



**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS**

S3.6: PUBLIC FINANCIAL MANAGEMENT

DATE: WEDNESDAY 26, APRIL 2023

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 20 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**
- 7. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

The public sector is the part of economy that is controlled by the government and comprises various organizations, ministries, or departments. **Which of the following is not among the features of public sector:**

- A Hold resources, such as property, plant, and equipment, for service provision rather than to generate future cashflows.
- B Operate within financial frameworks set by legislation.
- C Ensure sound financial services through competitive financial system that affect the public
- D Participate in a large amount of non-exchange transactions, such as taxes, social benefits, or fines.

(2 Marks)

QUESTION TWO

In Rwanda, monetary policy is controlled and managed by the National Bank of Rwanda (BNR), as the central bank. Law 55/2007 of 30/11/2007, which governs the central bank of Rwanda, assigns BNR the responsibilities of formulating and implementing monetary policy. The law requires BNR to conduct monetary policy maintain price stability and a low inflation environment.

Which of the following statements is true in relation to the BNR's key instruments for implementation of monetary policy framework:

- A BNR only utilizes open market operations, change in reserve requirements to implement the monetary policy framework.
- B BNR utilizes all open market operations, change in reserve requirements and regulated balance of payment to implement the monetary policy framework.
- C BNR utilizes all open market operations, change in reserve requirements and inflation policies to implement the monetary policy framework.
- D BNR utilizes all open market operations, change in reserve requirements and foreign exchange intervention to implement the monetary policy framework.

(2 Marks)

QUESTION THREE

The Ministry of Finance and Economic (MINECOFIN) is the key ministry in relation to budgeting. It has a wide range of responsibilities as far as budgeting process is concerned:

- i) Provide strategic guidance on resources allocation.
- ii) Mobilize resources to finance the budget every year.
- iii) Coordination of all the stakeholders in the planning and budgeting process.
- iv) Support budget agencies during budget execution by monitoring performance.

Which of the above statements, is/are true as far as the responsibilities of MINECOFIN are concerned?

- A (ii) and (iii)
- B (i) (iii) and (iv)
- C (ii) (iii) and (iv)
- D All of the above

(2 Marks)

QUESTION FOUR

Tax evasion is the deliberate misrepresentation of financial affairs to reduce the tax liability due. Rwanda Revenue Authority tries to reduce tax evasion through its department of revenue investigation and enforcement. Thought, stopping tax evasion may be difficult, there are steps that the government can take through RRA to try to reduce tax evasion:

- i) Investigate cases of tax evasion
- ii) Compile case reports and make recommendations for prosecution.
- iii) Increase tax education and sensitive taxpayers highlighting implications of non-compliance
- iv) Increase onsite visits and liaise with the hospitality and construction sectors.

Which of the above steps is/are correct in the context of reducing tax evasion?

- A (i) only
- B (i) and (iii)
- C (i),(ii) and(iv)
- D All the above

(2 Marks)

QUESTION FIVE

In developing countries like Rwanda, grants and donor aid provided to governments by foreign countries, multilateral institutions, or other government and non-governmental organizations can be a significant source of public revenue. A government of Rwanda has received donor aid from the government of another country, which of the following types of donor aid is this?

- A Foreign assistance
- B Subsidies
- C Bilateral aid
- D Multilateral aid

(2 Marks)

QUESTION SIX

The government particularly gets revenues from taxes, grants, and donor aid. However, there are other potential sources of revenue that are available to government bodies.

Which of the following is not among the source of government revenues?

