



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting Manual for Departments

Appropriation Statement

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1 Overview

The purpose of this Chapter is to provide guidance on how to prepare and present the appropriation statement and notes thereto.

The Office of the Accountant-General has compiled a Modified Cash Standard (MCS) and this manual serves as an application guide to the MCS which should be used by departments in the preparation of their financial statements.

Any reference to a "Chapter" in this document refers to the relevant chapter in the MCS and / or the corresponding chapter of the Accounting Manual.

Explanation of images used in the manual:

	Definition
	Take note
	Management process and decision making
	Example

2 Key Learning Objectives

- Compilation of the appropriation statement in the financial statements in terms of the MCS

3 Appropriation Statement

3.1 Introduction

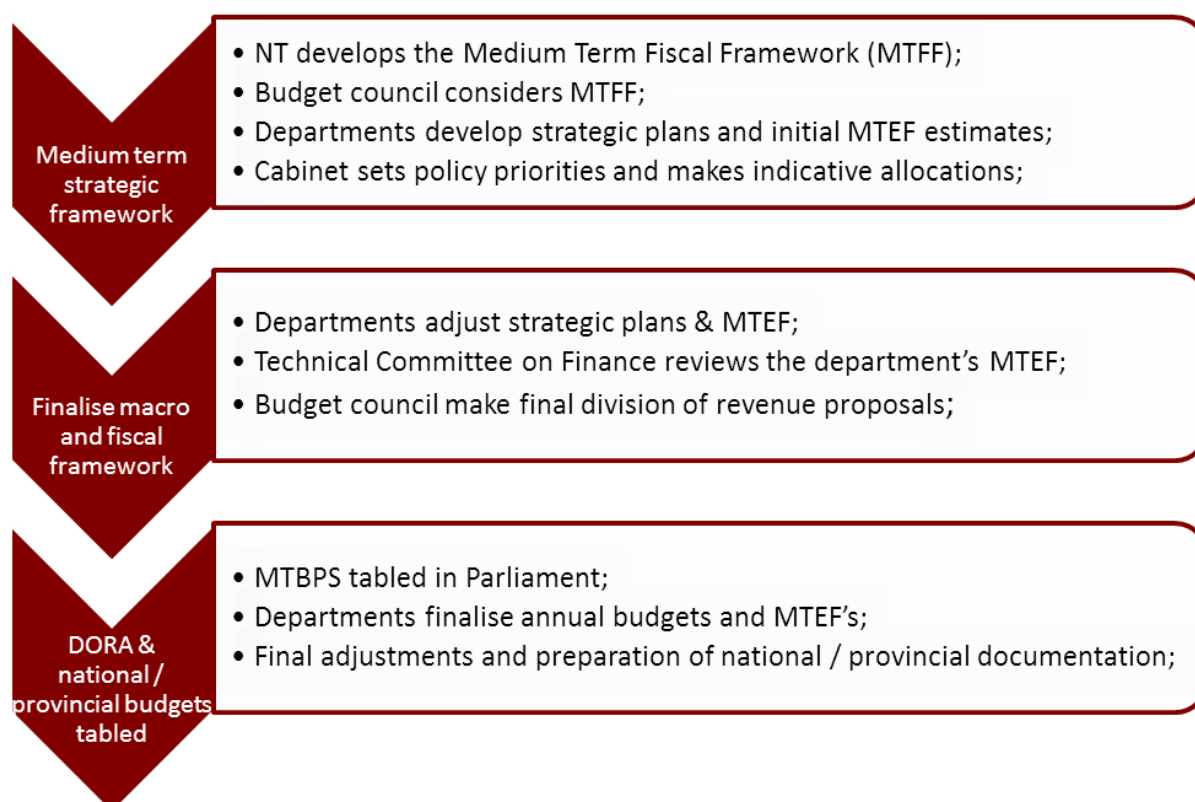
Appropriations to departments are made on the basis of their budgets. It is important to take into consideration that the budgets of the departments are based on the strategic plans of the departments. As such, the budget of a department is a quantification of the strategic priorities of the department. The division of the department's budget into the different programmes of the department is therefore indicative of strategic objectives of the department. Accordingly, the appropriation statements provide the users of the financial statements with an indication of how the department utilised its budget to achieve its strategic priorities.


