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**CERTIFIED ACCOUNTING TECHNICIAN (CAT)**

**STAGE 3 EXAMINATION**

**S3.6: PUBLIC FINANCIAL MANAGAMENT**

**DATE: WEDNESDAY, 30 NOVEMBER 2022**

**MARKING GUIDE AND MODEL ANSWERS**

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## SECTION A

### Marking Guide

QUESTIONS	CORRECT ANSWER	Marks
QUESTION ONE	D	2
QUESTION TWO	C	2
QUESTION THREE	D	2
QUESTION FOUR	B	2
QUESTION FIVE	D	2
QUESTION SIX	C	2
QUESTION SEVEN	D	2
QUESTION EIGHT	D	2
QUESTION NINE	A	2
QUESTION 10	D	2

### Model Answers

#### QUESTION ONE.

The correct answer is D

Tax collection is the process of collection of revenue not expenditure, other points A, B, and C are classified as public expenditure areas, not revenue.

#### QUESTION TWO

The correct answer is C

(iii) and (iv) only are objectives of monetary policy which means that the correct answer is C

A is not correct because it includes (i) which is an instrument of implementing monetary policy

B is not correct because (ii) is wrong by indicating with exclusion

D is not correct because it includes (i) which is an instrument of implementing monetary policy

#### QUESTION THREE

The correct answer is D

Because the budget cycle is **Formulation, approval, Execution and evaluation** consecutively

A is not correct because evaluation comes before approval and brings other element of reporting which is under Evaluation

B is not correct because it brings other element of audit which is under Evaluation

C is not correct because it brings revision which is under execution

**QUESTION FOUR**

**The correct answer is B**

The correct answer is B since it combines two correct answers stating that recurrent expenditure related to all payments other than capital assets or payment of items that will benefit the organization in one year

A is not correct because it includes capital expenditure

C is not correct because it considers 1 correct answer while they are 2 correct answers

D is not correct because it states none is correct while we have the correct answer refer to explanations of the correct answer

**QUESTION FIVE**

**The correct answer is D**

A, B and C are the objectives of the auditors while conducting the audit of financial statement but

D is the objective of the audit while doing a compliance audit not financial audit

**QUESTION SIX**

**The correct answer is C**

Due to the primary role of the internal audit is to provide those accountable for public financial management (PFM) in individual organization with an objective of evaluation and opinion on the overall adequacy and effectiveness of the organization's framework of governance, risk management and control

A is not correct because it is in the responsibility of chief budget manager instead of Internal audit function as it is given in the question

B is not correct due to the internal auditor review the financial statement instead of preparation of them

D is not correct due to the internal audit review the financial transactions instead of approving them

**QUESTION SEVEN**

**The correct answer is D**

Because the relevant qualitative characteristics of the financial information are **Relevance, Understandability, timeliness, comparability, Faith representation and Verifiability**

A is not correct due it brings compliance and efficiency

B is not correct due it brings compliance and Materiality

C is not correct due to it brings Money measurement which is accounting principle not qualitative characteristics

**QUESTION EIGHT**

**The correct answer is D**

Because there is no correct answer

A is not correct because it brings value and usage which are advantages of effective services charges not features

B is not correct due to all are advantages of effective services charges not its features

C is not correct due to it brings value for money which is not effective services charges features

**QUESTION NINE**

**The correct answer is A**

Due to is the one only included in the answer as the element of TSA set by MINECOFIN

B, C, and D are incorrect because they relate to how the payments system can be implemented with a TSA rather than its elements.

**QUESTION 10**

**The correct answer is D**

A, B, and C are not related to sustainable procurement, only D is the element of sustainable procurement

## SECTION B

### QUESTION 11

#### Marking Guide

(a)	Allocated Marks
Highlighting just 2 types of audits, any correct point is to be awarded 0.5 Marks each	<b>1 Mark</b>
Correct explanation of every point as highlighted is 1.5 Marks each	<b>3 Marks</b>
(b)	
Provide any 4 distinctions between external and internal audit Here the required points are 4 means 0.5 Marks each	<b>2 Marks</b>
(c)	
Students are required to provide 2 any correct answer is 1 Mark each	<b>2 Marks</b>
(d)	
1 Mark for each correct point to maximum of 2 points to be provided by the candidate	<b>2 Marks</b>
<b>Total marks</b>	<b>10 Marks</b>

#### Model Answer

a) The types of external audits are the followings:

- 1) Performance audit and Compliance Audit or
- 2) Financial Audit and Performance audit or,
- 3) Compliance audit and Financial

Explanation of the above highlighted types of audits,

**Financial audit:** the financial audit is **an objective examination and evaluation of the financial statements of an organization to make sure that the financial records are a fair and accurate representation of the transactions they claim to represent**

**Compliance audit:** A compliance audit is **a comprehensive review of an organization's adherence to regulatory guidelines**, by compliance audit, the auditor confirms whether entity comply, in all material respect with applicable laws, regulations and guidelines regulating public spending in incurring expenditure for the year under audit.

