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

DATE: WEDNESDAY 25, FEBRUARY 2026

MARKI NG GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

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

Model answers:

QUESTION ONE

Correct answer is B: public expenditure in Rwanda includes government spending on the purchase of goods and services, compensation of employees, and expenditure on national defence and security, as outlined in the CAT study material.

- Option A is not correct because public expenditure is not limited to donor funded development projects; it also includes expenditure financed from domestic resources.
- Option C is not correct because spending by private companies does not constitute public expenditure.
- Option D is not correct because public expenditure covers many sectors, including education, health, defence, and economic affairs, not only social protection programmes.

QUESTION TWO

Correct answer is B: The National Bank of Rwanda is responsible for formulating and implementing monetary policy, which involves influencing the amount of money in the economy and how much it costs to borrow.

- Option A is not correct because determining government expenditure priorities is part of fiscal policy and the budgeting process, not the role of the BNR.
- Option C is not correct because setting tax rates is a fiscal policy function carried out by the government, not the central bank.
- Option D is not correct because although foreign exchange intervention is one of the tools used by the BNR, its role is not limited to foreign exchange management only.

QUESTION THREE

Correct answer is C: The Chamber of Deputies is the only body with the power to adopt the annual budget after considering and debating the Budget Framework Paper, draft budget estimates, and the draft finance law. It is also responsible for holding the Government accountable for the use of public resources.

- Option A is not correct because MINECOFIN coordinates the budgeting process, prepares the Budget Framework Paper and draft budget, and manages resources, but it does not adopt the budget.
- Option B is not correct because the Cabinet provides strategic guidance and approves the Budget Framework Paper before submission to Parliament, but it does not have the power to adopt the budget.
- Option D is not correct because the Office of the Auditor General audits the use of public funds after the budget has been implemented and reports to Parliament, but it does not approve or adopt the budget.

QUESTION FOUR

Correct answer is D: Programme-based budgeting allocates resources to programmes or groups of activities with common objectives and focuses on outputs and outcomes rather than on individual input items.

- Option A is not correct because incremental budgeting uses the previous year’s budget as a base and adjusts for changes such as inflation, without focusing on objectives or results.
- Option B is not correct because zero-based budgeting focuses on justifying each cost from zero, not on grouping activities into programmes linked to objectives.
- Option C is not correct because recurrent budgeting refers to budgeting for routine operating costs and does not describe a method of linking spending to objectives.

QUESTION FIVE

Correct answer is A: Official Development Assistance (ODA) consists of public funds provided by foreign governments or multilateral institutions with the main objective of promoting economic development and welfare in developing countries. Rwanda is eligible for ODA as it appears on the OECD DAC List of ODA Recipients.

- Option B is not correct because ODA does not come from private companies and does not always require repayment.
- Option C is not correct because ODA is broader than emergency humanitarian aid and is not delivered only through NGOs**.**
- Option D is not correct because ODA is provided only to countries that are included on the OECD DAC List of ODA Recipients.

QUESTION SIX

Correct answer is B: Sustainable procurement delivers long-term efficiency savings, promotes efficient use of natural resources, reduces pollution and environmental harm, and encourages innovation in the market for sustainable products and services.

- Option A is not correct because sustainable procurement does not aim at immediate cost minimization or reducing controls; it focuses on long-term value and responsible purchasing.
- Option C is not correct because sustainable procurement cannot eliminate all risks or guarantee full compliance; ongoing monitoring and management are still required.
- Option D is not correct because sustainable procurement considers social, economic, and environmental factors together, not only environmental issues, and it does not aim to reduce competition.

QUESTION SEVEN

Correct answer is A: When the scope and duration of services are difficult to define, a time-based price contract is appropriate. This pricing method uses agreed unit prices (such as cost per hour), ensuring that payments reflect the actual services delivered while allowing flexibility.

- Option B is not correct because a fixed or lump-sum price is suitable only when the scope and duration of services are clearly defined in advance.
- Option C is not correct because not all contracts of less than nine months must be fixed price; the pricing method depends on the nature of the procurement.
- Option D is not correct because public procurement contracts must clearly specify monitoring arrangements and payment terms, as required by RPPA guidelines.

QUESTION EIGHT

Correct answer is D: Consolidating government cash balances through a Treasury Single Account (TSA) improves visibility and control over public cash resources, reduces idle balances held by individual ministries, and minimises unnecessary government borrowing.

- Option A is not correct because increasing borrowing limits addresses the symptom rather than the underlying cash management problem and may increase financing costs.
- Option B is not correct because delaying payments damages government credibility and does not improve overall cash management efficiency.
- Option C is not correct because decentralised cash management without central oversight can lead to fragmented cash balances and higher borrowing needs.

