EXAMINER’S REPORT

STANDARD OF PAPER
The intention of the paper was to adhere strictly to the standards of Paper 2.5 in professional accounting examinations. At the same time candidates were expected to deliver high performance in the understanding of the subject matter of Public Sector Accounting. The standard of the paper was therefore similar to Public Sector Accounting Examinations set in previous years. The paper was generally devoid of ambiguities and errors which could have affected the performance of the candidates. The questions covered about eighty five percent of the syllabus and marks allocation followed the weighting principle of the syllabus. Therefore most candidates were able to give adequate or detailed answers to all questions that were asked.

GENERAL PERFORMANCE OF CANDIDATES
Scripts that were moderated showed poor to high performance in various centres. Generally centres in Accra, Cape Coast and Kumasi did better than those in other areas. Those centres that performed well obviously had better teaching facilities in Public Sector Accounting as they are manned by lecturers from the public universities and polytechnics. In contrast to low performers in centres in the rest of the regions there are hardly top level lecturers to prepare the candidates adequately in Public Sector Accounting. As such the level of preparedness of candidates is reflected in their poor performance. There was hardly any sign of copying in any centre.

STRENGTHS & WEAKNESSES OF CANDIDATES
Generally the strength of candidates reflected in the quantitative questions such as preparation of public sector financial statements. The weaknesses that were always observed in the theory questions mainly resulted in candidates’ poor understanding of the subject matter of public sector accounting. In this regard, one may conclude that there has always been poor foundational knowledge of the subject matter of Public Sector Accounting. For example most candidates are not aware that:

- All acts of government must be covered by laws or regulations;
- Public Sector Accounting procedures must be strictly implemented in order to prevent the risk or likelihood of public institutional failures as exemplified by proceedings of Public Accounts Committee of Parliament;
- Public sector organisations normally have excessive emphasis on rules, procedures and a concern for definitional details.
PUBLIC SECTOR ACCOUNTING & FINANCE QUESTIONS

QUESTION ONE

Stated below are the balances extracted from the books of the Department of Aviation Affairs for the year ended 31st December, 2014.

<table>
<thead>
<tr>
<th>Description</th>
<th>GH¢ 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>2,570.00</td>
</tr>
<tr>
<td>Wages</td>
<td>1,000.00</td>
</tr>
<tr>
<td>Fees, fines, licenses, penalties</td>
<td>104.00</td>
</tr>
<tr>
<td>Grants and other transfer payments</td>
<td>120.00</td>
</tr>
<tr>
<td>Finance costs</td>
<td>52.00</td>
</tr>
<tr>
<td>Supplies and consumables</td>
<td>170.00</td>
</tr>
<tr>
<td>Transfers from other government entities</td>
<td>250.00</td>
</tr>
<tr>
<td>Revenue from exchange transactions</td>
<td>60.00</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>66.00</td>
</tr>
<tr>
<td>Other revenue</td>
<td>150.00</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>46.00</td>
</tr>
<tr>
<td>Other expenses</td>
<td>70.00</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>255.00</td>
</tr>
<tr>
<td>Receivables</td>
<td>80.00</td>
</tr>
<tr>
<td>Investments (short – term)</td>
<td>45.00</td>
</tr>
<tr>
<td>Prepayments</td>
<td>47.00</td>
</tr>
<tr>
<td>Inventories</td>
<td>75.00</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>190.00</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>1,044.00</td>
</tr>
<tr>
<td>Payables (short-term)</td>
<td>1,420.00</td>
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<tr>
<td>Other non-financial assets</td>
<td>15,000.00</td>
</tr>
<tr>
<td>Investments (Long-term)</td>
<td>170.00</td>
</tr>
<tr>
<td>Receivables (Medium-term)</td>
<td>851.00</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>700.00</td>
</tr>
<tr>
<td>Provisions (Current)</td>
<td>45.00</td>
</tr>
<tr>
<td>Superannuation</td>
<td>104.00</td>
</tr>
<tr>
<td>Payables (Medium-term)</td>
<td>240.00</td>
</tr>
<tr>
<td>Borrowings (Long-term)</td>
<td>665.00</td>
</tr>
<tr>
<td>Provisions (Long-term)</td>
<td>82.00</td>
</tr>
<tr>
<td>Employee Benefits (Medium-term)</td>
<td>150.00</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>200.00</td>
</tr>
<tr>
<td>Current portion of borrowings</td>
<td>55.00</td>
</tr>
<tr>
<td>Employee Benefits (Short-term)</td>
<td>74.00</td>
</tr>
<tr>
<td>Capital contributed by other Government entities</td>
<td>194.00</td>
</tr>
<tr>
<td>Reserves</td>
<td>850.00</td>
</tr>
</tbody>
</table>
Required:
Use the International Public Sector Accounting Standards (IPSAS) to prepare statement of financial performance for the year ended 31st December, 2014, and statement of financial position for the year ended 31st December, 2014, including Net Assets / Equity. (20 marks)

QUESTION TWO

a) Government agencies and subvented organisations receive financial support from the government for their operations.

