



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.6: PUBLIC FINANCIAL MANAGEMENT

DATE: WEDNESDAY, 29 MAY 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question	Answers
1	D
2	B
3	D
4	C
5	C
6	A
7	D
8	C
9	D
10	A

Section A-Marks allocation

2 marks for each correct answer

Total marks for this section

Marks

2

20

SECTION A

Model Answers

QUESTION ONE

The Correct Answer is **D**

A Environmental protection includes spending on things like Pollution abatement and Protection of biodiversity and landscape.

B General public services includes spending on things like Executive and legislative organisations, financial and fiscal affairs, and external affairs.

C Health includes spending on things like Hospital services and Public health services.

QUESTION TWO

The Correct Answer is **B**.

Recurrent expenditure=FRW 3M+(7M*12) =87M

Recurrent or revenue expenditure relates to everyday running costs or payment on items that will not have a long-term benefit to the organization.

A is not correct because it is only the total of annual salaries and wages
= 12*FRW 7M =FRW 84M

C is not correct because = FRW 3M+ FRW 10M+ FRW 7M= FRW 20M (wrongly calculated by including the Purchase of motor-vehicles and monthly salaries and wages instead of annual figure)

D is not correct because it simply adds the provided figures without any adjustment and no distinction between recurrent and development expenditure FRW 10M+ FRW 3M+ FRW 22M+7M= FRW 42M

QUESTION THREE

The Correct Answer is **D**

D is the correct answer because all options listed in i, ii, iii and iv are all objectives of Medium term expenditure framework as per Le Houerou and Taliercio (2002).

QUESTION FOUR

The Correct Answer is **C**

C is the correct answer as it is the definition of Bi/Mult.

A is not correct because it describes Bilateral aid.

B is not correct because it describes Multilateral aid.

D is not correct because the right answer is C.

QUESTION FIVE

The Correct Answer is **C**

Proportionate tax (or flat rate tax) is where a single tax rate applies. This is in between progressive and regressive taxes.

A not a correct answer because reactionary is a fictional tax.

B is not a correct answer because progressive tax is where the taxes represent a larger proportion of an individual's income as that individual's income rises.

D is not a correct answer because regressive tax is where the taxes represent a larger proportion of a poorer individual's income than a richer person.

QUESTION SIX

The Correct Answer is **A**

All other options are correct key features of the cash budget except Estimates of net assets at the end of the period which is reflected in the statement of financial position.

QUESTION SEVEN

The Correct Answer is **D**

D is the correct answer because options A, B, and C are all characteristics of the public sector that the IPSASB considered in the development of the Conceptual Framework.

Other options are incorrect because they miss other points. Remember that this question is a double negative question.

QUESTION EIGHT

The Correct Answer is **C**

A supplier roster is conducted in Supplier management.

Other options are not correct because they precede supplier management in the sourcing process.

QUESTION NINE

The correct answer is **D**

None of options in **A, B,** and **C** is correct.

In Rwanda, monetary policy is controlled and managed by the National Bank of Rwanda (BNR).

QUESTION 10

The Correct Answer is **A**

All the mentioned options (i), (ii) and (iii) are among the characteristics of IFMIS.

IFMIS is a management tool that provides both financial and non-financial information.

SECTION B

QUESTION 11

Marking guide

Question & Marking Guide	Maximum marks
Sub-section a)	
Award 1 mark for each correct way that the use of cash could be reduced could include 5 ways * 1 mark = 5 marks Consider alternative correct answers provided by candidates not in the model answer	5 Marks
Sub-section b)	
Meaning of TSA (Award 2 marks for correct meaning of TSA) Award 1 mark for each correct possible way that payments systems can be implemented within a TSA 3 ways * 1 mark = 3 marks	5 Marks
Total	10 Marks

Model answer

a) List FIVE ways that the use of cash could be reduced could include.

The following are ways that the use of cash could be reduced could include:

- Pay employees electronically, such as by bank transfer
- Pay suppliers electronically, such as by bank transfer
- Taxes to be received electronically
- All cash should be banked at the end of every day, and surplus amounts invested
- Put controls in place for recording and securely storing money

b) Explain the meaning of a TSA and state THREE possible ways that payments systems can be implemented within a TSA.