QUESTION NINE

Correct answer is C: Objectivity requires the auditor to remain impartial, unbiased, and free from prejudice when carrying out audit work. By allowing rumours to influence judgement before the audit begins, the auditor has compromised professional objectivity.

- Option A (Integrity) is not correct because integrity relates to honesty and ethical behaviour. There is no indication that the auditor has acted dishonestly or unethically.
- Option B (Accountability) is not correct because accountability relates to being answerable for actions and responsibilities, which is not the issue described in the scenario.
- Option D (Confidentiality) is not correct because confidentiality concerns protecting information from unauthorised disclosure, which is not relevant in this case.

QUESTION 10

Correct answer is C: The International Public Sector Accounting Standards Board (IPSASB) develops and publishes International Public Sector Accounting Standards (IPSAS), which are designed to improve the quality, transparency, and accountability of financial reporting in the public sector.

- Option A is not correct because the IASB develops IFRS, which are primarily used in the private sector, not public sector entities.
- Option B is not correct because the IAASB develops auditing standards (ISAs), not accounting standards.
- Option D is not correct because ICPAR regulates the accounting profession in Rwanda but does not develop international public sector accounting standards.

SECTION B

QUESTION 11

Marking guide:

Details	**Marks**
a) -Award 1 mark for the correct definition of MTEF	1 Mark
a) -Award 1 mark for each correct point of explanation up to a maximum of 3 points	3 Marks
b) i)-Award 1 mark for the calculation of original budget for 6 months	1 Mark
-Award 1 mark for the calculation of variance	1 Mark
ii)- Award 1 mark for the calculation of profiled budget	1 Mark
-Award 1 mark for the calculation of variance	1 Mark
c) Award 1 mark for the explanation of revised variance	1 Mark
Total Marks	**10 Marks**

Model answers:

a) Definition of MTEF: A Medium-Term Expenditure Framework (MTEF) is a multi-year expenditure plan, usually covering three or four years, which links long-term policies or strategies with the annual budget.

How MTEF would help NPIA improve its budgeting process

1. For the National Public Infrastructure Agency (NPIA), a Medium Term Expenditure Framework (MTEF) would provide a multi-year budget plan covering three or four years, linking the agency's long-term infrastructure programmes with its annual budget
2. By planning expenditure over several years, the MTEF would help NPIA address the problem of short-term annual budgeting, which is unsuitable for infrastructure projects that run over multiple years
3. The MTEF would enable NPIA to achieve better allocation of resources, ensure greater predictability of budget ceilings, and support a more efficient use of public funds when implementing infrastructure programmes
4. Finally, the use of an MTEF would strengthen fiscal discipline, accountability, and credibility of budgetary decisions for NPIA, especially through oversight by the Ministry of Finance, Cabinet, and Parliament

b)

i) **Variance based on original budget profile**

Annual budget = FRW 120m
Original budget (evenly spread across the year) for July–December (6 months) = 120m × 6/12 = FRW 60m

Variance = Actual – Budget
= 80m – 60m = FRW 20m overspend

ii) Variance using revised (profiled) budget

If 75% of the budget is planned for the second half, then 25% is planned for the first half:

Profiled budget for the first half ==Budget July–December = 120m × 25% = FRW 30m

Variance = Actual – Profiled budget
= 80m – 30m = FRW 50m overspend

iii) Explanation

The revised variance is more meaningful because it reflects the timing of planned expenditure, showing that spending is occurring earlier than expected and highlighting a potential budget monitoring and control issue.

QUESTION 12

Marking guide

Details	**Marks**
Award 1 mark for each correct characteristic up to a maximum of four (4)	4 Marks
Award 1 mark for stating only the government interventions such as Market failure, income Redistribution, Economic stabilization and Political ideology (1 mark each) up to a maximum of 3 interventions	3 Marks
Award also 1 Mark for the student who went ahead to explain each intervention and related it to the case given up to a maximum of any 3 interventions	3 Marks
Total Marks	**10 Marks**

Model Answer

a) Key characteristics of the public sector that distinguish it from the private sector (any four)

1. Public sector entities are primarily established to deliver services to the public, such as health and education, rather than to generate profits or returns for investors, as is the case in the private sector

