CERTIFIED ACCOUNTING TECHNICIAN (CAT)
STAGE 3 EXAMINATIONS
S3.6: PUBLIC FINANCIAL MANAGEMENT

DATE: WEDNESDAY 26, AUGUST 2026

MARKI NG GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

QUESTION	ANSWER	Marks
QUESTION 1	A	2
QUESTION 2	C	2
QUESTION 3	B	2
QUESTION 4	D	2
QUESTION 5	C	2
QUESTION 6	C	2
QUESTION 7	B	2
QUESTION 8	A	2
QUESTION 9	A	2
QUESTION 10	B	2
Total Marks		20 Marks

Model answers:

QUESTION ONE

- Correct Answer is A.
- Rationale
- A subsidy paid per unit produced reduces a farmer's effective cost of production, which increases their willingness to supply at any given market price, the standard supply-side effect of a production subsidy.
- Option B assumes an unsupported extra cost with nothing in the question to justify it.
- Option C shifts the effect to the demand side, when the subsidy acts on producers' costs, not consumers' behaviour.
- Option D wrongly treats "no change in price" as meaning "no effect", a subsidy works through costs, not through price-setting, so the two are independent.

QUESTION TWO

- Correct answer is C: The MTEF links long-term strategic plans with short-term annual budgets, ensuring that government priorities are translated into realistic medium-term expenditure plans.
- Option A is not correct because authorization of expenditure is done through the Finance Law approved by Parliament.
- Option B is not correct because monitoring actual expenditure against the budget is part of the accounting and monitoring stage.
- Option D is not correct because external audit is part of the reporting and audit stage of the PFM cycle.

QUESTION THREE

- Correct answer is B: The formulation stage involves preparing budgets based on strategic priorities, policies, and long-term plans to achieve public service goals.
- Option A is not correct because execution refers to implementing the approved budget.
- Option C is not correct because approval is carried out by the legislature after formulation
- Option D is not correct because evaluation occurs after the budget has been implemented.

QUESTION FOUR

- Correct answer is D: Requirements definition involves clearly identifying and specifying the goods or services needed before initiating the procurement process.
- Option A is not correct because contract management occurs after the contract has been awarded and focuses on overseeing performance.
- Option B is not correct because evaluation refers to assessing supplier offers after they have been received.
- Option C is not correct because contract finalization occurs after the supplier has been selected.

QUESTION FIVE

- Correct answer is C: Sourcing involves identifying suitable products and services in the market and assessing suppliers capable of meeting the organization's requirements through activities such as market research and supplier analysis.
- Option A is not correct because procurement planning focuses on overall planning of procurement activities before engaging the market.
- Option B is not correct because contract finalization occurs after supplier selection.
- Option D is not correct because receipt and opening of offers occurs after suppliers have submitted their bids.

QUESTION SIX

- Correct answer is C: A Request for Information (ROI) is used during market research to obtain specific details such as technical specifications, availability, and indicative pricing, and it is non-binding.
- Option A is not correct because a Request for Expression of Interest (REOI) is used to invite suppliers to express interest and be considered for shortlisting, not to gather detailed technical or pricing information.
- Option B is not correct because an Invitation to Tender (ITT) is issued later in the procurement process to request formal bids from shortlisted suppliers.
- Option D is not correct because a contract award notice is issued after the procurement process is completed.

QUESTION SEVEN

- Correct answer is B: Service charges can improve efficiency and influence usage, but they may create equity concerns, as individuals with lower income may not afford essential services. This highlights the trade-off between fairness (equity) and behavior/usage control.
- Option A is not correct because the scenario does not compare taxation with service charges but focuses on the effects of charging.
- Option C is not correct because service charges do generate revenue for governments.
- Option D is not correct because service charges are not a complete failure; they have both advantages and disadvantages depending on implementation.

QUESTION EIGHT

- Correct answer is A: A centralized treasury management system consolidates funds into a Treasury Single Account and applies unified procedures, thereby improving control, coordination, and management of fiscal risks.
- Option B is not correct because decentralization focuses on autonomy rather than central control and coordination.
- Option C is not correct because fragmentation weakens control and increases inefficiencies.
- Option D is not correct because independent systems reduce coordination and may increase financial risk.

QUESTION NINE

- Correct answer is A: Cash is highly susceptible to theft and misuse, so risks can be reduced by minimizing cash usage through electronic payments and ensuring cash is banked promptly.
- Option B is not correct because increasing cash holdings increases risk rather than reducing it.
- Option C is not correct because the issue relates to cash handling, not budgeting.
- Option D is not correct because the issue is operational risk, not investment strategy.