Required:
Explain THREE conditions which these entities must fulfil to enable them receive financial support from the government. (3 marks)

b) i) Commitment accounting begins with the commitment process.

Required:
Identify THREE procedures involved in the commitment process. (3 marks)

ii) Heads of departments have administering authority for advances, recoveries and proper record keeping in addition to administering losses incurred in advances issued to staff of his department (FAR 121).

Required:
Explain TWO reasons why a head of government entity may decide to write-off advances owed by public officials. (2 marks)

c) i) Explain any THREE types of relationships between Government policy and the annual budget. (3 marks)

ii) Explain FOUR reasons why the budget is regarded as a management tool for public accountability. (4 marks)

d) i) The New Public Management concept in the public sector aims at structural, organisational and managerial changes in public financial management.

Required:
Identify TWO methods proposed by this new management system to improve public financial management. (2 marks)

ii) The intention, methods and procedures of the regulatory and financial reporting framework of government are meant to ensure that the objectives of public institutions and the government are achieved.
Required:
Explain TWO objectives of the government regulatory and financial reporting framework. (2 marks)

iii) Explain ONE major challenge that may affect the implementation of the objectives of effective financial reporting. (1 mark)

(Total: 20 marks)

QUESTION THREE

a) Of late there has been a lot of discussions on the necessity for a Long-Term Development Plan in Ghana.

Required:

i) What is a Long-Term Development Plan?

ii) Outline THREE guiding principles of a Long-Term Development Plan.

iii) Explain TWO reasons why earlier Long-Term Development Plans failed in Ghana. (6 marks)

b) In public sector accounting assets and liabilities are valued at their current market values or at fair prices, which is defined as the amount of money that would have to be paid to acquire the asset on valuation date.

Required:
Explain how you would ascertain the current market values of the following public sector assets:

i) Securities;

ii) Motor Vehicles;

iii) Office building. (3 marks)

c) The objective of the system of procurement and usage of public supplies and equipment’s in Ghana is to ensure economy, efficiency, transparency, accountability and consistency.

Required:
Explain THREE other objectives of the Public Procurement Reform Programme. (3 marks)
d) The new Chart of Accounts has been designed to reflect the generic organisational structure of Government and its requirements for financial reports. It is based on Ghana Finance Statistics Manual and International Monetary Fund and Government of Ghana Reporting requirements.

**Required:**
Explain **FOUR** features of this new Chart of Accounts.  
(4 marks)

e) Revenue control describes the various checks put in place to ensure that all moneys due are received and accounted for.

**Required:**
Explain **FOUR** procedures established by Local Authorities to control revenue.  
(4 marks)

(Total: 20 marks)

**QUESTION FOUR**

a) i) What is public accountability?
   ii) Explain **THREE** mechanisms for ensuring public accountability in the public sector.  
   (4 marks)

b) i) Explain the term, corporate governance as applied to the public sector.
   ii) Explain **THREE** corporate governance principles commonly used in public financial management.  
   (4 marks)

(c) i) State **ONE** objective of a public private partnership agreement?

   ii) Explain **THREE** factors that the Government would consider before entering into a public private partnership agreement?

   iii) Explain the following terms used as guiding principles in **IPSAS 13 and 32 - Accounting for Public Private Partnership**.
   - Service Concession Arrangement
   - Lease
   - Recognition of Revenue
   - Economic Life of an Asset  
   (8 marks)

d) The problems associated with decentralized financial administration and exercising controls have received considerable attention from both academicians and legislators.

**Required:**
Explain **FOUR** reasons why it is necessary to have a decentralized financial management system in Ghana.  
(4 marks)

(Total: 20 marks)
QUESTION FIVE

a) Audit management reports of public sector entities often reveal vicious waste and misuse of public funds.

**Required:**
Explain **FOUR** mechanisms established by government to ensure that public organisations practice value for money in public financial management.

(4 marks)

b) The Auditor General shall examine in such manner as he thinks necessary the public and other government accounts in accordance with applicable statutory provisions, stated accounting policies and generally accepted accounting standards.

**Required:**
Explain **FOUR** significant items in public sector accounting that the Auditor General would have to express his opinion on in public financial management.

(4 marks)

c) *IPSAS 17 - Property, Plant and Equipment* provides guidance on the recognition, measurement, and derecognition of fixed assets.

**Required:**
Outline **THREE** main principles of IPSAS – 17 for the recognition, measurement and derecognition of property, plant and equipment.

(3 marks)

d) i) Explain the term ‘**Taxable Persons**’.

(1 mark)

ii) Explain **THREE** main principles underlying the imposition of taxes in Ghana.

(3 marks)

iii) Explain **SIX** types of taxes chargeable in Ghana.

(3 marks)

e) Rather than proposing detailed and rigid financial regulations to achieve financial policy objectives of Government, some financial commentators have argued that public sector entities should have the freedom to run their affairs but must report on their financial activities with full disclosure.