The appropriation statement provides a comparison between budget amounts and the actual amounts arising from the execution of the budget with an explanation of the reasons for material differences.

The appropriation statement should include the various programme and sub-programme allocations, with a split between *current payments*, *transfers and subsidies* and *payments for capital assets*, *payments for financial assets*. Details of transfers and subsidies and amounts specifically and exclusively appropriated will be included in the notes and topic specific annexure to the financial statements.

3.2 The department's budget

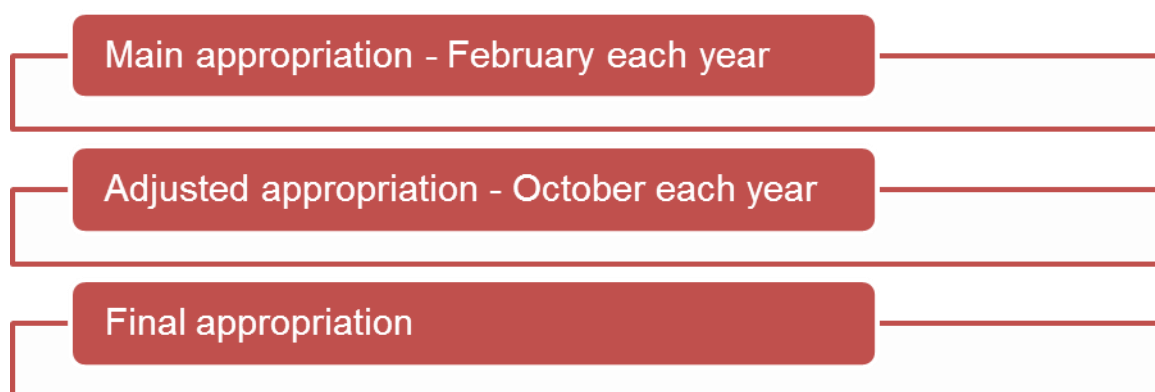
The annual budget process for national and provincial government is summarised in the diagram below:



	<p>The budget process is about deciding and agreeing on the best allocation of scarce resources to fund Government's many social, economic and political goals. This is achieved in two parallel and linked processes, a policy prioritisation process that describes what needs to be done, and a budget review processes that describes what resources are available.</p>
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Funds are appropriated to a department by Parliament / the Provincial Legislature. These figures are captured in the financial system before the start of the budget year to allow departments to start spending the funds from 1 April.

There are thus three appropriation figures relevant in a specific financial year:



- Main appropriation which is the approved budget for one year;
- Adjusted appropriation which is the main appropriation adjusted for virement, shifting of funds, roll-overs, unforeseeable / unavoidable and other adjustments;
- Final appropriation which is the adjusted appropriation adjusted for virement and shifting of funds.

Departments must ensure that the adjusted appropriation figures disclosed in the appropriation statement agree to the Adjusted Estimates of Expenditure (ENE) or Adjustments Estimates of Provincial Revenue and Expenditure (EPRE).

3.3 Changes to the main appropriation or adjusted appropriation

Taking into consideration that the budget process of departments allows for adjustments to the budget, for those instances where circumstances require a change, the appropriation statement should also reflect the changes made to the budget during the year. Through the reflection of the changes in the budget, the users of the financial statements are provided with a better understanding of the manner in which the budget was utilised by the department.