2. They are characterised by public accountability, with governments being elected through democratic processes and required to make information publicly available to demonstrate accountability to citizens
3. Unlike private sector organisations, public sector entities have a lack of equity ownership and do not aim to enhance the economic position of owners, instead focusing on the public interest
4. Public sector organisations operate within financial and governance frameworks set by legislation, whereas private sector entities have greater operational flexibility
5. Public sector budgets are formally prepared and made available publicly, supporting transparency in how public resources are used, which is not always required in the private sector
6. Public sector entities engage extensively in non-exchange transactions, such as taxes, social benefits, and fines, where value is received without a direct exchange, unlike most private sector transactions

b) 3 reasons why the Government of Rwanda intervened in the economy in this situation (any 3 reasons)

1. One reason for government intervention is economic stabilisation, as the Rwandan government acted to steady the economy during an unusual economic shock by supporting businesses and stimulating economic recovery
2. The intervention can also be justified on the basis of income redistribution, where increased social protection spending helped move resources towards less well-off households affected by the economic slowdown
3. Another justification is market failure, as private markets may have failed to provide sufficient or affordable finance to businesses during the crisis, requiring government support through subsidised funding
4. The intervention reflects the government's political ideology, where the state takes an active role in supporting economic activity and public welfare rather than leaving recovery entirely to market forces
5. Finally, the intervention aligns with the role of MINECOFIN in macroeconomic management, which includes formulating and monitoring economic policies that affect domestic economic stability

<u>**SECTION C**</u>

QUESTION 13

Marking guide:

Details		Marks
a)	Award 1 mark for each valid point, up to a maximum of 5 ways	5
b)	-Award 1 mark for each characteristic of public sector mentioned up to a maximum of four(4)	4
	-Award 1 mark for each characteristic of public sector explained up to a maximum of four(4)	4
c)	--For cash basis award 1 mark for the correct timing (cash payment date), 1 mark for the correct debit entry (expense) and 1 mark for the correct credit entry (bank/cash)	3
	--For accrual basis award 1 mark for the correct recognition date (delivery date), 1 mark for the correct debit entry (expense) and 1 mark for the correct credit entry (payable). Award also 1 mark for the correct settlement entry	4
Total		**20 Marks**

Model Answer

a) 5 ways in which cash flow forecasting helps in the management of public sector finances

1. Cash flow forecasting is important because it helps ensure that sufficient cash is available when needed to implement the approved budget.
2. It enables public sector entities to forecast cash inflows and cash outflows, including their timing, on a monthly basis
3. Cash flow forecasting supports treasury management by helping decision makers determine how much cash is required, when it is required, and for how long (1 mark).
4. It helps assess whether anticipated sources of cash, such as taxes and other revenues, will be sufficient to meet planned expenditure
5. Cash flow forecasts support budget execution and control, as they are developed from the approved budget and are monitored and updated regularly during the financial year.

b) **Characteristics of the public sector that the IPSASB considered in the development of the Conceptual Framework**

1. The volume and financial significance of non-exchange transactions: A non-exchange transaction is where one party receives something of value without directly giving something of value in exchange. Such transactions are very common in the public sector and are linked to the primary objective of public sector entities to provide services rather than to achieve a profit.

2. The importance of the approved budget: Most governments and public sector entities prepare budgets, and in many cases there is a constitutional requirement for budgets to be prepared and published. This makes the approved budget central to public sector accountability and financial reporting.

3. The nature of public sector programmes and the longevity of the public sector: Many public sector programmes are long term and rely on future taxation and contributions. However, individual commitments often do not meet the definition of an asset or liability and are not recognised in financial statements, meaning that financial reports may not provide all information users need. In addition, governments are expected to continue in the long term, giving the going-concern principle a different perspective.

4. The nature and purpose of assets and liabilities in the public sector: Public sector entities hold assets mainly to provide services rather than to generate cash. These assets may be specialised or held for cultural or historical purposes. Liabilities are generally incurred in pursuit of service delivery objectives.

5. The regulatory role of public sector entities: Many governments and public sector entities have powers to regulate activities in the economy, such as limiting pollution, and may also regulate themselves. This regulatory role influences the way financial information is reported.

6. The relationship with statistical reporting: Governments usually produce general purpose financial statements for accountability purposes and government finance statistics for macroeconomic analysis and decision-making. This dual reporting requirement influenced the development of the Conceptual Framework.

c)

i) Cash basis accounting

Under cash basis accounting, transactions are recognized **when cash is paid**. Only the entry will be made on **8 July 2025 to record the payment**

Journal entry on 8 July 2025:

Dr Teaching materials expense	FRW 4,800,000	
Cr Bank/Cash		FRW 4,800,000

ii) Accrual basis accounting

Under accrual accounting, expenses are recognized when they are incurred, i.e. when the materials are received.