**Required:**
Explain **TWO** advantages that the government would achieve by enacting laws on financial regulations.

(2 marks)

(20 marks)
PUBLIC SECTOR ACCOUNTING & FINANCE SCHEME

QUESTION ONE

(a) Statement of financial performance for the year ended 31/12/2014

<table>
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<tr>
<th>Description</th>
<th>GHS 000</th>
<th>GHS 000</th>
</tr>
</thead>
<tbody>
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<td><strong>Revenue</strong></td>
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<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>2570</td>
<td></td>
</tr>
<tr>
<td>Fees &amp; Fines</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Revenue from Exchange Transactions</td>
<td>60</td>
<td></td>
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<tr>
<td>Transfers</td>
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<td></td>
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<tr>
<td>Other revenue</td>
<td>150</td>
<td>3134</td>
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<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
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<tr>
<td>Wages</td>
<td>1,000</td>
<td></td>
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<tr>
<td>Grants</td>
<td>120</td>
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<tr>
<td>Supplies &amp; Other Consumables</td>
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<td></td>
</tr>
<tr>
<td>Depreciation &amp; Amortisation</td>
<td>66</td>
<td></td>
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<tr>
<td>Impairment</td>
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<td></td>
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<td>Other Expenses</td>
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<td></td>
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<tr>
<td>Financial Cost</td>
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</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>(1524)</td>
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</tr>
<tr>
<td><strong>Surplus for the period</strong></td>
<td>1610</td>
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</table>

(b) Statement of financial position as at 31/12/2014

<table>
<thead>
<tr>
<th>Description</th>
<th>GHS 000</th>
<th>GHS 000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
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<td></td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalent</td>
<td>255</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Investments (Short-term)</td>
<td>45</td>
<td></td>
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<tr>
<td>Prepayment</td>
<td>47</td>
<td></td>
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<tr>
<td>Inventories</td>
<td>75</td>
<td>502</td>
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<td><strong>Non-Current Assets</strong></td>
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<td>Intangible Asset</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>1044</td>
<td></td>
</tr>
<tr>
<td>Other Non-Financial Assets (15000+200)</td>
<td>15,200</td>
<td></td>
</tr>
<tr>
<td>Investment (long-term)</td>
<td>170</td>
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<tr>
<td>Receivable (medium term)</td>
<td>851</td>
<td>17,455</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>17,957</td>
<td></td>
</tr>
<tr>
<td>Liabilities / Equities</td>
<td>1420</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
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<td></td>
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<tr>
<td>Payables</td>
<td>700</td>
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<tr>
<td>Short-term Borrowings</td>
<td>55</td>
<td></td>
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<tr>
<td>Current Portions of borrowings</td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>Employees Benefits (short term)</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Superannuation</td>
<td>2,398</td>
<td></td>
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<tr>
<td><strong>Non Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>Borrowings (long term)</td>
<td>665</td>
<td></td>
</tr>
<tr>
<td>Provisions (long term)</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>Employees Benefit (medium term)</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,137</td>
<td></td>
</tr>
<tr>
<td><strong>Total Asset</strong></td>
<td>17,957</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
<td>(3,535)</td>
<td></td>
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<tr>
<td><strong>Net Assets</strong></td>
<td>14,422</td>
<td></td>
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</table>

Net Assets / Equity
- Capital contributed by other government entities: 194.00
- Reserves: 2460.00
- Accumulated surplus for the period: 2654.00

**EXAMINER’S COMMENTS**
Understanding of question 1 is a perennial problem in public sector accounting. The questions usually cover a comprehensive treatment of financial transactions towards a standard preparation of financial statements, definitions and concepts, treatment of subsidiary commitment accounts and often interpretation of financial statements and their influence on the general economy.

The Controller and Accountant General in collaboration with the Auditor General have provided a comprehensive treatment of public sector financial transactions and other economic flows in the public financial management system. This enables the opening and closing balance sheets to be reconciled fully. However, as the years rolled by the treatment of government productive activities in public financial management has differed substantially from the treatment of those activities in previous years due to methodological changes in the government accounting system. Various classifications are also applied to the flows and stocks in IPSAS and GOG classifications which often confuse the candidates. Despite harmonization of the public sector financial management system with the introduction of GIFMIS, many candidates are yet to come to grips with the new financial system.
QUESTION TWO

a) Conditions Government Agencies must fulfil to receive financial support

i) Other public institutions as defined in section 45 (1) of Act 654 and government agencies, which receive financial support from government shall have agreements covering the payment of such support and shall provide for the:
   a. appointment of a government nominee in the governing body;
   b. Prior approval by the Government of financial and accounting arrangements of the institution concerned;
   c. Submission of the annual estimates to the Minister for review and submission to Parliament for approval;
   d. Audit of accounts by the Auditor-General or an Auditor appointed for the reporting to the Auditor-General; and
   e. Issue of directions by the government on matters affecting the financial policy to be adopted by the institution concerned.

ii) The requirement for receipt of financial support shall be subject to the condition that the institution assisted shall render audited annual statements of accounts to the Minister with a copy to the Controller and Accountant-General.

iii) The provisions of section 50(1) and (2) of the Financial Administration Act, 2003 (Act 654) shall apply to all other public institutions.

iv) Where financial support is given by Government to public institutions, quarterly returns on expenditure shall be forwarded to the Minister and the Controller and Accountant General in such form as may be determined by the Controller and Accountant-General in consultation with the Minister.

b (i)
Commitment Process
At the commitment stage, it is necessary to verify that:
- The proposal to spend money has been approved by an authorized person;
- Procurement process has been completed;
- Money has been appropriated for the purpose in the budget and sufficient funds remain available in the proper category of expenditure;
- The expenditure is proposed under the correct category; and
- The institutions prepare, commit and issue approved Purchase Orders (PO) to the supplier.