QUESTION 10

- Correct answer is B: The scenario reflects key internal controls over cash, including physical controls (safe storage), authorization controls (approval), segregation of duties (different roles), and accounting controls (reconciliations), all aimed at reducing risk.
- Option A is not correct because the controls relate to cash handling, not budgeting.
- Option C is not correct because treasury management focuses on liquidity and investment, not transaction-level controls.
- Option D is not correct because procurement controls relate to acquiring goods and services, not managing cash.

SECTION B

QUESTION 11

Marking guide:

Details	Marks
a)Award 1 mark for the correct definition of IFMIS and 1 mark for the importance	2 Marks
b)-Award 1 mark for listing the four(4) roles of IFMIS in public sector	4 Marks
-Award 1 mark for explaining the four(4) roles of IFMIS in public sector	4 Marks
Total Marks	10 Marks

Model answers:

a) Concept of IFMIS and its importance

The Integrated Financial Management Information System (IFMIS) is an integrated and automated system that can be used across government to manage public financial management functions such as budgeting, accounting, cash management, procurement, and payroll.

It is important because it provides timely, accurate, and comprehensive financial information, which improves budget management, supports decision-making, and enhances transparency and accountability in the use of public resources.

b) Key roles of IFMIS in the public sector

1. Budget cycle (formulation and execution): IFMIS is used in both budget formulation and execution by capturing budget data and recording spending commitments, thereby improving the comprehensiveness, transparency, and credibility of the budget and enabling better use of resources at the lowest cost possible.

2. Cash management: IFMIS supports cash management by detecting excessive payments or incorrect disbursement rules and producing cash flow reports, thereby improving control over cash flows and supporting better financial decision-making.

3. Financial accounting and reporting: IFMIS provides a general ledger system and enables automatic generation of accounting reports and financial statements, thereby linking accounting systems across government and ensuring timely and reliable financial information.

4. Procurement and payments: IFMIS integrates procurement and supply chain management, allowing access to common suppliers and linking procurement with payments and inventory systems, thereby improving efficiency and consistency in procurement and payment processes.

5. Auditing: IFMIS supports auditing by identifying unusual transactions and detecting fraud through automated controls such as cross-referencing data and identifying anomalies like ghost workers, thereby increasing the likelihood of detecting corruption and errors.

QUESTION 12

Marking guide

Details	Marks
Award: 2 marks for a complete answer covering independence + governance/risk/control)	2 Marks
Award 1 mark each for stating any 4 duties of OCIA up to a maximum of 4	4 Marks
Award 1 mark each for explaining any 4 duties of OCIA up to a maximum of 4	4 Marks
Total Marks	10 Marks

Model Answer

a) Primary purpose of internal audit in the public sector: The primary purpose of internal audit is to provide an independent and objective evaluation of the adequacy and effectiveness of an organisation's governance, risk management, and internal control processes, thereby supporting accountability in the use of public resources.

b) Specific duties and responsibilities of the Office of the Chief Internal Auditor (OCIA)

1. Supervision and coordination of internal audit functions: The OCIA supervises and coordinates internal audit activities across all government institutions, ensuring consistency and effectiveness in audit practices.
2. Development of standards and guidelines: The OCIA formulates and disseminates internal audit standards, guidelines, and methodologies, ensuring that internal audits are conducted in line with professional requirements.
3. Annual audit planning: The OCIA leads the annual planning process for internal audit activities across government, ensuring that audits are risk-based and focused on priority areas.
4. Preparation of consolidated audit reports: The OCIA produces consolidated annual internal audit reports, providing an overall assessment of internal audit findings across public institutions.
5. Conducting internal audits: The OCIA conducts internal audits in central and local government institutions, evaluating whether public resources are used efficiently and effectively.

SECTION C

QUESTION 13

Marking guide:

Details	Marks
a)-Award 2 marks for each correct advantages of incremental budgeting	4 marks
-Award 2 marks for each correct limitation of incremental budgeting	4 marks
Sub-total	8 marks
b)Calculation of total costs	
Award 1 mark for correct calculation of fixed costs (RWF1,800m × 55%)	1 Mark
Award 1 mark for correct calculation of variable costs (RWF1,800m × 45%)	1 Mark
Award 2 marks for correct calculation of variable cost per participant (RWF810m ÷ 6m)	2 Marks
Award 1 mark for correct application of inflation to fixed costs (RWF990m × 1.06)	1 Mark
Award 1 mark for correct inflated fixed cost	1 Mark
Award 1 mark for correct time apportionment of fixed costs (× 4/12)	1 Mark
Award 1 mark for correct application of inflation to variable cost per participant (RWF135 × 1.06)	1 Mark
Award 1 mark for correct adjustment for activity level (× 2.4m participants)	1 Mark
Award 1 mark for correct total variable cost	1 Mark
Award 1 mark for correct aggregation of total costs	1 Mark
Award 1 mark for correct final answer (RWF693m to nearest million)	1 Mark
Sub-total	12 Marks
Total	20 Marks