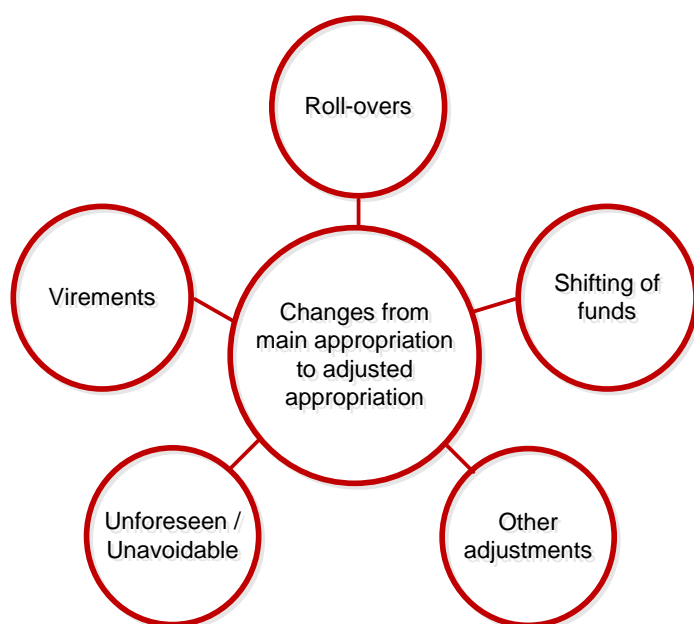
As such, the appropriation statement should reflect the budget, with other changes thereto that occurred during the year to arrive at the final budget of the department.

Departments, through the budget process are appropriated funds by Parliament or the provincial legislatures, which are to be spent in accordance with certain priorities. The budget for the financial year is usually approved before the start of the financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year. Subsequent to this initial budget being approved, it might become necessary to revise the initial estimates of revenue and expenditure due to for example, increased collection of revenue, unforeseen and unavoidable expenditure being incurred, the reallocation of funds between activities or types of expenses, the use of savings generated, or the roll-over of unspent funds from prior years. These adjustment budgets are required


by legislation to be approved again by Parliament or the provincial legislatures. The most recent budget approved by Parliament or the provincial legislatures is the approved budget for purposes of this Chapter.

Departments are allowed to make certain changes to the budget after it was previously approved by Parliament or the provincial legislatures. For example, departments are allowed to reallocate funds between programmes subject to limitations in legislation. These changes to the approved budget may in some instances not be formally approved again by Parliament or the provincial legislatures.

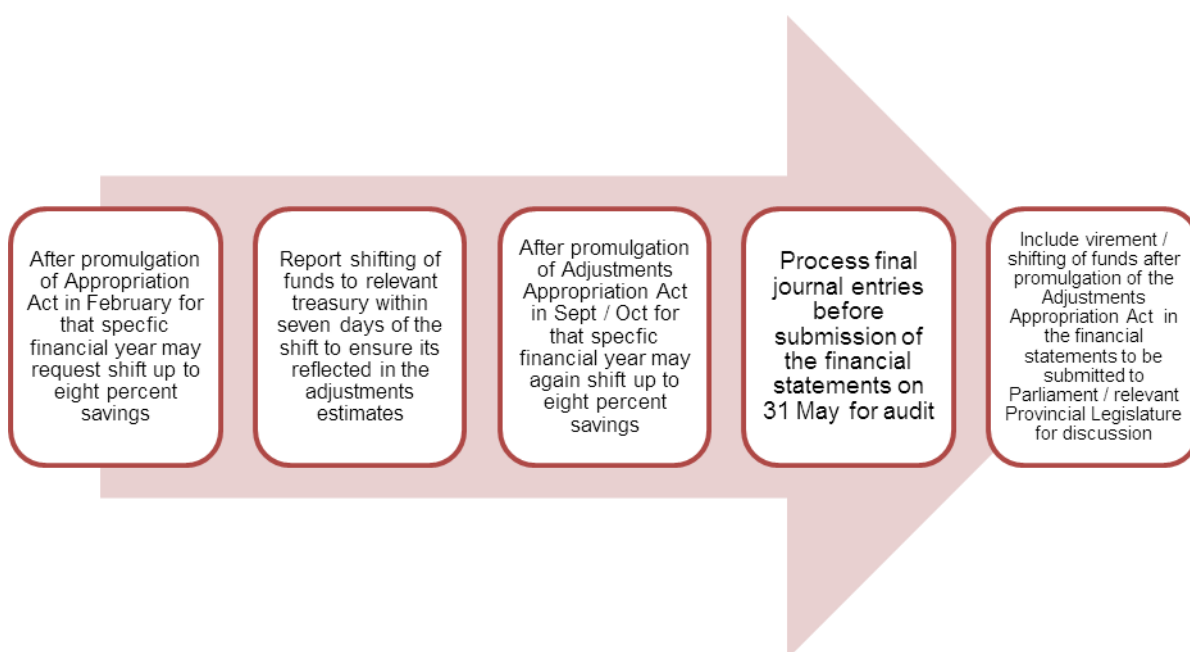
The changes from the main appropriation to the adjusted appropriation can be as a result of one or more of the following:




3.3.1 Virement

	<p>Under certain conditions, a budgetary allocation is transferred from one main division to another (without increasing the total departmental budget). The original purpose of the funds has changed.</p> <p>For rules and legislative requirements kindly refer to TR 6.3 and Sections 43 and 76(3) of the PFMA]</p>
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The timeline for virements is illustrated in the diagram below:



3.3.2 Shifting of funds

	<p>Shifting of funds means the re-allocation of funds incorrectly allocated during a specific financial year in the ENE or EPRE budget process, or where the funds are shifted due to the reclassification of expenditure (e.g. in line with Standard Charts of Accounts (SCOA) definitions).</p>
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Example: Shifting of funds

The following information relates to Department ABC budget:

Programme 1 with an approved budget on Consumable of R97 885.

Programme 1 with an approved budget of Inventory of R557 254.

Total departmental budget of R655 139.

Department ABC has requested a shift of funds between Programme 1 Consumable to Inventory in the same Programme for R60 000. The reason being that the department has erroneously budgeted for the expenditure. For the purposes of this example sub-programmes are ignored.

Programme1	Main Appropriation	Shifts	Adjusted Appropriation
	R'000	R'000	R'000
Consumable	98	(60)	38
Inventory	557	60	617

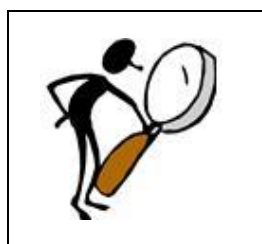
	Total	655	-	655
As can be seen after the shifting of funds the total appropriation remains the same.				

3.3.3 Virement vs shifting of funds

The table below sets out the differences and inter-relationship between a virement and a shifting of funds:

Virement	Shifting of funds
The total appropriation remains the same	The total appropriation remains the same
The original purpose of the funds changes	The original purpose of the funds remains the same
The utilisation of savings or under spending from amounts appropriated under one main division (programme) towards the defrayment of increased expenditure under another main division within the same vote	The utilisation of savings or under spending towards the defrayment of increased expenditure within a main division (programme) of a vote between different segments (sub-programme and economic classification) of the main division
	Can also happen when funds were incorrectly allocated in the ENE or EPRE budget process, or where the funds are shifted due to the reclassification of expenditure
May utilise a maximum of eight percent of the amount appropriated under the main division	No limitations on amounts to be shifted
May not do the following without the relevant treasury approval: <ul style="list-style-type: none"> • increase <i>compensation of employees</i>; • increase <i>transfers and subsidies</i> to other institutions excluding <i>transfers and subsidies</i> to other levels of government for the purposes of paying taxes and levies; • introduce new <i>transfers and subsidies</i> to other institutions; • utilise allocations earmarked for a specific purpose for other purposes; • utilise saving on amount appropriated for capital expenditure to defray current expenditure. 	

3.3.4 Roll-overs



For rules and legislative requirements refer to Treasury Regulations section 6.4 and Sections 30(2)(g) and 31(2)(g) of the PFMA

**Example: Roll-overs**

The following information relates to Department ABC budget:

Programme 2 with an approved budget of R103 557 254.

Total departmental budget of R201 442 555.

Department ABC has requested a roll-over of funds of R60 million in respect of a conditional grant due to delays in payments for March invoices.

For the purposes of this example sub-programmes are ignored.

	Main Appropriation	Roll-overs	Adjusted Appropriation
	R'000	R'000	R'000
...			
Programme 2	103 557	60 000	163 557
...			
Total	4 201 000	-	4 261 000

As can be seen after the amount was rolled over the total appropriation changes (increases).

3.3.5 Unforeseen / unavoidable

For rules and legislative requirements refer to Treasury Regulations 6.6 and Sections 30(2)(b) and 31(2)(b) of the PFMA

3.3.6 Other adjustments

Other adjustments mean any additional funding that is allocated to the department during the financial year, other than roll-overs. It also includes funds shifted between votes to follow the transfer of functions (i.e. function shifts between departments).