(b)ii
i) When the officer resigns from employment without leaving any traceable address;
ii) When the officer dies having no known estate;
iii) When the expenses to be incurred in the collection of the advance is not justified in relation to amount of advance and its possibility of collection.

c ( i)
i) Annual budget is designed as a plan for implementing government policy;
ii) Annual budget is designed to translate government policy into financial outlays and inputs and outputs;
iii) Annual budget is designed to serve as a guide for managing the economy;
iv) The budget document is used as a means of looking for possible directions and reactions or changes to the implementation process.

c)ii
- Budgeting involves public sector managers in the budget process;
- Budgetary process is used to assess whether activities of public sector entities are the most effective means of achieving their objectives;
- The budget is used to assess the cost effectiveness and cost efficiency of operations of public sector entities;
- The budget is used to plan the cost of inputs, outputs and activities linked to the objectives of public sector entities;
- The budget is used to determine not only recurrent expenditures but also development and investment expenditures.

Solution (d) i
Concept of New Public Management in the Public Sector
Objective: Aims at structural organisational and managerial changes of the public sector.

Methods:
1 Reinventing Government
Decentralizing management, and disaggregating and downsizing of public services.

2 Re-Engineering & Revitalization of the Public Service
Reducing state bureaucracy of centralization, and direct control to be replaced by managerialism.

3 Organisational Transformation
- Reforms are made credible and irreversible
- Adequate administrative and institutional capacity is provided

4 Total Quality Management
- Managerial improvement
- Corruption minimized
5 Results Oriented Management
Market based public service management or “enterprise culture”

6 Outsourcing Jobs
Contracting out provision of public services

7 Empowering rather than serving
- Commitment to economic growth
- Investment and international competitiveness

d)ii
The objectives of government regulatory and financial reporting framework should achieve the following:

- Show whether financial resources are obtained and spent in accordance with the national budget;
- Show whether the government overspent or under spent budgeted amounts and what changes necessitated those performances;
- Show whether control over commitments and obligations are effective and whether any challenges that exist are due to cash outlays or revenue inflows;
- Show whether financial flows may be determined or predicted;
- Evaluate the performance of the economy and state institutions.

(d) iii
Challenges to Regulations and Financial Reporting
New Environment

i) Sometimes regulations designed to promote financial soundness and reporting may prevent desirable changes and interfere with the ability of the system to adapt itself to a new environment;

Outmoded Laws

ii) Regulatory bodies are usually slow to redefine the purposes and financial structures of public institutions. As public entities seek to broaden their scope of operations they are often faced with legal constraints and outmoded laws and financial regulations

iii) Timeliness – Undue delays will make reports lose their relevance;

iv) Cost Benefit – Cost of providing information should not be more than the benefits;

v) Quality – Quality of reports should meet objectives of financial reports;

vi) Collusion – When public officers collude to misapply or misappropriate public funds and property the objectives of regulations are defeated;

vii) Corruption – This is one of the risk factors that undermine public institutions and destroy the goals of public entities, making the application of regulations ineffective.
EXAMINER’S COMMENT
Many candidates are not familiar with The New Public Management concept and how the concept is meant to impact on public financial management.

QUESTION THREE
a)  
   i  Long-Term Development Plans  
   Economic development plans that spread over a number of years and are intended as bedrock of achieving development objectives of a country.

   ii  Guiding principles of a Long-Term Development Plan  
   i)  Capacity, ability and social and political stability;  
   ii)  Effective, reliable, pragmatic, flexible, legitimate, and well implemented strategy;  
   iii)  Identification of the core priorities of a country;  
   iv)  Urgency, political will and drive;  
   v)  Public and stakeholders legitimacy;  
   vi)  Should be devoid of strait-jacket economic ideologies and dogmas

   iii  Failure of earlier Long-Term Development Plans  
   i)  Long period of Military Interventions;  
   ii)  Lack of political will, drive, faith, urgency, commitment;  
   iii)  Absence of national ideological cohesion caused by inter-party and intra-party ideological cohesion;  
   iv)  Improper planning and implementation.