**Performance audit:** Refer to the **value for money audits** where auditor have to confirm that the entity being audited comply in all material respects with applicable laws, regulations and guidelines to **realize value for money in utilization of public funds for the year under audit**

**b) 4 distinctions between external and internal audit**

- Internal auditors are public sector employees, while external auditors work for an outside audit firm.
- Internal auditors are responsible to management, while external auditors are responsible to the Rwanda legislative organ.
- Internal auditors can issue their findings in any type of report format, while external auditors must use specific formats for their audit opinions and management letters.
- Internal audit reports are used by management, while external audit reports are used by Public.
- Internal auditors can be used to provide advice and other consulting assistance to employees and management of public sector, while external auditors are constrained from supporting an audit client too closely.
- Internal auditors will examine issues related to public sector organization practices and risks, while external auditors examine the financial records and issue an opinion regarding the financial statements of the public entity.
- Internal audits are conducted throughout the year, while external auditors conduct a single annual audit.

In short, the two functions share one word in their names but are otherwise quite different. Larger organizations typically have both functions, whereby ensuring that their records, processes, and financial statements are closely examined at regular intervals.

c) The external auditor shall use the work of the internal audit function if the external auditor determines that any 2 points among the 3 had been complied with:

1. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
2. The level of competence of the internal audit function; and independence
3. Whether the internal audit function applies a systematic and disciplined approach, including quality control.

d) The external auditor shall not use the work of the internal audit function if the external auditor determines that 2 points among the 3 had not been complied with:

1. The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
2. The function lacks sufficient competence; or

3. The function does not apply a systematic and disciplined approach, including quality control.

## QUESTION 12

### Marking Guide

(a)	Allocated Marks
Award 1 Mark for highlighting each of the 10 stages of the public procurement process and then bring back the total marks to 8	8 Marks
(b)	
Award 1 mark for any understandable point that differentiates the ROI and REOI	2 Marks
<b>Total marks</b>	<b>10 Marks</b>

### Model Answer

a) **10 stages** of public procurement process that the Ministry of Education (MINEDUC) will follow to get the needed products in order to be able to provide the services in their school academic Year

1. Operational procurement planning
2. Requirement definition
3. Sourcing
4. Selection of procurement strategy
5. Preparation & issuance of solicitation documents
6. Receipt and opening of offers
7. Evaluation
8. Contract review and award
9. Contract finalization & issuance
10. Contract management

b) Difference between Request for information (ROI) and Request for expression of interest (REOI)

1. **Request for information (ROI)** : This is the process used to request specific information in relation to the procurement, such as technical specifications, supply availability or price indications. ROI may be publicly advertised or directly to suppliers known to the organization.

**2. Request for expression of interest (REOI) :** This is used to publicise the procurement need more widely and allows suppliers request to be included on a short list. REOI is cost effective ways to identify potential suppliers for specific goods, services or works



## SECTION C

### QUESTION 13

#### Marking Guide

	Marks allocation
<b>(a)</b>	
Award 2 marks for the proper explanation of grant and 2 marks for the proper explanation of Official Development Assistance (ODA)	4 Marks
Award 2 marks for each of the 2 types of grants explained	4 Marks
Award 2 marks for each of the 2 types of donor aid explained	4 Marks
<b>(b)</b>	
Award 1 mark for listing each of the 4 controls	4 Marks
Award 1 mark for explaining each of the 4 controls	4 Marks
<b>Total Marks</b>	<b>20 Marks</b>

#### Model Answer

##### a.i) Difference between grants and Official Development Assistance (ODA)

Grants are transfer made in cash, good or services for which no repayment is required.

Official Development Assistance (ODA) is international aid that targets and promotes economic development and welfare of developing countries

The OECD (2018c) categorizes grant into two main types

- Aid grand excluding debt reorganization
- Subsidies to national private investors

ii) According to OECD (2018(b), there are two types of donor aid:

- 1. Bilateral Aid:** Which flows from the donor government sources directly to official government source in the recipient.
- 2. Multilateral aid:** Represents contribution from government sources to multilateral agencies where it is used to fund the multilateral agencies' own programme.

b) 4 controls that would you advise the Director of Finance to put in place to reduce the associated risks to cash management

**1. Physical control:** physical control should be in place for the physical security of cash, such as locking cash receipts in a safe until they are banked.

