FEEDBACK TUTORIAL LETTER

ASSIGNMENT 2

SECOND SEMESTER 2017

PUBLIC SECTOR ACCOUNTING

[PSA712S]
ASSIGNMENT 2

QUESTION 1 [10 marks]

(a) To ascertain the propriety of transactions and their conformity with established rules. ✓
(b) To give evidence of financial accountability. ✓
(c) To serve as a basis for planning. ✓
(d) To serve as a basis for controlling. ✓
(e) To serve as a basis for decision making. ✓
(f) To serve as a basis for appraisal of management performance. ✓
(g) To ascertain the level of gross and net, expenditure analyzed into head and subheads i.e. services and funds. ✓
(h) To ascertain sources of funds for recurrent expenditure. ✓
(i) To ascertain how capital expenditure will be financed. ✓
(j) To ascertain the economy and efficiency with which the government carried out its functions and or pursued its objectives. ✓
(k) To determine the cost-effectiveness with which planned objectives were achieved. ✓
(l) To ascertain key service indicators and comparison with targets. ✓
(m) To provide general statistical information for major functions, e.g. sales, take-up of services, excess demand, costs etc. ✓
(o) To ascertain any major difficulties and problems being encountered by the operatives. ✓
(p) Evaluating the economy, efficiency and effectiveness which public sector organizations pursue their goals and objectives. ✓
(q) Ensuring that costs are matched by at least equivalent benefits there-from. ✓
(r) Providing the details of outstanding long-term commitments and financial obligations. ✓
(s) Providing the means by which actual performance may be compared with the target set. ✓

(1 mark for each correct or meaningful answer. Maximum 10 marks to be awarded)

NOTE TO STUDENTS: Some students answered this question with the users and not the uses of public sector financial information. Care should be taken to differentiate between the two.

QUESTION 2 [15 marks]

(i) Direct Tax
Unfavourable variance of
- Significant problems leading to companies and enterprises recording low profits. ✓
- Inefficiency on the part of collections of taxes ✓

(ii) Indirect Tax
Unfavourable variance of
- Non-consumption of the VAT selected goods and services ✓
- Over estimation of the VAT collection target ✓
- Declining of export trade ✓
- Decrease of imports ✓
- Inefficiency in collection of revenue ✓

(iii) Grants
Unfavourable variance of
- Not meeting conditions for disbursement ✓
- Withdrawal of development partners ✓
- Wrong or over budgeting ✓

**(iv) Other revenue**

Unfavourable variance of
- Citizens not committing to offences, such as traffic fines ✓
- No more assets or reduction of assets to sell ✓
- Users of government facilities and assets not paying, i.e. no rent payments on defaults on payments ✓

**(v) Compensation of employees**

Recording favourable variance of
- Over budgeted payroll or estimated increase not met ✓
- More people retired than employed ✓
- Unfavourable variance due to high demands on employment costs, as a result of strikes ✓

**(vi) Goods and services**

Favourable variance of
- Government not disbursing as budgeted ✓
- Estimated price increases lower than budgeted ✓
- Cutting down on the use of consultants ✓
- Cutting on capital expenditure such as construction of buildings and roads. ✓

**(vii) Interest**

Unfavourable variance of
- Cost of borrowing higher than budgeted, due to negative standing in credit ratings ✓
- More borrowing by the government ✓
- Previous defaults being paid now ✓

(1 mark for each correct or meaningful answer. Maximum 15 marks to be awarded)

**NOTE TO STUDENTS:** This question was generally well answered. However, some students struggled to understand the requirement, which was to name/list the causes of differences between budgeted and actual government expenditure.
QUESTION 3 [34 marks]

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NOTE TO STUDENTS: This question was very well answered. Students understood the calculations involved in the Vote Book.