b)  
   •  It may be possible to use information on securities that are traded on a stock exchange to value similar securities by analogy, making an allowance for the inferior marketability of the non-traded securities.  
   •  If an existing fixed asset is no longer being produced but has been replaced by an asset whose characteristics are significantly different in some specific aspects but otherwise are broadly similar (for example, new models of vehicles or aircraft), then it may be reasonable to assume that the price of the existing asset would have moved in the same way as the price of the asset currently being sold.  
   •  It may be possible to value assets at their initial acquisition costs plus an appropriate revaluation for subsequent price changes minus an allowance for consumption of fixed capital, amortization, or depletion.  
   •  Most fixed assets are recorded in the balance sheet at their “written-down replacement cost”. This value is the original acquisition value of the asset adjusted by an allowance for price changes and then written down for the accumulated consumption of fixed capital.
c) The public procurement reform programme was part of a wider reform agenda targeted at improving public financial management. The objectives of the procurement reform proposals are to:
- Promote national development;
- Enhance harmony with other local and international laws;
- Foster competition, efficiency, transparency and accountability;
- Facilitate ease of procurement administration; and,
- Ensure value for money.

d) **Features of the New Chart of Accounts**

i) It reflects financial responsibility and accountability;

ii) It enables analysis of the budget by sector, geography and activity;

iii) It follows a logical pattern and so after some initial training and experience is relatively simple to understand and operate;

iv) It allows scope for future refinement and development and the introduction of more sophisticated forms of accounting elements of accrual accounting are already provided for;

v) It facilitates the integration of recurrent and development activities and provides for the separation of recurrent and development expenditure;

vi) It enables direct comparison of budget, commitment and actual transactions on modified accrual accounting and also facilitates measurement of resources;

vii) It introduces cost centre budgeting and accounting, which provides management of a budget at a decentralized level. These centres are equivalent to Head and Sub-Head Controllers as well as projects.

viii) It facilitates the production of consistent financial information at different levels of aggregation, resulting in a consolidated level of accountability to all interested parties.

e) **Internal Controls Over Revenue**

**Local Government**

Internal controls related to the Revenue function of the District Assembly shall ensure:

a. That revenues are consistently administered in compliance with the relevant laws;

b. That there is a rating system in place to ensure that the Assembly’s rateable persons and properties within the Assembly area are identified and that a valuation list is maintained and revised regularly in accordance with Section 96 (8) of the Local Government Act.

c. That Nominal Roll (D.A. Form 15) of ratepayers is maintained;

d. That Notice of Rates is published in the gazette (Fee Fixing Bulletin) in accordance with the applicable laws;
e. That all revenue due the Assembly have been identified, properly assessed, collected, lodged and recorded;
f. That revenue collected are adequately protected whilst in the custody of the District Assembly and that the gross amount is deposited in the bank accounts within 24 hours.
g. That adequate procedures and operational systems are in place to capture all such public revenues;
h. That all revenue received or receivable have been properly recorded in the appropriate books of account;
i. The collection of revenue by assembly shall be the responsibility of DCD;
j. All customers are promptly identified and the appropriate amount collectible from them assessed. A customer here is defined as any institution or individual that owes the Assembly because of goods and services supplied to him or the organisation;
k. Revenues are collected by officers having the appropriate authority to do so.
l. Authorized revenue officers shall issue serially numbered official General Counterfoil Receipts (GCR) for all revenues collected.
m. Revenue Officers are required to prepare and sign Daily Collections Summaries (DCS);
n. Based on the DCS, revenue officers are required to prepare pay-in-slips and pay revenue collections intact into the District Assembly’s designated Bank Accounts

EXAMINER’S COMMENT
Many candidates are still not familiar with the new Chart of Accounts. The impression is created that the candidates do not really know the importance of Chart of Accounts in Public Financial Management.

QUESTION FOUR

a) Public Accountability is the ability to call public officials to answer for their actions and inactions and to show evidence that public funds are utilized for public interest.

ii) Mechanisms for ensuring public accountability
   i) Disclosure – making information available to stakeholders;
   ii) Organisational structure – Defines clearly the authority and responsibilities of individual office holders;
   iii) Reporting – provision of financial, administrative and other relevant entity reports to government and other stakeholders;
   iv) Transparency – making information available and openness of information at no or low cost to stakeholders;
   v) Predictability – adherence to law and regulations that are clear and known in advance, uniformly and effectively enforced.
b) i

**Corporate Governance Principles for Governing Public Sector Entities.** This involves the re-evaluation of the role of government to ensure greater accountability and greater devolution of power.

**Definition of Corporate Governance**

The process by which organisations are directed, controlled and held to account. This is underpinned by the principles of openness, integrity and accountability. Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the top of the organisation.

ii) **Principles of Corporate Governance**

The principles of corporate governance are as follows:

(a) Standards of behaviour

(b) Organisational structures and processes

(c) Control

(d) External Reporting

These principles are relevant to public sector entities as well as private sector entities

(a) **Standards of Behaviour**

This may be summed up as leadership, codes of conduct, objectivity, integrity and honesty

- Leaders must be role-models
- Codes of conduct must define standards of behaviour
- Employees must not be influenced by prejudice
- Bias or conflicts of interest.

