

NORTHERN
CAPE
EDUCATION
DEPARTMENT

2008

[This policy outlines the identification, recording, disclosure and treatment of appropriated funds of the department according to the requirements of the PFMA]

APPROPRIATED FUNDS POLICY

1. GENERAL

Section 38(1) (a) (i) of the PFMA stipulates the following:

The accounting officer for a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

BUDGETING AND APPROPRIATED FUNDS

DEFINITION

Appropriated funds are funds appropriated in terms of the National/Provincial Appropriation Act (including the National/Provincial Adjustments Appropriation Act) and the annual Division of Revenue Act (DORA).

2. PURPOSE

To outline policy and procedures for officials to have an understanding of budgeting and completion of the appropriation statement of the department in the annual financial statements.

3. OBJECTIVE

The objectives of the policy include -

- emphasising the accountability of employees for the Departmental resources;
- ensuring that employees have a clear and comprehensive understanding of the procedures they must follow for budgeting, recording and completion of the budget /appropriation statement;
- ensuring that resources made available to employees are utilised efficiently, effectively, economically and for authorised official purposes; and ensuring that the Department's resources are managed in compliance with the Public Finance Management Act, the Treasury Regulations and other relevant legislation

4. RECOGNITION

Appropriated funds are recognised in the financial records on the date the appropriation becomes effective. Adjustments to the appropriated funds made in terms of the adjustments budget process are recognised in the financial records on the date the adjustments become effective.

Total appropriated funds are presented in the statement of financial performance.

Unexpended appropriated funds are surrendered to the Provincial Revenue Fund. Amounts owing to the Provincial Revenue Fund at the end of the financial year are recognised in the statement of financial position.

5. PROCEDURES

The amount to be shown in the Statement of Financial Performance is the “Final appropriation” amount as disclosed in the appropriation statement.

BAS accounting entries

The BAS accounting entries used to record the receipt and use of a department’s annual appropriation are illustrated below.

Once the department knows what its allocation of funds* will be for the year, the following entry is processed:

DR	Exchequer grant account	XXX	
CR	General account of the vote		XXX

** this transaction may also occur after the publication of the adjustments budget for a department*

When a department requests these funds (according to the monthly payment schedule), the following entries are captured*:

DR	Fund requisition account	XXX	
CR	Exchequer grant account		XXX

** the capturing of the fund requisition on BAS represents an accrual based transaction, because an entry is processed without cash actually being received.*

When the funds have been received from the relevant treasury the following entries are captured by the department:

DR	Bank account (departmental PMG account)	XXX	
CR	Bank exception account		XXX

The bank exception account, fund requisition and bank adjustment account are cleared as follows:

DR	Bank exception account	XXX	
CR	Bank adjustment account		XXX

DR	Bank adjustment account	XXX	
CR	Fund requisition account		XXX

Reconciliations should be performed which reconcile payments from the relevant revenue fund into the departmental PMG accounts. Those reconciliations should be part of the

departmental internal control procedures, and should be done monthly when there is still enough knowledge of the transaction to do it correctly.

At the end of the financial year the exchequer grant account is credited with the balance of the general account of the vote:

DR	General account of the vote	XXX	
CR	Exchequer grant account		XXX

All individual expenditure accounts are automatically* closed-off to the exchequer grant account at year-end.

DR	Exchequer grant account	XXX	
CR	Appropriate expenditure accounts		XXX

* These transactions are affected by a special authorised batch run for the March month-closure.

The balance on the exchequer grant account at the end of the financial year is explained below:

Exchequer grant account

Opening journal entry (appropriated amount available to a department)	Requisition of funds made during the year credited to this account (the balance on this account during the year will indicate the drawings still available to the department)
Total expenditure incurred during the year (all expenditure accounts are closed-off to this account)	Closing journal entry of the general account of the vote (representing total final appropriation)
<u>XXX</u>	<u>XXX</u>

DEBIT balance in this account means that the department's expenditure was more than the Appropriation Act. This amount must be journalised to the unauthorised expenditure suspense account.

CREDIT balance in this account means that the department's expenditure was less than the Appropriation Act. This amount must be paid to the relevant revenue fund.

6. Legislation

s43(1) (PFMA)	<p>In terms of section 43(1) of the PFMA, an accounting officer is empowered to utilise a saving in the amount appropriated under a main division within a vote, towards the defrayment of excess expenditure under another main division within the same vote, unless the relevant treasury directs otherwise.</p>
TR 6.3.1	<p>With the issuing of Treasury Regulation 6.3.1, National Treasury has directed that the utilisation of savings towards the defrayment of certain categories of excess expenditure be subject to treasury approval. In this regard, this regulation indicates that:</p> <ul style="list-style-type: none"> • Compensation of employees and transfers and subsidies to other institutions excluding transfers of regional service council levies and municipal rates and taxes may not be increased without approval of the relevant treasury; • New transfers and subsidies may not be introduced without the approval of the relevant treasury; and • Allocations earmarked by the relevant treasury for a specific purpose (excluding compensation of employees) may not be used for other purposes, except with its approval. • Virement of funds from compensation of employees to transfers and subsidies for the payment of severance/exit packages are excluded from the provisions of (a) and (b).
s43(2) (PFMA)	<p>Section 43(2) of the PFMA places a proviso that the amount of the saving in section 43(1) may not exceed 8 per cent of the amount appropriated under that main division.</p> <p>The intention of the Legislature regarding section 43(2) was not primarily to limit virements but rather to:</p> <ul style="list-style-type: none"> • Ensure proper planning and allocation of funds to various programmes in accordance with government's policies and priorities; and • Ensure that spending by departments is in accordance with appropriations made by legislatures so as to address the specific needs of communities. <p>The Act, however, does not make provision for the relevant treasury to approve amounts in excess of 8 per cent.</p>
s43(4) (PFMA)	<p>Further, section 43(4) of the PFMA does not authorise the utilisation of a saving on:</p> <ul style="list-style-type: none"> • an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote; • an amount appropriated for transfer to another institution; and • an amount appropriated for capital expenditure to defray current expenditure <p>Although the 8% limitation and other virement limitations may seem impractical, the relevant sections</p>