**Example: Other adjustments**

The following information relates to Department ABC budget:

Programme 4 with an approved budget of R697 885 301.

Total departmental budget of R4 201 million.

Department ABC has received an additional amount of R159 million to be allocated to Compensation of Employees across various sub-programmes in Programme 4 to provide for the higher than budgeted wage agreement.

	Main Appropriation	Other adjustments	Adjusted Appropriation
	R'000	R'000	R'000
...			
Programme 4	697 885	159 000	856 885
...			
Total	4 201 000	-	4 360 000

As can be seen after the additional amount is received the total appropriation changes (increases).

3.4 Statutory appropriation



Statutory appropriations are amounts charged to national / provincial departments in terms of specific legislation applicable to the department or the PFMA. The department is still accountable for the administration of the charge vested in them.

A statutory appropriation is not limited to the amount included in the estimate of expenditure, but should reflect the actual expenditure. Terminology used for statutory appropriations for budget purposes is "*direct charges against the relevant Revenue Fund*". Examples are:

- ✓ Sector education and training authorities (SETA);
- ✓ National Skills Fund;
- ✓ Salaries paid to judges and magistrates.

The amount shown as statutory appropriation on the face of the statement of financial performance and in the notes should only be disclosed if the amount has been budgeted as a separate line item in the published budget.


3.5 Expenditure

The amounts to be included in economic classification of expenditure are the **actual expenditure** during the year. The total should therefore agree to the amounts as per the statement of financial performance.

The purpose of the economic classification is to distinguish between those activities where the benefits are short-term in nature and those that have a benefit over a longer period, being capital, as well as those with regards to transfers and subsidies.

Payments are divided into three broad categories, namely current payments, transfers and subsidies and payment for capital assets.


Departments are required to indicate where there are differences in the economic classification of expenditure between the appropriation statement and the statement of financial performance. This should be done in the notes to the appropriation statement.

	<p>Departments are required to include a summary of expenditure per conditional grant to aid in the identification of under- / over spending of such funds and to allow the department to provide an explanation for the variance.</p>
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3.6 Reconciliation of appropriation statement to the statement of financial performance

Included in the statement of financial performance is a range of items not included in the adjustment estimate, including departmental revenue received over and above amounts included in the appropriation, prior year unauthorised expenditure approved without funding, and aid assistance received. An example is donor funds received outside the budget process. The items in the reconciliation should agree to the statement of financial performance where such amounts are disclosed individually.

The objective of the reconciliation is to ensure that items compared in the appropriation statement are in fact items that should be compared. The relevance of this reconciliation will become even more significant as we move towards accrual accounting, while the budget remains on a cash basis.

	<p>Sometimes when a department prepares its financial statements using the template issued by National Treasury, they can see the programmes and sub-programmes correctly on the cover sheet, but cannot see them all on the appropriation statement.</p> <p>The department should go to the cover sheet and select another department name, and then reselect the relevant department name. This will ensure that the background macros are allowed to run fully so that the programmes and sub-programmes appear on the appropriation statement as they appear on the cover sheet.</p> <p>For example: If the Department of Health can see that the programmes and sub-programmes are correct on the cover sheet, but notice that not all appear on the appropriation statement, then they should do the following:</p> <ul style="list-style-type: none"> • Go to the cover sheet. • Select another department name - for example, Department of Education. • Then, on the cover sheet, reselect the Department of Health. • Then check the appropriation statement. The programmes and sub-programmes should appear as they are on the cover sheet.
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3.7 Explanation of Variances

A department must provide an explanation of material differences between the budget and actual amounts. Note 1.1 provides an analysis of the difference between the voted funds and the amounts actually received during a financial year. An explanation of material variances between the appropriation and funds received (including whether or not application will be made for a rollover) should be included in the note. Provincial departments must differentiate between conditional grants voted and equitable share appropriated. Written confirmation should be obtained for all grants received from the department who made the grant.

Actual payment should be measured against appropriated funds available (adjustment estimate after taking into account allowed virement), and not only the funds received.