**2. Authorization control:** There should be also or approval of transactions by supervisors and managers.

**3. Reconciliations:** the reconciliation between cashbook to bank account to ensure all records agree. This is a type of arithmetic or accounting records control

**4. Segregation of duties:** is a crucial control to ensure that no-one person sees through an entire transaction, but rather several people are involved in the process.

## QUESTION Q14

### Marking Guide

Description	Marks allocation
(a)	
Award 1.5 marks for listing each of the 5 players/parties	7.5 Marks
Award 1.5 marks for explaining each of the 5 players/parties	7.5 Marks
<b>Sub-total ( a)</b>	<b>15 Marks</b>
(b)	
Award 2 Marks for stating what is PAC	2 Marks
Award 3 Marks for explaining the mandate of PAC	3 Marks
<b>Sub-total ( b)</b>	<b>5 Marks</b>
<b>Total Marks</b>	<b>20 Marks</b>

### Model Answer

a) Various players are involved in the budgeting process and they have different roles and responsibilities regarding public sector budgeting in Rwanda as described in the table below:

S/N	Player	Roles and responsibilities
1	<b>Cabinet</b>	The Cabinet Provides Strategic the President, Prime Minister and Cabinet, with the Government broad strategic objectives and priorities for budgetary policies which are outlined in the budget Framework paper. The Budget Framework Paper is also approved by the Cabinet before it is sent to the parliament. MINECOFIN may also request that the cabinet approves regulations relating to the enhancement of sound PFM

S/N	Player	Roles and responsibilities
2	<b>Ministry of Finance and Economic Planning (MINECOFIN)</b>	<p>The key ministry in relation to budgeting is the MINECOFIN, which has a range of responsibilities including (MINECOFIN, 2017).</p> <ul style="list-style-type: none"> <li>• Coordination of all the stakeholders in the planning and budgeting process, such as through the provision of policies, training and technical support</li> <li>• Preparation of the annual Budget Framework Paper and Draft Finance Law prior to submission for Cabinet and Parliament Approval</li> <li>• Mobilizing resources to finance the budget every year</li> <li>• Supports budget agencies during budget execution by monitoring performance</li> <li>• Managing cash requirements of the state</li> </ul>
3	<b>Chamber of Deputies</b>	<p>The Chamber of Deputies is the only body (other than the councils in relation to any decentralized entities) with the power to adopt the annual budget, including any revision made after considering, debating and providing comments on the Budget Framework Paper, Draft budget estimates and the draft finance law (MINECOFIN, 2017).</p> <p>It is also the responsibility of the Chamber of Deputies (and the councils of the decentralized entity) to hold government to account on the use of public resources. In order to do this, they may summon members of Cabinet, chief budget managers or members of the Executive Committee of a decentralized entity, to come before them and explain any policies, programs and utilization of their budget (MINECOFIN, 2017)</p>
4	<b>Auditor General</b>	<p>The Office of the Auditor General of state Finance (OAG) is the supreme Audit Institution (SAI) of Rwanda reporting to Parliament</p>

S/N	Player	Roles and responsibilities
		<p>and led by the Auditor General (AG). The OAG is an independent body responsible for the audit of the state finance (MINECOFIN, 2011a).</p> <p>Each year, the AG submits a report to parliament on the implementation of the state budget of the previous year. The AG carries out an independent examination and expresses an audit opinion on the financial affairs of the Budget agencies and the Government Consolidated Financial (MINECOFIN), 2011a). The audit report submitted by the AG summarizes how the budget was utilized whether any unnecessary expenses incurred were contrary to the law and whether there were any misappropriation or misuse of public funds (MINECOFIN, 2011a).</p>
5	<b>Finance Professionals, Policy Planners, and service managers</b>	<p>They are a range of government personnel involved in the budget cycle, in order to ensure the planning accounting and spending units, such as finance professional, policy planners and service managers. In this section we briefly explore their respective roles and responsibilities.</p> <p>As we know from earlier in this Unit, the budget cycle must begin by being linked to strategic policies. <b>Policy planners</b> are involved in establishing the overall strategic objectives of the government or public sector entity. For example, in developing Rwanda’s vision 2020. Policy planners, therefore, set out the main priorities over the next few years. It is then down to the <b>finance professionals</b> to estimate the costs of individual programme. Finance professionals will be involved in developing the MTEF which provides the link from the policies to the annual budget, as well as the annual budget itself. Finance Professionals will also produce budget monitoring reports.in Rwanda, both finance professionals and policy planners are based centrally in the Ministry of Finance and Economic Planning (MINECOFIN) which include a nation planning division.</p>