Head: 502 1 mark
Sub-Head: 05 1 mark
Service: Stationery 1 mark

Authorised Appropriation:
- AGW: N$1,000,000 1 mark

Presentation: 1

Marks awarded:
- 1 mark
- 3 marks
- 6 marks
- 7 marks
- 8 marks

Total marks: 34
QUESTION 4 [10 marks]

Grootfontein Municipality
Bank Reconciliation Statement as at 30/09/2016

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<tr>
<th>Description</th>
<th>N$</th>
<th>N$</th>
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<td>Balance as per Cash Book</td>
<td>502,000</td>
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<tr>
<td>Add Unpresented Cheques (N$2000 + N$3,000)</td>
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<td>1 mark</td>
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<td></td>
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<td>2 marks</td>
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<tr>
<td></td>
<td>6,000</td>
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<tr>
<td></td>
<td>508,000</td>
<td>1 mark</td>
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<tr>
<td>Less Uncredited Deposit</td>
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<td>1 mark</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>1,000</td>
<td>2 marks</td>
</tr>
<tr>
<td></td>
<td>3,000</td>
<td>2 marks</td>
</tr>
<tr>
<td>Balance as per Bank Statement</td>
<td>505,000</td>
<td>1 mark</td>
</tr>
</tbody>
</table>

NOTE TO STUDENTS: This question was generally well answered. Some students were confused with what to deduct and what to add back in a bank reconciliation statement.

QUESTION 5 [22 marks]

a) Definition of internal audit – An independent appraisal function within an organisation for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal controls, financial and otherwise as a contribution to the effective use of resources within an organisation. ✓✓ (2 marks)

Definition of internal audit - as defined in accounting and auditing, is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. ✓✓ (2 marks)

The role and objectives of internal audit may vary between different parts of the Public Sector, depending on attitudes, statutory requirements, size etc.

It is the responsibility of internal audit to review, appraise and report upon the following matters:

i) The soundness, adequacy and application of internal controls ✓– internal controls can be said to comprise the whole system of controls established by management in order to:

   1) Safeguard its assets ✓
   2) Ensure reliability of records ✓
   3) Promote operational efficiency and ✓
   4) Monitor adherence to policies and directives. ✓

ii) The extent to which the organisation’s assets and interests are accounted for and safeguarded from losses of all kinds from: ✓

   1) Fraud and other offences and ✓
   2) Waste, extravagance and inefficient administration, poor value for money and other causes. ✓

(Any 6 points for 6 marks)
b) Factors that influence the size and organisation of an internal audit section are:

i) Type of organisation ✓

ii) The size of the organisation ✓

iii) The scope and objectives of internal audit ✓

iv) Managerial attitude to internal audit ✓

v) The adequacy of internal control system ✓

(Any 3 points for 3 marks)

c) As the internal auditor is appointed within the organisation he cannot be completely independent of the organisation but he must be sufficiently independent to allow him to carry out his duties in a manner which allows his professional judgement and recommendations to be effective and impartial. ✓ ✓

In order to operate effectively, the internal auditor should:

1) Be independent of all staff whose operations are under review. ✓

2) Not be involved in routine financial systems. ✓

3) Have direct access to all department heads, chief executive and the management board. ✓

4) Have full rights of access to records, assets and personnel and receive such information and explanation as are necessary for the performance of their duties. ✓ (6 marks)

d) Impairment of Independence

(i) Having an interest in business which is involved in any way with the audit. ✓

(ii) Having been previously involved e.g. as accountant in the operations; or ✓

(iii) Personal relationship e.g. a spouse or other relative of persons being audited. ✓ (3 marks)

NOTE TO STUDENTS: This question was generally poorly answered. Although students could define the terms ‘Internal Audit’ and ‘Internal Controls’, they struggled to understand the roles of each of them. Students further struggled to grasp the concept of the factors involved in deciding on the size of the internal audit function/team within an organisation.

Lastly, students also struggled to give real/factual examples/scenarios that may impair an internal auditor’s independence. They merely stated the types of threats to independence.

QUESTION 6 [10 marks]

1. E ✓

2. C ✓

3. B ✓

4. E ✓

5. E ✓

6. E ✓

7. D ✓

8. D ✓

9. A ✓

10. A ✓

(Max 10 marks – 1 mark for each correct answer)

NOTE TO STUDENTS: This question was generally poorly answered.