Centralisation 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:

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.

QUESTION 12

Marking guide

Question & Marking Guide	Maximum marks
Sub-section a)	
Award 2 Marks per described role of IFMS in cash management and 2 Marks for financial accounting and reporting 2 roles * 2 marks = 4 marks Consider alternative correct answers provided by candidates not in the model answer	4 Marks
Sub-section b)	
Award 2 marks for each correctly explained risk 3 ways * 2 marks = 6 marks Award 1 mark if the answer is not explained Consider alternative correct answers provided by candidates not in the model answer	6 Marks
Total	10 Marks

Model Answers

a) Discuss the role of IFMS in cash management and financial accounting and reporting functions.

Role of IFMS in cash management:

The ability to detect excessive cash payments or incorrect automated disbursement rules, either due to error or deliberate fraudulent action.

Additionally, the IFMIS can produce a range of reports on cash flow.

Role of IFMS in Financial accounting and reporting:

IFMIS can provide a general ledger accounting application and enable a variety of accounting reports to be generated.

The functionality of the IFMIS will enable this accounting system to be rolled out across the government, thereby linking up the accounting and reporting systems.

The IFMIS builds on the traditional basic accounting systems by automating processes and providing real-time information. For example, reports may be run automatically at the end of each month. This will also facilitate production of financial statements.

b) Explain THREE challenges or risks of implementing an IFMS

- Lack of capacity: The public sector, especially in developing countries, often lacks staff with IT knowledge and experience. This is partly due to those with such training and experience being lured to the private sector for better or more lucrative jobs.

- Weak commitment to change: Establishing and having an IFMIS in place will result in significant changes in the way the public sector operates. There is often resentment about change in the public sector and, if this occurs at a senior level, can cause significant problems.

- Business process re-engineering: IFMIS requires fundamental changes to the existing operating processes, and this often suffers from both staff resentment and the requirement for complex redesigns.

- Technical challenges: The basic functionality of the IFMIS may not be fully or adequately specified at the start of the project, meaning that the resulting IFMIS is not able to perform functions required or desired.

- More complex than envisaged: This relates specifically to the implementation of roll out of the IFMIS and is linked to the risk of the project over-running both financially and timewise.

SECTION C

QUESTION 13

Marking guide

Question & Marking Guide	Maximum marks
Sub-section a)	
Award 2 Marks for each correct explanation of factors that the government of Rwanda should consider in determining the suitability of taxes. If the candidate has only listed the factors, award 1 mark for each correct factor up to the maximum of 4 marks 4 factors * 2 marks = 8 marks	8 Marks
Sub-section b) (i)	
Award 2 marks for each correct definition 2 marks for the definition of tax avoidance and 2 marks for the definition tax evasion = 4 marks	4 Marks
Sub-section b) (ii)	
Award 1 mark for each correct step that the government can take to reduce tax evasion 4 steps * 1 mark = 4 marks	4 Marks
Sub-section c)	
Award 1 mark for each correct other potential source of revenue available to government bodies 4 source * 1 mark = 4 marks	4 Marks
Total	20 Marks

Model Answers

a) Discuss FOUR key factors that the government of Rwanda should consider in determining the suitability of taxes.

- i. Equity: This is referred to as the perceived fairness of the tax. Thus, how equitable do members of the public or people paying the tax believe it to be is very important. If people see the tax as being unfair, they are less likely to pay it. There are two key dimensions of tax equity that governments should consider (Bandy, 2015):
 - a. Horizontal equity where people with a similar ability to pay; have to pay a similar amount.
 - b. Vertical equity where people with a greater ability to pay, have to pay more government should also consider the breadth of taxes, so that a large proportion of tax income is not relying on a small sub-section of the population.
- ii. Ease of administration: Ease of administration in relation to taxation may refer to the cost of collecting the tax in comparison to the revenue received from the tax. There is

little point having a tax that costs most to implement than the income tax received. Additionally, it is useful for both the government and public to have taxes which are simple. For example, taxpayers are often more likely to pay the tax if it is simple to understand and tax chargeable is less likely to include errors. However, governments must see the simplicity and ease of administration in comparison to the other important features of an effective tax system, such as equity.

