correct answer because IPSAS 16 deals with Investment property and not PPE

B is not a correct answer because IPSAS 1 deals with presentation of financial statements and not PPE

C is not a correct answer because IPSAS 19 deals with provisions. Contingent liabilities and contingent assets and not PPE

QUESTION 10

The correct answer is D since it is the only item which is not an element/chapter of the conceptual framework.

A, B & C are not a correct answer because they are all elements/chapters of the conceptual framework.

SECTION B

QUESTION 11

Marking guide

Sub-question (a)	Marks
Stating the Medium-Term Expenditure Framework (MTEF) as the right tool	1
Correct explanation of MTEF	3
Sub-question (b)	
Award 1 Mark for each correct objective	6
Total	10

Detailed Answer

- a) The tool is the Medium-Term Expenditure Framework (MTEF) – The MTEF provides a link between long term policies or strategies and the shorter term annual budgeted expenditure, aiming to ensure that expenditure incurred is on areas to address strategic goals.

MTEF is a multi-year budget plan (World Bank, 2013). Most MTEF will cover three or four years (World Bank, 2013) and this can vary by country. In Rwanda MTEF covers three years and the first-year overlaps with the current fiscal budget since both cover the same period. The remaining years are mostly rolled forward with the second year serving as a base for the following year's fiscal budget.

- b) The objectives of the MTEF are the following:
- Improved macroeconomic balance, especially fiscal discipline
 - Better resource allocation (both inter- and intra-sectoral)
 - Greater budgetary predictability for ministries
 - More efficient use of budgetary monies
 - Greater political accountability for public expenditure outcomes through more legitimate decision-making processes
 - Greater credibility of budgetary decision making

QUESTION 12

Marking guide

	Marks
Change management	2
Ensuring project commitment	2
Creating legal framework	2
Solving technical challenges	2
Capacity building and training	2
Phased approach to implementation	2
Project implementation team and plan	2
Total (Maximum)	10

Detailed answer

There are a range of overall internal controls that can be put in place in relation to the implementation of IFMIS to minimize the risk of going over the budget financially and time wise. These are the following:

- i. **Change management:** create, maintain, and evaluate changes required throughout the public sector and create a change management strategy as soon as establishing an IFMIS is envisioned.
- ii. **Ensuring project commitment:** by politicians and management at all levels
- iii. **Creating legal framework:** Legal guidance on roles and responsibilities of all public entities in relation to IFMIS is helpful
- iv. **Solving technical challenges:** Technical appraisal should be undertaken before IFMIS implementation to ensure that resulting IFMIS meets user needs and is able to carry out the required tasks
- v. **Capacity building and training:** a comprehensive capacity building program should be established so that staff are equipped to confidently use the IFMIS. Ongoing training will ensure that IFMIS is sustainable
- vi. **Phased approach to implementation:** This is for example implementing one module across all public entities
- vii. **Project implementation team and plan:** A project implementation team should be in place to oversee the implementation of IFMIS. The project team should include at least a project manager, accountant, IT specialist, change manager and IT specialist. The plan should include immediate, medium- and long-term tasks and objectives.

SECTION C

QUESTION 13

Marking guide

Sub-question (a)	Marks
Explaining virements	2
Correct example of virement	1
Explaining profiling	2
Correct example of profiling	1
Sub-question (b)	
Correct profiling for events management	2
Explanation of the change made	1
Correct profiling for Repairs and maintenance	2
Explanation of the change made	1
Correct profiling for Salary and wages	2
Explanation of the change made	1
Sub-question (c)	
Calculation of Variable cost Per employee trained	1
Calculation of the budget for the quarter ended 30 September 2020 (by awarding 1 mark for the fixed costs, 2 marks for the variable costs and 1 mark for Total costs)	4
Total	20

Detailed Answer

- a) Virements are when budgeted funds or monies are moved from one budget heading to another during the budget year. This may be due to one budget heading overspending and another budget heading being under budget so recognize some flexibility in the original budget set.

Example: for example, virements up to a certain value may be permitted (subject to appropriate authorization) within an individual sector but not between sectors, such as from education to health.

Profiling is how the total annual budget is split across the months to show the timing of the budget spending over the year. This is crucial for budget monitoring since it could determine whether a budget heading shows an overspent or not.

Example: For example, if a budget heading has a budget for the year of FRW 24 million, this could reasonably be split across the year as FRW 1 million each month, depending on

how the amount is spent, the actual spending can be compared with the budget on a given time basis (e.g., Quarter or semester) to identify over/under spending.

b)

	Profiled Budget for the July to September 2020 (FRW M)	Actual expenditure for the July to September 2020 (FRW M)	Variance (FRW M)
Events Management	120	120	0
Repairs and maintenance	80	80	0
Salary and wages	350	400	50

Explanation for the changes made:

- i) **Event Management:** After Profiling we realize that the budget for event management was related to two events of which one happen in the first quarter ended September 2020. Since the total budget is FRW 240 million, evenly allocating the budget would mislead and so the budget must be allocated on two events i.e., FRW 120 million per each
- ii) **Repairs and maintenance:** The original budget for the first quarter had split the repairs and maintenance budget over the four quarters producing FRW 40 million per each quarter. This had not considered the timing of contract payments i.e., in July, September, December and May. Taking the installments into account will mean that two installments of FRW 40 million each are made in in the first quarter ending 30 September 2020 and so the profiled budget becomes FRW 80 million, and actual expenditure is also FRW 80 million leaving a variance of zero instead of FRW 40 million
- iii) **Salary and wages:** The original budget for the first quarter had split the overall salary and wages budget over 12 months counting FRW 200 for the first quarter without considering the fact that the salary for the casual workers i.e., FRW 200 million would wholly be spent in the first quarter while the 600 million would be split over 4 quarters i.e., FRW 150 million per each quarter. Profiling thus leaves a variance of FRW 50 million instead of FRW 200 million.