	in the PFMA relating to the shifting of funds and appropriation processes were drafted in such a manner so as to allow sufficient flexibility for accounting officers to deal with such. This approach is consistent with one of the objectives of the PFMA, which is to enable public sector managers to manage, but at the same time be more accountable
s43 (PFMA)	Section 43 of the PFMA should be applied as follows: After approval of the Appropriation Bill by the legislature, the accounting officer can shift up to 8% savings under a programme (subject to transfer and capital limitations) towards the defrayment of excess expenditure under another programme.
s31(2)(f) (PFMA)	In terms of section 31(2) (f) of the PFMA, shifting of funds by the accounting officer between programmes must be reflected in the Adjustments Estimate.
s31(2)(e) (PFMA)	Apart from the aforementioned adjustments and in terms of section 31(2)(e) of the PFMA, the Adjustments Estimate can provide for the further shifting of funds (unlimited) between and within votes for approval by <u>the legislature</u> . After the finalisation of the Adjustments Estimate appropriation process, the accounting officer can <u>again</u> shift up to 8% of savings under a programme to defray excess expenditure under another programme. The accounting officer's authority to shift funds after appropriation by the legislature is therefore not limited to appropriations in the main budget. The shifting of funds by the accounting officer after the Adjustments Estimate must be reflected in the annual financial statements, which must be tabled in the legislature for discussion. The aforementioned application of virement emphasises the importance of proper planning in the allocation of funds, effective in-year management of expenditure and taking corrective actions in instances of variances between actual and budgeted expenditure. These issues have become crucial in order to comply with the PFMA and have been dealt with in the 'Guidelines for Accounting Officers' and the best practice guideline on 'In Year Management, Monitoring and Reporting'. The aforementioned documents are available on National Treasury's PFMA web page http://www.treasury.gov.za/pfma

7. ADDITIONAL

- The comparative figures for appropriated funds should at all times agree to the prior year as indicated in the annual report.
- The final appropriation as stated should agree to the adjustment estimates of the department
- The figures as completed on the appropriation statement should agree to the BAS expenditure reports and correctly classified between current, capital, transfers etc
- Any variances between the final appropriation and actual funds received for the financial year should be followed up with Provincial Treasury. Rollover of funds could be considered.

- Expenditure which exceeds the final appropriation budget should be accounted for in accordance with the unauthorised expenditure policy.
- The department considers any amount in excess **of 5% of the appropriated funds as material**. Therefore all variances in excess of 5% are explained.
- After the finalisation of the budget, the budget unit must record the budget on BAS.
- The budget should be reviewed by the Chief Financial Officer after it has been loaded onto BAS.
- The monthly In Year Monitoring report must be submitted to Provincial Treasury by the fifteen of each month. If the fifteen falls on a weekend, it must be submitted on the first working day of the following week.
- The In year Monitoring report must at the least contain with the following:
 - a) Prescribed format;
 - b) Include actual revenue and expenditure for the preceding month;
 - c) Include actual revenue and expenditure for the current month;
 - d) Submitted to both Provincial Treasury and the executive authority;
 - e) Includes projections on the remainder of the financial year;
 - f) Includes explanations on material variances;
 - g) Includes summary steps to be taken to ensure projections remain within the budget.

Rollover of funds

- All rollovers incurred by the department should be approved by the accounting officer or his/her delegate.
- Rollover of funds should only be used for the purpose of which the rollover was requested for.
- Request for rollover of funds should be submitted to Treasury on or before the last working day of April of each year.
- Rollover of funds should not be request for more than two consecutive financial years, unless approved by Treasury

Virement

- All virements conducted during the financial year, should be approved by the accounting officer or his/her delegate.
- The amount of saving under a programme of a vote that may be utilised to defray over-expenditure in another program may not exceed eight percent of the amount appropriated under that programme. Virement in excess of 8% must be approved by Provincial Treasury.

- A schedule of virements must be submitted to Provincial Treasury within 7 working days after financial year end.
- Savings may not be utilised for the following:
 - a) an amount specifically and exclusively appropriated for a purpose mentioned under the programme within a vote;
 - b) an amount appropriated for transfer to another institution; and
 - c) an amount appropriated for capital expenditure in order to defray over-expenditure on current expenditure.
- Personnel expenditure and transfers to other institutions must not be increased without approval of Provincial Treasury;
- New transfers must not be introduced without the approval of the Provincial Treasury
- Virement of funds from employee costs to transfers and subsidies for the payment of severance/exit packages are allowed.

Shifting of funds

- Shifting of funds between programmes during the financial year end/adjustment estimates should be approved by the accounting officer or his/her delegate.
- The shifting of funds and virement schedules must at all times agree to the appropriation statement.

Approved

 09/06/08

Head of Department