- A Loans from banks.
- B Licenses.
- C Mineral royalties.
- D State owned enterprises

(2 Marks)

QUESTION SEVEN

One way of categorizing procurement contracts is by pricing method. In Rwanda, the Rwanda Public Procurement Authority (RPPA) clarifies three types of contracts by price which are lump-sum price, time based and a combination. **Which of the following statements describes the usage of a time-based procurement contract?**

- A It is used for tenders where the duration and provision are easy to define. Payments are based on the submission of reports and easy to administer.
- B It is used for tenders where execution period does not exceed a duration of 9 months duration awarded on a fixed price basis.
- C It is used for tenders where the duration and provisions are difficult to define. Payments are based on unit prices and refund of charges.
- D None of the above

(2 Marks)

QUESTION EIGHT

Treasury management is management of the organization's cashflow and requirements for finance. Government encounters numerous financial transactions every day and it is essential that they have sufficient cash available to meet their needs. **Which of the following is not among the fundamental aspects to treasury management?**

- A The financing of operations in a way that minimizes funding costs and matches cashflow needs.
- B The management of government spending priorities.
- C The management of working capital.
- D The management of financial risks to which cash flows are exposed.

(2 Marks)

QUESTION NINE

The core audit structure comprises the supreme or state audit institution (SAI), external audit and internal audit. In Rwanda, the SAI is the Office of the Auditor General (OAG).

According to the constitution of Republic of Rwanda, which of the following is/are not the responsibilities of the Auditor General:

- A Auditing revenues and expenditures of the state as well as other local administrative entities and government policies.
- B Carrying out all audits of accounts, efficient management, control of the functioning of state organizations.
- C Auditing the finances of the public sector, verifying whether the expenditures were in conformity with laws and regulations in force.
- D Follow up on implementation of audit recommendations and ensure the chief budget managers are held accountable.

(2 Marks)

QUESTION 10

The Integrated Financial Management Information System (IFMIS) is a common approach to reform Public Financial Management, aiming to promote efficiency, effectiveness, accountability, transparency, security of data management and comprehensive financial reporting. **Which of the following are among the risks of implementing IFMIS:**

- i) Lack of capacity
- ii) Weak commitment to change
- iii) More complex than envisaged
- iv) Business process re-engineering

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

(2 Marks)

SECTION B

QUESTION 11

In order to collect taxes, the government through their tax authorities, set rates on a tax base.

The impact of the tax base and rate may be linked to the type of the established tax structure.

Required

- a) **Differentiate a tax base from a tax rate** (2 Marks)
- b) **Explain at least one type of tax applicable on personal's income and one example on expenditure in Rwanda.** (2 Marks)
- c) **Discuss the three types of tax structure that are applicable worldwide.** (6 Marks)

(Total: 10 Marks)

QUESTION 12

The Office of Auditor General (OAG) is a Supreme Audit Institution in Rwanda, it is responsible for external audit of the country's public entities as well as that of State-Owned Enterprises. However, the OAG also has the mandate to outsource other qualified auditors to undertake the external audit of government entities on their behalf if deemed necessary. By pursuing its mandate, the office carries out the audit on financial statements, compliance, value for money as well as performance audits in distinguished entities.

Required:

- a) **Explain the overall 2 objectives of the auditor for the audit of financial statements** (2 Marks)
- b) **Define the term "Performance audit"** (2 Marks)
- c) **Value for money audit is carried out to encourage public sector organizations to draw up actions to achieve value for money as part of the continuing process of good management. Value for money means providing a service in a way which respect the principle referred to as the 3Es.**

Required

Describe the 3Es which are regarded as the key principles for the sound value for money.

(6 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

a) Budget process does not stop once the budget has been approved. Actual results should be compared on a regular basis with the budget results. When the original budget is unrealistic or because of changes in anticipated condition, the budget setters may need to appraise the organization's future plans and may need to adjust the budget to take account of such changes. The revised budget represents a revised statement of formal operating plans for the remaining portion of the budget period.