(b) **Organisational Structures and Processes**

These include statutory accountability, accountability for public money and communication with stakeholders.

- Compliance with legal rules;
- Safeguarding of assets and value for money
- Clear channels of communication with stakeholders and effective operation of channels of communication.

(c) **Control**

They include Risk Management, Internal Audit, Audit Committees and external audit process;

- Effective systems of risk management must be established;
- Effective internal audit function must be established;
- There must be independent review of framework of control by Audit Committees;
- Framework of internal controls should be established.
(d) **External Reporting**
- Need for timely publishing of financial statements and results of operations;
- Need for responsibility accounting, that is, responsibility for approval of budget, authorization of use of funds, maintenance of effective framework of control;
- Need for appropriate accounting principles and prudent judgement, and estimates and ensuring adherence to applicable accounting standards;
- Need for reports of relevant performance measures to demonstrate effective, efficient and economic use of resources;
- External Auditors should ensure objectivity and professionalism in their work.

c) **Objectives of the Public Private Partnership Agreement**
   a) Leverage public assets and funds with private sector resources from local and international market to accelerate needed investments in infrastructure and services,
   b) Encourage and facilitate investments by the private sector by creating and enabling environment for PPPs where value for money for government can be clearly demonstrated;
   c) Increase the availability of public infrastructure and services and improve service quality and efficiency of projects;
   d) Ensure attainment of required and acceptable local and international social and environmental standards;
   e) Protect the interest of all stakeholders including end users, affected people, government and the private sector;
   f) Set up efficient and transparent institutional arrangements for the identification, structural and competitive tendering of PPP projects;
   g) Provide framework for developing efficient risk sharing mechanisms;
   h) Encourage and promote indigenous Ghanaian private sector participation in the delivery of public infrastructure and services.

c) ii  
**Guiding Principles for public Private Partnerships**
   a) **Value for Money**
   Value for money is paramount and PPPs should give greater value for money than the best realistic public sector project designed to achieve similar service outputs. Achieving value for money is a key requirement of government at all stages of a project’s development and procurement and is a combination of the service outcome to be delivered by the private sector, together with the degree of risk transfer and financial implications for government. Value for money is the driver for adopting the PPP approach, rather than capital scarcity.
   
   b) **Risk Allocation**
An efficient risk allocation is vital in determining whether value for money can be achieved in PPP projects. Risks allocation is used to optimize, rather than maximize, the transfer of project risk to the private party. Risks will therefore be allocated to the party best able to control and manage them in such a manner that value for money is maximized. The allocation of risk will therefore determine the chosen method of private sector involvement and allocation of responsibilities, which shall take into account the protection of the public interest.

c) Ability to Pay
End user ability to pay is a key consideration for all PPP projects. The PPP option must demonstrate long-term affordability to the public and overall Government budgetary sustainability, forward commitments in relation to public expenditure and the potential for returns on private sector investments, given other priorities and commitments.

d) Local Content and Technology Transfer
PPP projects supposed to be structured to encourage the maximum use of local content and technology transfer. As much as possible, the PPP arrangement should facilitate the promotion of local industries and the private sector in the Ghana.

e) Safeguarding Public Interest and Consumer Rights
PPP project should have positive impact on the public interest. The following important principles need to be addressed in PPP transactions: - safeguards to user’s particularly vulnerable groups; - Setting affordable user charges and tariff structures.

f) Environmental, Climate and Social Safeguards
The government should ensure that PPP activities conform to the environmental laws of the country and the highest standard of environmental climate and social safeguards.

c)

IIi) Service Concession Arrangement
This is a binding arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement.

Lease
This is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Recognition of Revenue
All revenues are recognized evenly over the term of the arrangement. Revenues are recognized as reduction of liability.

Economic Life of an Asset
The period over which an asset is expected to yield economic benefits or service potential to one or more users or the number of production or similar units expected to be obtained from the asset by one or more users.
d) The Scope of Financial Activities of government has expanded tremendously since the country gained its independence and therefore there is the need to restructure, reform and decentralize methods and management of financial operations to reflect the diversity of public financial management in Ghana;

- Stewardship and Control is the act of protecting public property and money and control involves having the power or ability to make decisions. In the exercise of stewardship and control a head of government department is expected to produce quarterly profiles of reports about his/her unit. He is also responsible for undertaken the following:
  - Control of expenditure;
  - Handle unexpected events;
  - Control cash limits;
  - In some cases he may be called upon to produce a summary of economic prospects of his organisation.
  - Control problems resulting from excessive bureaucracy will be improved through greater delegation of power and decentralization.

- Local government authorities are best suited to plan, initiate, coordinate, manage and execute policies in respect of all matters affecting the local people since they are familiar with the environment.

- Enhancing and sustaining public accountability obviously require decentralization of public financial management because the lack of control at the local level makes it difficult to take financial decisions.

- Decentralized financial administration may reduce cost of making decisions and bringing financial administration closer to the local citizens especially in matters of revenue collection and management.