Journal entry on 25 June 2025 (on delivery):

Dr Teaching materials expense	FRW 4,800,000	
Cr Trade payables	FRW 4,800,000	

(To recognize the expense when the materials are received)

Journal entry on 8 July 2025 (on payment):

Dr Trade payables FRW 4,800,000
Cr Bank/Cash FRW 4,800,000
(To record payment of the liability)

QUESTION 14
Marking guide:

Details	Marks
a) -Award 1 mark for correctly **mentioning** each of the 3 types of external audit	3 Marks
a) -Award 1 mark for correctly **explaining** each of the 3 types of external audit	3 Marks
Sub-question b)	
Award 0.5 marks each for correctly mentioning any qualitative characteristic of good information up to a maximum of 4	2 marks
Award 0.5 marks each for correctly explaining any qualitative characteristic of good information up to a maximum of 4	2 marks
Sub-question c)	
Award 1 mark for each correct benefit up to a maximum of 5	5 marks
Award 1 mark for each correct risk up to a maximum of 5	5 marks
Total	**20 Marks**

Model answer

a) The three main types of external audit carried out in the public sector are financial audit, compliance audit and performance audit.

- **Financial audit:** A financial audit involves the external auditor examining an organisation's financial statements and providing an opinion on whether the information presented is fair and free from material misstatement. The auditor uses planning, analytical procedures, sampling and testing, and applies the concept of materiality when forming the audit opinion.
- **Compliance audit:** A compliance audit focuses on whether a public sector entity has complied with relevant laws, regulations, standards and procedures. The external auditor reviews policies, procedures and transactions to ensure that activities and expenditure are lawful and properly authorised.
- **Performance audit:** A performance audit, also known as a value for money audit, evaluates whether public resources have been used economically, efficiently and effectively. It considers inputs, outputs and impacts in order to assess whether public sector programmes have achieved their objectives.

b) To be useful and meet their intended objectives, financial information produced by public sector entities must possess certain qualitative characteristics as set out in the IPSASB Conceptual Framework.

- Relevance: Financial information is relevant if it can influence users' decision-making through predictive or confirmatory value.

- Faithful representation: Financial information should faithfully represent what it intends to depict by being complete, neutral and free from material error.
- Understandability: Financial information should be presented in a way that can be understood by the intended users, who may not be professional accountants.
- Timeliness: Information must be provided in time to influence decisions; delayed information reduces usefulness.
- Comparability: Comparability enables users to identify similarities and differences between financial information across periods or entities.
- Verifiability: Verifiability means that knowledgeable and independent individuals can confirm the information using supporting evidence.

c) Benefits of IFMIS (up to 5 marks)

- One key benefit of IFMIS is that it has supported public sector reform by improving efficiency, effectiveness, accountability, transparency and the security of financial data, thereby strengthening overall PFM systems.
- IFMIS has improved efficiency and financial controls by providing reliable, timely and accurate financial information, leading to better accounting, recording and reporting.
- The system has enhanced budgeting, planning and decision-making, as it provides improved management information and establishes an effective link between accounting and financial management.
- IFMIS has increased confidence through transparency, as financial information is more accessible and consistent, improving trust among stakeholders.
- Another benefit is the potential reduction in costs and increase in government revenue, as improved controls and resource allocation mechanisms reduce inefficiencies and leakages.

Risks of IFMIS (up to 5 marks)

- A major risk associated with IFMIS implementation is high cost and long implementation periods, as large-scale IT projects often overrun budgets and timelines. In Africa, IFMIS projects have taken over nine years on average and cost about $12.3 million.
- There is a risk of lack of capacity, as public sector entities may not have sufficient staff with the required IT knowledge and experience, partly due to staff moving to the private sector.
- Weak commitment to change can undermine IFMIS implementation, as resistance to new systems and processes especially at senior levels can slow or weaken reform.
- IFMIS implementation often requires business process re-engineering, involving major changes to existing processes, which can be complex and face stiff resistance.
- Finally, technical challenges and under-specification of system requirements may result in an IFMIS that does not fully meet user needs or is not sustainable in the long term.

QUESTION 15

Marking guide:

Details	Marks
a) i) Award 1.5 marks for explaining the compulsory nature of taxes and 1.5 marks for the unrequited nature of taxes	3
ii) award 1 mark for the correct meaning of tax base, 1mark for the correct meaning of tax rate and 1 mark for showing how they are used together to calculate tax payable	3
iii) award 1 for correctly stating each of the 3 tax bases and award also 1 mark for correctly explaining each of the 3 tax bases (each tax base is awarded 2 marks making a total of 6 marks for the 3 tax bases)	6
Sub-total (a)	**12**
Sub-question (b)	
Correct calculation of taxable income (award 1 mark for each figure)	3
Correct calculation of Pay as you Earn (PAYE)	3
Correct calculation of Net Salary	2
Sub-total (b)	8
Total Marks	**20 Marks**

Note: The candidates can use either the tax bands in the textbook or in the current law.