- iii. **Efficiency:** It might seem obvious that a taxation system should be efficient, but what exactly does this mean? Well, efficiency can cover a variety of issues. Firstly, in terms of administration efficiency which we have just considered above. Secondly, is the issue around whether the tax will change people's behavior. Ideally, an efficient or neutral tax is one that does not distort the economy by individuals or companies making decision due to the tax being in place. There is the possibility that taxes may result in behavior changes, which could be intended or unintended. Finally, there is the issue of how easily taxes can be identified and collected in practice. For example, taxes payable on an individual's wealth are problematic as wealth are problematic as wealth can be hidden, resulting in reduced levels of tax being payable.
- iv. **Predictability:** Predictability in a tax system relates to the certainty with which the government or individuals can effectively budget the tax to be paid or received. For governments, taxation comprises a significant proportion of their income and any budgets will be based on the predicted levels of tax to be collected. It is, therefore, essential that the government can reliably predict the amount of tax revenue. For individuals, too, it is useful to know how much tax they are likely to have to pay as it may impact on decision-making.

b) With respect to taxation:

i. Differentiate between tax avoidance and tax evasion.

Tax avoidance is the management of financial affairs within the constraints of the tax regime to minimize the amount of tax paid. Tax avoidance is, therefore, not illegal.

Tax evasion is the deliberate misrepresentation of financial affairs in order to reduce the tax liability due unlike tax avoidance, tax evasion is illegal. An example is where an individual earns cash and does not report it as earnings or income. Tax evasion is the illegal misrepresentation of financial affairs to reduce tax liability

ii. List FOUR steps that the government can take to reduce tax evasion.

Although stopping tax evasion completely may be difficult there are steps that the government can take to try to reduce tax evasion:

1. Investigate cases of tax evasion
2. Enforcing the use of Electronic Billing machines (EBM)
3. Compile case reports and make recommendations for prosecution
4. Penalize or close down companies failing to fulfil their tax obligations

5. Government to increase onsite visits to investigate what is happening.
6. Increase tax education and sensitize taxpayers with implications of non-compliance

c) The government obtains revenue mainly from taxes, grants, and donor aid. List FOUR other potential sources of revenue available to government bodies.

There are other potential sources of revenue available to government bodies, which include:

- (i) Customs duties and tariffs
- (ii) Excise duties
- (iii) Licenses
- (iv) Mineral royalty
- (v) Fines
- (vi) Asset sales
- (vii) State owned enterprises

QUESTION 14

Marking guide

Question & Marking Guide	Maximum marks
Sub-section a)	
Award 1 mark for each correct feature of the accruals basis of accounting 4 features * 1 mark each = 4 marks Consider other correct features provided by candidates but not in the model answers	4 Marks
Sub-section b)	
Award 1 Mark for each correct name of IPSAS and 1 mark for each correct corresponding IPSAS number A maximum of 5 IPSAS is required and in no particular order. If a candidate gets the name correctly but gets the number wrong, award 1 mark for the correct name but not vice versa. 5 IPSAS * 2 marks = 10 marks	10 Marks
Sub-section c)	
Award 1 mark for each correct financial statement that forms a complete list of financial statements in accordance with IPSAS 1 on an accruals basis. 6 financial statements * 1 mark = 6 marks	6 Marks
Total	20 Marks

Model Answers:**a) Outline FOUR features of the accruals basis of accounting.**

Accrual basis of accounting has the following features:

- (i) Revenue and expenses are accounted for in the period in which they are incurred.
- (ii) The actual timing of when cash changes hands is irrelevant under accruals accounting.
- (iii) Recognition of assets, including receivables and non-current assets.
- (iv) Recognition of liabilities, such as payables, debts and loans.
- (v) Revenues are reported to reflect the amounts due or earned during the year, whether these amounts have been actually collected or not. For example, income from taxes.
- (vi) Expenses incurred during the period are reported, whether or not payment has been made, such as relating to the acquisition of goods and services.
- (vii) Financial statements comprise the statement of financial position, statement of financial performance and the statement of cash flows.

b) Advise FIVE minimum items that must be reported on the statement of financial position as set out in IPSAS 1. Note: Use a table, which clearly indicates the name of the IPSAS and the corresponding specific IPSAS number.