EXAMINER’S COMMENT
Candidates who deviated from these questions were usually those who were ill-prepared and therefore did not understand the meaning of the questions.
QUESTION FIVE

(a) **Mechanisms for Value for Money**
There are several mechanisms put in place by government to ensure that public interests are protected and state organisations practice value for money in public financial management. Among these are:

g) Laws and Regulations

ii) Regulatory Bodies

iii) Price Commissions/Commissions of Enquiry

iv) The Budget

- **Laws and Regulations**
  To ensure economic use of resources and value for money various laws and regulations have been established by government to serve as productivity factors, related efficiency yardsticks and prescriptions to prevent misuse of public funds and ensure value for money. Among these are the Financial Administration Act and Regulations, and The Public Procurement Act.

- **Regulatory Bodies**
  As an integral part of government financial operations, regulatory institutions have been established to ensure efficiency management, use of public moneys and resources, safety of public property, cost of services provided to the general public and quality of services provided by the private sector the public and to state entities. These regulatory bodies include the Ministry of Finance, Controller and Accountant General’s Department, The President and Cabinet, Parliament, Audit Service, Internal Audit Agency and a host of others.

- **Price Commissions / Commissions of Enquiry**
  Sometimes price commissions and commissions of enquiry are appointed by the President to frequently review some public entities and state financial transactions to ascertain the use of public economic resources and value for money in public contracts.

- **The Budget**
  Budgetary principles of financial control, transparency, public participation, and public accountability provide checks and procedures to prevent misuse of state resources and ensure value for money.

b) **Section 13 – Examination of Accounts (Audit Service Act)**
The Auditor General shall examine in such manner as he thinks necessary the public and other government accounts and shall ascertain whether in his opinion:

(a) The accounts have been properly kept;
(b) All public monies have been fully accounted for, and rules and procedures applicable are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;

(c) Monies have been expended for the purpose for which they were appropriated and the expenditures have been made as authorized;

(d) Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property; and

(e) Programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilized and results achieved.

c) IPSAS 17 – Property, Plant and Equipment provides guidance on the recognition, measurement and derecognition of fixed assets. The main principles are summarised below:

- **Recognition**
  The cost of an item of property, plant and equipment is recognised as an asset if it meets the following conditions:
  - It is probable that future economic benefits or service potential associated with the item will flow to the MDA
  - The cost or fair value of the item can be measured reliably

- **Measurement**
  - An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost
  - The cost of PPE comprises
    - a. Its purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
    - b. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
    - c. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.
  - If an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value at the date of its acquisition. A non-exchange transaction is one in which an entity receives resources and provides no or nominal consideration in return.

- **Measurement after Recognition**
  An MDA shall choose either the cost model or the revaluation model as its accounting policy and shall consistently apply that policy to an entire class of property, plant and equipment.

  - **Cost model.** The asset is carried at cost less accumulated depreciation and impairment
  - **Revaluation Model.** The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably. Under the
revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. If an item is revalued, the entire class of assets to which that asset belongs should be revalued.

- **Derecognition**
  The carrying amount of an asset shall be derecognized (written off) if:
  - The asset is disposed of;
  - No future economic benefits are expected to be accrued to the MDA from the use or disposal of the asset.

- **Disclosure**
  For each class of property, plant and equipment, an MDA must disclose the following:
  - Basis for measuring carrying amount;
  - Depreciation method(s) used;
  - Useful lives or depreciation rates;
  - Gross carrying amount and accumulated depreciation and impairment losses;
  - Reconciliation of the carrying amount at the beginning and the end of the period showing;
  - Additions;
  - Disposals;
  - Acquisitions through business combinations;
  - Revaluation increases;
  - Impairment losses;
  - Reversals of impairment losses;

**Depreciation**
Depreciation is the decline in the value of a fixed asset over an accounting period because of normal usage, physical deterioration due to wear and tear and age.

The estimated decline in the value of a fixed asset is allocated to the accounting periods over which the relevant asset is expected to be in use. The primary objective of depreciation is to match the cost of fixed asset, which typically have a useful life of more than one year, to the revenues derived from the use of that asset by the MDA.

MDAs shall apply the straight-line method of depreciation and the depreciation rates advised by the Controller and Accountant General. This method of depreciation allocates the cost of an asset less its present value evenly over the expected useful life of the asset.
The rates currently in use are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Depreciation rate</th>
<th>Expected useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Building</td>
<td>5%</td>
<td>20 years</td>
</tr>
<tr>
<td>Non Residential Building</td>
<td>5%</td>
<td>20 years</td>
</tr>
<tr>
<td>Other structures</td>
<td>5%</td>
<td>20 years</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>20%</td>
<td>5 years</td>
</tr>
<tr>
<td>Other Machinery Equipment</td>
<td>10%</td>
<td>10 years</td>
</tr>
<tr>
<td>Infrastructure assets</td>
<td>7%</td>
<td>14 years</td>
</tr>
</tbody>
</table>

d) i) Taxable persons
   - All individuals are taxable persons whatever their age unless they are specifically exempt;
   - Tax charged on the income of an office or employment;
   - Persons resident in Ghana are normally liable only to the extent that they derive their income from Ghana.