Model Answer

a) i) **Advantages of incremental budgeting**

1. Simplicity and ease of administration: Incremental budgeting is simple, cheap, and relatively quick to administer because it is based on the previous year's budget with only incremental adjustments.
2. Suitable for stable environments: It is appropriate where cost items are relatively stable, making it easier to prepare budgets in organizations with predictable activities.

ii) Limitations of incremental budgeting

1. Inefficiencies are not identified**:** Incremental budgeting does not identify inefficient operations, meaning that inefficiencies will continue from one period to another.
2. Does not eliminate wasteful expenditure: It does not help to eliminate wasteful spending, as past cost levels are carried forward without proper review.
3. Not suitable for changing environments**:** Since it is based on past budgets, it assumes activities will remain the same and is therefore inappropriate in dynamic or changing environments.
4. Encourages budgetary slack: Managers may spend up to the budget to avoid future budget cuts, leading to unnecessary expenditure.
5. Does not encourage performance improvement**:** It does not produce challenging targets or motivate managers to find ways to improve efficiency and effectiveness.

b) Calculation of the budgeted total cost

- Calculate existing costs for the year ended 31 December 20X5:
- Fixed costs are total costs RWF1,800m × 55% = RWF990m
- The total variable costs are RWF1,800m × 45% = RWF810m
- Variable cost per participant are therefore RWF810m ÷ 6m participants = RWF135 per participant
- (The above figures are our current period's actual results which can be used as the starting point to apply the adjustments for the next period's budget)
- Calculation of budget for the 4 months ending 30 April 20X6:
- Fixed costs will be the existing RWF990m increased by 6%= (RWF990m × 1.06 = RWF1,049.4m)
- Apportioned for 4 months: (RWF1,049.4m × 4/12) = RWF349.8m
- Variable costs will be the existing RWF135 per participant increased by 6% (RWF135 × 1.06 = RWF143.1 per participant)
- Multiplied by the expected number of participants for 4 months of 2.4m: (RWF143.1 × 2.4m) = RWF343.44m
- Total budgeted cost:
- Total costs for the 4 months ending 30 April 20X6 will be:
- RWF349.8m + RWF343.44m = RWF693.24m
- Final Answer (to nearest RWF million): RWF 693 million

QUESTION 14
Marking guide:

Details	Marks
Sub-question a)	
-Award 3 marks for the proper calculation of personal income taxes	3 Marks
-Award 3 marks for the proper calculation of VAT	3 Marks
-Award 2 marks for the proper calculation of Capital gain tax	2 Marks
-Award 2 marks for the proper calculation of total tax payable	2 Marks
Sub-question b)	
-Award 1 mark each for correctly mentioning tax suitability factors up to a maximum of 4	4 marks
-Award 1.5 marks each for correctly explaining tax suitability factors up to a maximum of 4	6 marks
Total	20 Marks

Model answer

a) Calculation of the total tax payable by Mr. Habimana for the month of April 20X6.

i) Personal income taxes

- Monthly salary = RWF 180,000
- Apply tax bands:
- First RWF 30,000 @ 0% = 0
- Next RWF 70,000 @ 20% = 14,000
- Remaining RWF 80,000 @ 30% = 24,000
- Total income tax = 14,000 + 24,000 = RWF 38,000

ii) Value Added Tax (VAT)

- Total expenditure (VAT inclusive) = RWF 236,000
- VAT = 236,000*18/118=36,000
- VAT = RWF 36,000

iii) Capital Gains Tax

- Capital gain = RWF 5,000,000
- Tax @ 30% = 5,000,000 × 30% = RWF 1,500,000

iv) Total Tax Payable

Tax Type	Amount (RWF)
Income tax	38,000
VAT	36,000
Capital gains tax	1,500,000
Total tax payable	1,574,000

Note: For this answer the candidate would have used the tax bands in the CAT textbook for the calculation of personal income taxes.
If the candidates use the tax bands in the current law, the answer will change as follows:

Personal income taxes will change as follows:

- Monthly salary = RWF 180,000
- Apply tax bands:
- First RWF 60,000 @ 0% = 0
- Next RWF 100,000 @ 10% = 10,000
- Remaining RWF 80,000 @ 20% = 16,000
- Total income tax = 10,000 + 16,000 = RWF 26,000

Then the total Tax Payable will be:

Tax Type	Amount (RWF)
Income tax	26,000
VAT	36,000
Capital gains tax	1,500,000
Total tax payable	1,562,000

b) Governments should consider several factors when determining the suitability of taxes, including the following:

1. Equity: Equity refers to the fairness of the tax system. It is important that taxpayers perceive taxes as fair, otherwise compliance may be low. Equity has two main dimensions:
   - Horizontal equity, where individuals with a similar ability to pay should pay similar amounts of tax.
   - Vertical equity, where individuals with a greater ability to pay should pay more tax.
   - Other aspects include benefit equity, where tax paid relates to benefits received, and intergenerational equity, where future taxpayers may bear the cost of current government spending.
2. Ease of administration: Taxes should be simple and cost-effective to administer. The cost of collecting taxes should not exceed or significantly reduce the revenue generated. Simplicity also helps taxpayers understand their obligations, reduces errors, and improves compliance.
3. Efficiency: An efficient tax system should minimize distortions in economic behavior. Ideally, taxes should not influence individuals or businesses to change their decisions unless intended (e.g., discouraging harmful activities). Efficiency also relates to how easily taxes can be identified, assessed, and collected in practice.
4. Predictability: Predictability refers to the ability of both government and taxpayers to estimate tax amounts reliably. Governments need predictable tax revenues for budgeting and planning purposes, while taxpayers benefit from certainty in planning their financial decisions.

QUESTION 15
Marking guide:

Details	Marks
a) i) Award 2 marks for explaining the objective of IPSAS1	2
Award 2 marks for each correct component of financial statements up to the maximum of 6 components	12
Sub-total (a)	14
Award 1 for correctly stating each of the 3 users	3
Award 1 for correctly explaining the needs of each of the 3 users	3
Sub-question (b)	6
Total Marks	20 Marks

a) Objective of IPSAS 1 and Components of Financial Statements

Objective of IPSAS 1

The objective of IPSAS 1 is to prescribe the basis for the presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods, and with those of other public sector entities. It also ensures that financial statements provide useful information for accountability and decision-making by users.

Components of a Complete Set of Financial Statements (Any 6) (12 marks)

A complete set of financial statements under IPSAS 1 includes:

1. Statement of Financial Position: This shows the entity's assets, liabilities, and net assets/equity at a specific date. It helps users assess the financial position and sustainability of the entity.
2. Statement of Financial Performance: This presents the entity's revenue and expenses, resulting in a surplus or deficit. It enables users to evaluate financial performance over a period.
3. Statement of Changes in Net Assets/Equity: This explains changes in net assets, including surplus/deficit and other adjustments. It helps users understand how the entity's financial position has evolved.
4. Cash Flow Statement: This reports cash inflows and outflows from operating, investing, and financing activities. It is useful in assessing liquidity and cash management.
5. Notes to the Financial Statements: These include accounting policies and detailed explanations of figures in the statements. They enhance transparency and understanding of the financial statements.
6. Comparative Information: Financial statements must include figures from the previous period. This allows users to analyze trends and compare performance over time.
7. Statement of Budget vs Actual: Where the budget is publicly available, entities should present a comparison between budgeted and actual amounts. This supports accountability in the use of public resources.

b) Users of Public Sector Financial Statements and Their Information Needs

According to the IPSASB, public sector financial statements are prepared to meet the needs of three main groups of users, each with distinct information requirements.

1. Providers of Resources**:** Providers of resources, such as taxpayers, donors, lenders, creditors, and employees, are interested in understanding how public funds have been raised and utilized**.** They require information to assess whether resources are being used efficiently and for their intended purposes**,** as well as to evaluate the entity's ability to meet its financial obligations and maintain sustainability**.**
2. Recipients of Services**:** Recipients of services, including citizens and service users, focus on whether public services are being delivered effectively and efficiently. They need information on how resources are used to achieve service delivery objectives**,** as well as the quality, accessibility, and reliability of the services provided.
3. Other Users: Other users, such as regulators, auditors, the media, special interest groups, and government bodies, are primarily concerned with compliance, oversight, and governance. They require information to determine whether the entity complies with **l**aws, regulations, and policies**,** and to support monitoring, evaluation, reporting, and overall public accountability**.**

End of marking guide and model answers