Required:

Differentiate virements from profiling and give an example for each as the key features of budgetary control systems. (6 Marks)

b) You are a Finance and Budgeting manager at LEJ Ltd, a state-owned enterprise dealing with transport services. At the closing of the first quarter of July to September 2021, your subordinate submitted to you the budget monitoring report for the crucial company transactions for review and adjustments if any:

Budget line	Budget for the year July 2021 to June 2022 (FRW Million)	Budget for the period July 2021 to September 2021 (FRW Million)	Actual expenditure July 2021 to September 2021 (FRW Million)	Variance July 2021 to September 2021 (FRW Million)
New transport Vehicles	500	150	300	(150)
Staff recruitment and bonus	120	20	32	(12)
Vehicles maintenance	80	30	41	(11)
Corporate social responsibility	20	5	10	(5)
End year staff celebration party	40	25	-	25

The changes to items planned for are shown below:

1. New transport vehicle

The company was obliged to acquire many new transport vehicles earlier at the start of the financial year due to shortage of vehicles in transport services as it was required by the regulatory authority. Then, they secured a contract with the motor vehicles dealership company worth Frw 500 M, payable in two instalments. The first instalment was paid the final one of Frw 200 M shall be paid upon delivery expected in June 2022.

2. Recruitment

The recruitments were reviewed and they agreed to recruit in three batches of Frw 30 million, on batch in Q1,2 and Q3 respectively.

3. Vehicle maintenance

The budget for repairs was based on contract planned at a cost of FRW 80 M, of which it will be payable in two installments, first in September, the second in May 2022.

4. Corporate social responsibility

The company had only planned to repair the house of a poor old woman who lives near company's head office as part of corporate social responsibility, but management took decision help another beneficiary and share the planned cost at equal amounts. The first house will be repaired in the first quarter and other in the third quarter.

5. End year staff celebration

The company planned to invite the band that will entertain staff in the end year party, but the management later opted a proposal to hire an event organizer and pay him/her into one-time fee payment, in third quarter.

Required:

Assume that the company uses profiling budgetary control system, prepare a revised budget monitoring report with additional column for explanation of any changes made (if any) for each line item. (10 Marks)

c) Differentiate a zero-based budgeting from programme-based budgeting. (4 Marks)

(Total: 20 Marks)

QUESTION 14

a) Accounting on a cash basis or cash accounting involves recording and reporting items when cash changes hands. So, items are reporting considering the timing that cash is received or paid. However, under accrual accounting items are accounted for in the period in which they are incurred rather than in the period in which the cash is received or paid. This means that the actual timing of when cash changes hands is irrelevant under accrual accounting.

Required:

As a CAT finalist, enumerate five aspects of accrual accounting. (10 Marks)

b) A State-Owned Enterprise entered a contract worth FRW 32 million with a service provider for supply and installation of a staff attendance system at the enterprise's premises. The contract was split into milestones of which the payment was to be made as follows:

1st milestone: Supply, delivery and installation materials, 20% of the total contract prices

2nd milestone: Installation and successful functioning test in the presence of client's representatives, 60 % of the total contract price.

3rd milestone: Official hand over and end of defect liability period, 20% of the total contract price.

The Enterprise's financial year starts in July and ends in June of the subsequent year. Before the end of the year 2021-2022 in May, the contractor had already successfully carried out the first and second milestones and submitted relevant invoices to the Enterprise but due to the cashflow challenge, they were later paid in August during the financial year ending 30 June 2023.

Required:

Explain how the above invoices will be reported in the Enterprise books of accounts and show the relevant double entries that will be passed under:

i) **Cash basis** (5 Marks)

ii) **Accrual basis** (5 Marks)

(Total: 20 Marks)

QUESTION 15

International Public Sector Accounting (IPSAS) 1 *Presentation of Financial Statements* is the key standard as it provides the basis for representing general purpose financial statements. The aim is for the financial statements prepared by public sector entities to be comparable to prior periods and with other public sector entities.

Required:

a) **In accordance with IPSAS 1, discuss the composition of complete set of financial statements on accrual basis.** (7 Marks)

b) **In accordance with IPSAS 1, outline at least (five) 5 minimum examples of information to be presented in the face of the statement of financial position and (five) 5 minimum information to be presented in the face of statement of financial performance.** (10 Marks)

c) **Public sector entities may publish other information in addition to the financial statements that facilitate accountability. Accountability may be categorized into different types, such as managerial and political accountability.**

Required:

Differentiate managerial from political accountability. (3 Marks)

(Total: 20 Marks)

End of question paper