S/N	Player	Roles and responsibilities
		<p>However, other parts of the government, such as the Ministry of Health, also include finance and planning sub-divisions.</p> <p>The main role of <b>service managers</b> is in delivering the public services, so providing the actual front line public service. However, many of the service managers will be budget holders who are responsible for ensuring that expenditure in their specific area remains within the set budget. Service managers will receive the monthly budget monitoring reports prepared by the finance professionals to identify and investigate significant variance</p>

b) Public Accounts Committee (PAC): Is a committee that was created in April, 2011 in the Rwandan Parliament. It is composed of members of parliament in charge of safeguarding public funds. PAC is charged with the roles and responsibilities for examining and investigating financial misconduct within public institutions, and report cases of misuse of public funds to the plenary to decide on punitive measures. The PAC analyses the Auditor General’s reports with clear and constructive comments and organize a public hearing for the heads of institutions that were reported in the above for them to provide clear explanation and corrective measures to ensure effective and efficient use of public funds.

## QUESTION 15

### Marking Guide

Description	Marks allocation
<b>(a)</b>	
Award 2 Marks for explaining each of the concept—Cash basis and accrual basis	4 Marks
Award 2 Marks for relevant example on each of the concept—Cash basis and accrual basis	4 Marks
<b>Sub-total ( a )</b>	<b>8 Marks</b>
<b>(b)</b>	
Award 6 Marks for the explanation	6 Marks
<b>Sub-total ( b )</b>	<b>6 Marks</b>
<b>(c)</b>	
Award 3 Marks for the explanation of the transaction under cash basis	3 Marks
Award 3 Marks for the explanation of the transaction under accrual basis	3 Marks

<b>Sub-total ( c )</b>	<b>6 Marks</b>
<b>Total Marks</b>	<b>20 Marks</b>

### Model Answer

#### a) Difference between cash basis and accrual basis of accounting

**Cash basis of accounting** reflects business transactions on a company's financial statements when the cash flows into or out of the business, means transaction is recognized, recorded and reported when cash changes hands. Thus, items reported when cash is received or cash payments are made rather than when an order is placed

#### For example:

A government institution ordered some new office furniture on 12 June 2021. 1 Month later, the institution received an invoice requesting payment by 20 June 2021. The office furniture was delivered on 23 June 2021 and local government institution pays the supplier for the furniture in cash on 5 July 2021

The government institution's financial year runs from 1 July to 30 June. When would the purchase of the office furniture be reported under cash basis of accounting?

**Under cash basis**, the cash payment to buy the office furniture is made on 5 July 2021. So, if applying cash accounting, the government institution would record the transaction for purchasing the office furniture as taking place 5 July 2021 as this is when the cash actually changed hands.

The fact that the local government department ordered the office furniture on 12 June 2021 and received the furniture on 23 June 2021 is irrelevant as no cash was exchanged on these dates. No cash payment and therefore no recordings in the year ending 30<sup>th</sup> June 2021.

**Accrual basis** accounting recognizes revenue when it's earned and expenses when they're incurred, regardless of when money change hands. This where revenue and expenses are accounted for in the period in which they are earned and incurred, rather than the period in which the cash is received or paid. The actual timing of when cash change hands is irrelevant under accruals accounting

Using the same example from above, the fact that the invoice was received on 20<sup>th</sup> June 2021 it will be recorded as payable in the books of accounts irrespective of whether cash was paid or not.

b) According to Modified accrual basis of accounting those tractors will not be included in the face of financial statement for the year ended 30 June 2021, rather they will be disclosed in the

notes to accounts. Even if they were delivered but they were not received, which means they can't be recognized while the entity is not sure of their completeness and whether they are in conformity with specification order, so they should be disclosed instead of recognition.

c) i) **Under cash basis**, the payment for electricity will be recognized in the financial statement at whole amount **FRW 1,200,000 because, a transaction is recognized, recorded and reported when cash changes hands. The water bill is received but booked for payment in the next year and under cash basis it shall not be recognized**

ii) **Under Accrual basis**, the Electricity will not be reported at whole amount. Rather the payment covers 12 months until 31 December 2021. For the year ending 30<sup>th</sup> June 2021, only **FRW 600,000 for 6 months will be reported as expenditure under P/I account and FRW 600,000 under account receivable and will be reported in P/L of the next year. This is because, accrual basis of accounting recognizes revenue when it's earned and expenses when they're incurred, regardless of when money actually change hands, for water bill this will be reported at the whole amount FRW 1,000,000 as accrued expense as at 30 June 2021 by DR P/L Account and Credit account payables.**

**END OF MARKING GUIDE AND MODEL ANSWERS**