Minimum information to be presented on the face of financial position	IPSAS
Property, plant and equipment	IPSAS 17
Investment property	IPSAS 16
Intangible assets	IPSAS 31
Financial assets	IPSAS 41
Investments accounted for using the equity method	IPSAS 41
Inventories	IPSAS 12
Receivable from non-exchange transactions	IPSAS 23
Receivable from exchange transactions	IPSAS 9
Cash and cash equivalent	IPSAS 2
Taxes and transfers payable	IPSAS 19
Payables under exchange transactions	IPSAS 19
Provisions	IPSAS 19
Financial liabilities	IPSAS 41
Net asset/equity attributable to the owners	IPSAS 40
Net asset/equity attributable to owners of the controlling entity	IPSAS 40

c) List SIX financial statements that form a complete list of financial statements in accordance with IPSAS 1 on an accruals basis.

A complete set of financial statements in accordance with IPSAS 1 on an accruals basis should comprise:

- Statement of financial position

- Statement of financial performance
- Statement of changes in net assets/equity
- Cash flow statement
- Notes, including a summary of significant accounting policies and other explanatory notes
- Comparative information for the prior accounting period
- Compliance with the Conceptual Framework

QUESTION 15

Marking guide

Question & Marking Guide	Maximum marks
Sub-section a)	
Award 2 marks for each correct responsibility of the Auditor General according to the Constitution of the Republic of Rwanda Award 1 mark if the answer is only listed and not briefly explained 4 responsibilities * 2 marks = 8 marks	8 Marks
Sub-section b)	
Award 1 mark for each correct name of the type of public sector external audit and award 1 mark for a valid explanation 3 types * 2 marks = 6 marks	6 Marks
Sub-section c)	
Award 2 marks for a correct definition of internal auditing = 2 marks Award 1 mark for each correct main responsibility of internal auditors as stipulated in Rwanda's Internal Audit Charter 4 responsibilities * 1 mark = 4 marks	6 Marks
Total	20 Marks

Model Answers

a) Explain FOUR responsibilities of the Auditor General according to the Constitution of the Republic of Rwanda:

1. Audit revenues and expenditures of the State, as well as other local administrative entities and government projects.
2. Audit the finances of the public sector, verifying whether the expenditures were in conformity with laws and regulations in force and sound management and whether they were necessary.
3. Carry out all audits of accounts, efficient management, control of the functioning of state organizations.

4. Submit an annual report to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, on the consolidated state accounts for the previous year indicating the manner in which the budget was utilized.

b) Identify and briefly discuss THREE main types of public sector external audit.

1. **Financial Audit:** 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. The external auditor will undertake detailed planning, analytical procedures (comparing figures in the financial statements with prior periods and expectations), audit sampling and testing (eg looking in detail at a small number of invoices), prior to reporting on their opinion of whether the financial statements are free from material misstatement.
2. **Compliance Audit:** 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. However, public sector entities will often have specific regulations and standards relevant to their sector, as well as ensuring expenditure is within the law.
3. **Performance Audit:** Performance or value for money audit is conducted to prove that public sector entities operate economically, efficiently and effectively, and are encouraged from many sources to draw up action plans to achieve value for money as part of the continuing process of good management.

It examines the 3 E's of value for money:

Economy – which is concerned with the cost of inputs, and it is achieved by obtaining those inputs at the lowest acceptable cost

Efficiency – which is maximizing output for a given input or achieving the minimum input for a given output. Effectiveness – which is ensuring that the outputs of a service or programme have the desired impacts; in other words, finding out whether they succeed in achieving objectives and, if so, to what extent.

c) Define the term 'internal auditing' and State FOUR main responsibilities of internal auditors as stipulated in Rwanda's Internal Audit Charter.

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'

The Charter states that all public sector internal auditors shall:

- i. Audit all activities of the ministries, districts and agencies

- ii. Have full and complete access to all relevant records, assets and personnel, including access to top management and Supervisory Board
- iii. Be entitled to appropriate resources, set audit plan and scope of work, and apply the techniques required to accomplish audit objectives
- iv. Obtain the full cooperation of personnel in the public entities

END OF MARKING GUIDE AND MODEL ANSWERS