C) Incremental Budgeting

Fixed Cost = FRW 44 million

Variable cost = FRW 100 million

Variable cost Per employee trained = 100 million: 8,000 employees = FRW 12,500 per employee trained

The above figures are relevant to the budget year ended 30 June 2020 and they can be used as a starting point to estimate on incremental basis the budget of the current year and thus the first quarter as requested

Calculation of the budget for the quarter ended 30 September 2020

Fixed cost will be the existing costs increased by 10% apportioned over three months:

$$(44\text{m} \times 1.1) \times 3/12 = 12.1 \text{ million}$$

Variable costs will be the existing costs per employee trained increased by 10% ($12,500 \times 1.1 = 13,750$) multiplied by the number of expected trainees for the first quarter 2,500 ($13,750 \times 2,500 = 34.375$ million)

Therefore, the total costs for the first quarter ended 30 September 2020 will be:

$$12.1 \text{ million} + 34.375 \text{ million} = 46.475 \text{ million}$$

QUESTION 14

Sub-question (a)	Marks
Award 1 mark for each correct content	10
Sub-question (b)	
Identifying the fault of deadline	3
Identifying Irregularities in opening the first two bids	2
Identifying The inappropriate involvement of the director of examination services and lack of criteria for evaluation	2
Giving guidelines on how the process could be improved	3
Total	20

Detailed answer

- a) The RPPA (2012b) states that the contracts for public procurement in the Republic of Rwanda Should include:
 - i) identification of the contract parties
 - ii) The subject matter of the contract
 - iii) Under which law provision the contract took place
 - iv) Priority of contract documents
 - v) Price and pricing methods adopted
 - vi) Delivery or completion period or penalties for delay
 - vii) Monitoring system for contract progress
 - viii) Acceptance of goods, works or services conditions
 - ix) Payment terms

- x) Contract amendments and termination conditions
- xi) The name of the chief budget manager and the budget source
- xii) Force Majeure –Unforeseeable circumstances that prevent a party from fulfilling the contract
- xiii) Bank details for payments
- xiv) Dispute settlement mechanism

- b) The public university requested interested parties to submit their bids with immediate effect. This is not an acceptable and does not meet the guidelines of best practices. The university should have been clear on the deadline indicating both the date and time for all bidders to comply. This permits some suppliers who submit their bids earlier to have preference over others.

The director of examination services opened the first two bids received. This is not an acceptable practice. Bids should have been received and kept secretly until the deadline is reached when all the bids are opened and evaluated. All bidders should be invited during opening and bids should be recorded and evaluated basing on certain pre-defined criteria and this exercise should be done by an independent department separate from user department (i.e., the director of examination). The university Director should not have opened the two bids, the university should have set criteria to evaluate the bids and it seems not to be the case.

Further, although most of the right procedures have not been followed, it was also not appropriate to award the contract basing on the first two bidders and thus the best way to improve the whole process would be to re-advertise the tender giving proper deadline and subsequently following other internal control procedures.

QUESTION 15

Marking guide

Sub-question (a)	Marks
Difference between modified cash basis and modified accrual basis (Award 2.5 Marks if one explanation is provided)	5
Sub-question (b) <i>Examples of exceptions items (by awarding 1 Mark for each correct item)</i>	5
Sub-question (c)	10
Correct explanations for cash and accrual basis (Award only 5 Marks if one correct explanation is provided)	
Total	20

Detailed answer

- a) Under the “**modified cash basis**”, the main basis of accounting is cash i.e., for all intents and purposes economic transactions of a reporting entity are measured, recorded, and reported on the basis of cash, with a few exceptions to the general rule, where certain economic events are identified, measured, recorded, and reported on, not strictly on receipt or payment of cash, but are “*accrued*”.
- Conversely where the main basis of recognizing, measuring, recording, and reporting on economic events and transactions is the “*accrual basis*” but the reporting entity has allowed a few exceptions to the general rule, for example certain of its expenses and or income are only recognized on cash payment (cash outflow) or receipt of cash (cash inflow), then the basis of accounting is referred to as “**modified accrual basis**”.
- b) 5 examples of exceptional items that will remain reported on cash basis under the current modified accrual basis are:
- i) Public debts (Principal and interests)
 - ii) Inventories
 - iii) Non exchange transactions
 - iv) Non-Current assets (Tangible and intangible noncurrent assets)
 - v) Investments excluding those directly made by public entities and
 - vi) Students’ loans

c) Cash Basis

The item of property plant and equipment was bought partly cash and partly on credit. So, if we are using cash accounting the only capital expenditure that would be recorded in the year ended 30 June 2020 is FRW 5,000,000 because that is the amount of cash that changed hands.

The fact that the asset cost is FRW 10,000,000 is irrelevant since the cash basis of accounting only considers cash transactions. The crucial point under cash basis of accounting is the point when cash changes hands and in this case on May 1st, 2020, only 5million changed hands.

Accrual basis

Under accrual basis, the entity would record the acquisition of PP&E at a cost of FRW 10,000,000 recognizing cash payment of FRW 5,000,000 and a payable of FRW 5,000,000 since the accrual basis unlike cash basis accommodate the liabilities. More to this the entity will have to estimate the useful life and residual value of the PP&E item to calculate the deprecation attributable to the current year assuming for example pro rata basis of depreciation is used.

End of model answers and marking guide