Model Answer

a) i. Compulsory and unrequited nature of taxes

- Taxes are compulsory because payment is required by law and taxpayers have no choice whether or not to pay them.
- Taxes are unrequited because the taxpayer does not receive a direct or immediate benefit in return for the tax paid, even though the government uses tax revenue to provide public services.

ii. Difference between Tax base vs tax rate

A tax base is the value of assets, property or transactions which are subject to a specific tax.

A tax rate is the amount to be applied to the tax base to calculate the amount of tax payable

The two are used together by applying the tax rate to the tax base to calculate the amount of tax payable.
For example, if the tax base is a salary of FRW 100,000 and the tax rate is 20%, the tax payable is: **Tax payable = FRW 100,000 × 20% = FRW 20,000**

iii. **Main types of tax bases in Rwanda**

1. Income-based tax: Income taxes are levied on earnings such as salaries, wages, and business profits. Income tax is often collected through Pay As You Earn (PAYE) schemes, where the tax is deducted from the gross earnings by the employer with net earnings (after tax has been deducted) being paid to individual employees

- In Rwanda, personal income tax is charged using progressive tax bands, where higher income earners pay higher rates.
- Company income tax is charged at 30% of taxable profits.

2. Expenditure-based tax: Expenditure taxes are paid on goods and services consumed. An expenditure base is where taxes are paid on what a person spends. There are often different types of taxes depending on the nature of expenditure, such as sales taxes. A specific type of expenditure tax is value added tax (VAT). VAT is charged at each stage of the supply chain where value is added, with a standard rate of 18%, while some supplies are zero-rated or exempt.

3. Wealth-based tax: Wealth based taxes are taxes paid on what is owned, such as property or stocks and shares. Specific examples of wealth taxes are capital gains and inheritance taxes

- In Rwanda, capital gains tax is charged at 30% on gains from the sale of immovable commercial property and certain shares.
- Other examples include property-related taxes.

b)

i) Total taxable income

Using the tax rates in the CAT text book

Monthly Income (FRW)	Applicable Tax Rate
0 – 30,000	0%
30,001 – 100,000	20%
100,001 and above	30% plus FRW 14,000

	FRW
Basic salary	120,000
Transport allowance (taxable)	30,000
Housing allowance (taxable)	20,000
Total taxable income =	**170,000**

(Medical allowance is non-taxable and therefore excluded.)

ii) PAYE tax payable
Since the taxable income exceeds FRW 100,000:
PAYE = 30% × (170,000 − 100,000)+ 14,000
PAYE = 21,000+14,000
PAYE tax payable = FRW 35,000

iii) Net salary
Net salary = Total income − PAYE
Total income =120,000 + 30,000 + 20,000 + 15,000 = **FRW 185,000**
(note that medical allowance is included in the total income, though it is not taxable)
Net salary = 185,000 − 35,000
Net salary = FRW 150,000
Important to the marker!
The tax band used here are the ones provided in the ICPAR study text and if the student uses them correctly, he will be awarded full marks.

However, since the tax bands for PAYE have now charged, following the effectiveness of the law provision within Law No. 027/2022 of 20/10/2022, which establishes taxes on income, some students may use the current tax bands as below:

Monthly Income (FRW)	**Tax Rate**
0 – 60,000	0%
60,001 – 100,000	10%
100,001 – 200,000	20%
200,001 and above	30%

Therefore, using the tax rates in the 2022 law**,** the answer would be:

i) Total taxable income

	FRW
Basic salary	120,000
Transport allowance (taxable)	30,000
Housing allowance (taxable)	20,000
Total taxable income =	**170,000**

(Medical allowance is non-taxable and therefore excluded.)

ii) PAYE tax payable
Since the taxable income exceeds FRW 100,000:
PAYE = 20% × (170,000 − 100,000)+ 4,000
PAYE = 14,000+4,000
PAYE tax payable = FRW 18,000

c) Net salary
Net salary = Total income − PAYE
Total income =120,000 + 30,000 + 20,000 + 15,000 = **FRW 185,000**
(note that medical allowance is included in the total income, though it is not taxable)
Net salary = 185,000 − 18,000
Net salary = FRW 167,000

End of marking guide and model answers