ii) The main principles underlying the imposition of taxes are:
   - Affordability (ability to pay in proportion to income or wealth)
   - Taxes should be certain, not arbitrary
   - Taxes should be levied in a convenient way
   - Cost of imposing and collecting taxes should be low
   - Taxes on international trade should be convenient and competitive.

d) iii) Types of Taxes Chargeable in Ghana

Domestic Taxes
Domestic taxes are administered by the Domestic Tax Revenue Division (DTRD) of the Ghana Revenue Authority. It is the merger of the operational wings of the erstwhile value Added Tax service and the Internal Revenue Service. Some of the domestic taxes being administered by the DTRD include:

Income Tax
Corporate Tax: this is the tax paid by companies on their profits in the year
The tax rate is 25%

Personal Income Tax: self-employed persons are required to pay income tax at graduated rates in four equal instalments. The current Personal Income Tax rates took effect from November 2011.

Pay As You Earn (PAYE): the PAYE contributions are withholding from salaries of employees in order to satisfy their income tax responsibilities. The PAYE is computed with the Personal Income Tax rate.

Tax Stamp
This is a tax collected form small-scale self-employed persons in the informal sector on quarterly basis. Under the Tax Stamp System, business operators in the informal sector are grouped according to business type e.g. dressmakers, susu collectors, chop bar owners, butchers etc. The business types are further grouped by class/size to arrive at equitable rates to be paid according to both type and size.

**Stamp Duty**

Stamp duty is administered under the Stamp Duty Act, 2005 (Act 689). The Stamp Duty is not a tax on transactions, but on documents brought into being for the purposes of recording transactions. It is therefore a tax on documents or specific instruments which have legal effect.

**Gift Tax**

This is a tax payable by a recipient on the total value of taxable gifts received in a year of assessment. The total value of taxable gift(s) must exceed GH¢50.00 in a year of assessment. Assets on which tax is imposed include land, buildings, money (including foreign currency), shares, bonds and securities, business and business assets. The rate of tax is 5%.

**Capital Gains Tax**

This is a tax paid on the gains made from the realization or sale of a chargeable asset where the gain exceeds GH¢50.00. Assets on which tax is imposed include land, buildings, business assets including goodwill and shares of a resident company. The rate of tax is 15%.

**Rent Tax**

This is the tax paid by rent income earners on the gross amount earned in a year of assessment. The rate of tax is 8% on the gross rent income. It is a final tax.

**Mineral Royalties**

This is a tax imposed on persons for the extraction of natural resources on or under the surface of the earth. The rate is 5%.

**Communications Service Tax (CST)**

The communication service tax (CST) is a tax levied on charges for the use of communication services that are approved by communications service operators. It is paid by consumers to the communications service providers, who in turn pay all CST collected on a monthly basis.

**VAT**

Value Added Tax (VAT) is abroad-based tax imposed on the expenditure of consumers when they purchase goods and services. It is collected by businesses which are registered to charge the tax in stages on the “value added” from the manufacturing to retail level. The businesses then account or the tax so collected at the end of every month. The current standard rate of tax is 12 ½ percent. A zero (a) rate is also applied to all exports.
National Health Insurance Levy (NHIL)
The National Health Insurance Levy (NHIL) is a levy imposed on goods and services supplied in or imported into the country. All goods and services are subject to the levy unless they are otherwise exempted. The levy is charged at a rate of 12 ½ on the VAT exclusive selling price of goods supplied or service rendered. The NHIL is a collected by registered businesses in the same way as VAT is collected.

VAT Flat Rate Scheme (VFRS)
This is a special method for collecting and accounting for VAT/NHIL. It is designed for traders operating in the retail sector. Under the VFRS, registered retailers of taxable goods shall charge VAT/NHIL at a marginal rate of 3% on the value of each taxable item sold.

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Two Advantages of financial Regulations
i) Risk Management
Effective systems of risk management can be established through regulations.

ii) Internal Controls
A framework of internal controls can be established to enable the organisation to attain its stated objectives.

iii) Organizational Structures and Processes
It is important to have clearly defined duties and roles for specified public officials, a defined governance structure, accountability for funds, communication structure and safe guarding of assets, in order to prevent institutional failures.

CONCLUSION
Although at first glance the questions appeared to be loaded with regard to allotted time and marks, the majority of candidates who were well-prepared for the examination answered all the questions with relative ease and satisfaction within the time-frame. Most of these questions involve definitions, explanations and applications. Some are knowledge-based, a few involve critical analysis, but generally if a candidate has thoroughly covered the syllabus there is no reason why he or she should not pass the paper.

There is the need to prepare candidates adequately for the Public Sector Accounting examinations. This may involve the Institute creating learning centres in areas such as Takoradi, Sunyani, Wa and Tamale. All topics in the syllabus need to be thoroughly taught to the candidates. Candidates should be encouraged to master examination techniques and management of time during examinations.