Any information disclosed should be limited to the key reasons for the variances, and should also address the impact on programme and service delivery. The information should be concise, but provide an adequate explanation to a user of the financial statements, highlighting savings / under spending and over spending.

A variance can either be as a result of under spending / over spending or savings.

4 Summary of Key Principles

This chapter provides guidance on how to prepare and present the appropriation statement and notes thereto.

4.1 Appropriation statement

The **appropriation statement** and notes thereto consist of the following:

1. Appropriation per programme
2. Reconciliation of appropriation statement with the statement of financial performance
3. Appropriation per economic classification
4. Statutory appropriation
5. Detail per programme - per sub-programme and per economic classification
6. Notes to the appropriation statement

4.2 A department's budget

Annual budget which is the approved budget for one year.

Approved budget which means the expenditure authority derived from laws, appropriation bills, regulations and other decisions related to the anticipated revenue or receipts for the budget period.

Final budget which is the approved budget adjusted for transfers, allocations, supplemental appropriations, and other changes applicable to the budget period.

4.3 A department's appropriation

Main appropriation which is the approved budget for one year - happens February each year.

Adjusted appropriation which is the main appropriation adjusted for virement, shifting of funds, roll-overs, unforeseeable / unavoidable and other adjustments - happens October each year.

Final appropriation which is the adjusted appropriation adjusted for virement and shifting of funds.

Departments must ensure that the adjusted appropriation figures disclosed in the appropriation statement agree to the Adjusted Estimates of Expenditure (ENE) or Adjustments Estimates of Provincial Revenue and Expenditure (EPRE).

4.4 Changes to the main appropriation or adjusted appropriation

Virement means that under certain conditions, a budgetary allocation is transferred from one main division to another (without increasing the total departmental budget). The original purpose of the funds has changed.

Shifting of funds means the re-allocation of funds incorrectly allocated and also includes programmes shifted within a vote to follow the internal transfer of programmes (e.g. from one programme to another). The original purpose of the funds remains the same.

Roll-overs mean that funds from the previous financial year that were committed, but not spent in that year are to be re-appropriated in the current financial year.

Unforeseeable / unavoidable means expenditure that could not be anticipated at the time of finalising the current financial year's main budget, such as a disaster fund.

Other adjustments mean any additional funding that is allocated to the department during the financial year, other than roll-overs. It also includes funds shifted between votes to follow the transfer of functions (i.e. function shifts between departments).

4.5 Expenditure

The amounts to be included in economic classification of expenditure are the actual expenditure during the year.

Departments are required to include a summary of expenditure per conditional grant to aid in the identification of under / over spending of such funds and to allow the department to provide an explanation for the variance.

4.6 Explanation for variances

Actual payment should be measured against appropriated funds available (adjustment estimate after taking into account allowed virement), and not only the funds received.

A variance can either be as a result of **under spending / over spending or savings**.

5 Comprehensive Illustrative Example

The following information relates to Department ABC's main and adjusted appropriation for the 20x2 financial year, as per the Adjustments Estimate of Revenue and Expenditure:

	Main appropriation	Adjusted appropriation	Increase / (Decrease)
	R'000	R'000	R'000
Total amount to be appropriated	604 281	613 587	9 306
<i>of which:</i>			
Current payments	509 326	511 266	1 940
Transfers and subsidies	41 658	57 529	15 871
Payments for capital assets	53 297	44 734	(8 563)
Payments for financial assets	-	58	58

Summary by programme:

	Main appropriation	Adjustments appropriation					Total adjustments appropriation	Adjusted appropriation
		Roll-overs	Unforeseeable / unavoidable	Virement	Shifts	Other adjustments		
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Programme 1	100 547	-	2 458	10 021	-	-	12 479	113 026
Programme 2	83 541	3 804	-	893	(3 054)	5 000	6 643	90 184
Programme 3	238 354	2 841	-	(16 368)	700	-	(12 827)	225 527
Programme 4	93 412	11 515	-	-	2 354	-	13 869	107 281
Programme 5	88 427	6 560	-	5 454	-	(22 872)	(10 858)	77 569
Total	604 281	24 720	2 458	-	-	(17 872)	9 306	613 587

Summary by economic classification:

Main appropriation		Adjustments appropriation					Total adjustments appropriation	Adjusted appropriation
		Roll-overs	Unforeseeable / unavoidable	Virement	Shifts	Other adjustments		
R'000		R'000	R'000	R'000	R'000	R'000	R'000	R'000
Current payments	509,326	15,319	2,458	11,346	(562)	(26,621)	1,940	511,266
Compensation of employees	186 250	-	-	(3 587)	-	-	(3 587)	182 663
Goods and services	321 493	15 319	2 458	14 933	(562)	(26 621)	5 527	327 020
Interest and rent on land	1 583	-	-	-	-	-	-	1 583
Transfers and subsidies	41 658	6 560	-	-	562	8 749	15 871	57 529
Provinces and municipalities	39 658	6 560	-	-	-	3 749	10 309	49 967
Departmental agencies and accounts	-	-	-	-	-	-	-	-
Universities and technikons	-	-	-	-	-	-	-	-
Foreign governments and international organisations	-	-	-	-	-	-	-	-
Public corporations and private enterprises	-	-	-	-	-	-	-	-
Non-profit institutions	-	-	-	-	-	-	-	-
Households	2 000	-	-	-	562	5 000	5 562	7 562
Gifts and donations	-	-	-	-	-	-	-	-
Payments for capital assets	53 297	2 841	-	(11 404)	-	-	(8 563)	44 734
Buildings and other fixed structures	50 000	-	-	(11 404)	-	-	(11 404)	38 569
Machinery and equipment	3 297	2 841	-	-	-	-	2 841	6 138
Heritage assets	-	-	-	-	-	-	-	-
Specialised military assets	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-

Main appropriation	Adjustments appropriation					Total adjustments appropriation	Adjusted appropriation
	Roll-overs	Unforeseeable / unavoidable	Virement	Shifts	Other adjustments		
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land and subsoil assets	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-
Payments for financial assets	-	-	58	-	-	58	58
Total	604 281	24 720	2 458	-	(17 872)	9 306	613 587

Summary of adjusted estimates for the 20x2 financial year:

Roll-overs: A total amount of R24.7 million was rolled over from 20x1, comprising the following:

R3.8 million against Programme 2 in respect of the XXX Team. The contract for the panel was finalised by July 20x0 and towards the end of August 20x0 a notification was issued by the Head of the Department ABC on the availability of the team to all departments. With this announcement, the first appointment was only made in January 20x1, resulting in the funds not being fully utilised in 20x1, hence the roll-over request.

R2.8 million against Programme 3 for the purchasing of a server for the computer network system. The delay was due to a longer than expected procurement process.

R11,5 million against Programme 4 for consultants' fees in respect of risk management facilitation workshops and training, forensic investigations and conducting IT risk assessments on BAS.

Unforeseeable / unavoidable: A total amount of R2.5 million was incurred due to unforeseeable / unavoidable expenditure, comprising the following:

Repairing flood damages to water infrastructure in the Gauteng Province

Virement between programmes: The following virement was undertaken between programmes:

R11.4 million was identified as savings under Programme 3 against Buildings and other fixed structures due to slow progress construction of buildings. The department revised its implementation strategy due to internal SCM processes that have proved to be slow, as the department lacks the technical capacity to undertake infrastructure projects because of the compliance requirements in terms of the CIDB Act and Industry

regulation. As such the department has appointed Department XYZ to undertake most of its projects. However, the department is awaiting contracts with Department XYZ for these projects to be finalised.

R3.6 million was identified as savings under Programme 3 against Compensation of employees due to the slower than anticipated filling of funded vacant posts, as a result of difficulty in finding suitable candidates.

Savings of R10 million were moved to Programme 1, and mainly against goods and services, to cater for vehicle maintenance, computer services and training costs that were under-budgeted for.

Savings of R893k were moved to Programme 2 to address pressures related to higher than budgeted operating leases for the rental of buildings.

Savings of R5.5 million were moved to Programme 5 to provide for costs in respect of the feasibility study being undertaken for developing a government office park.

Shifts: The department undertook the following shifting of funds:

R3 million was shifted from Programme 2 due to the slow spending on the Systematic Evaluation Programme resulting from delays in SCM processes (such as adjudication and accreditation of bidders) for the appointment of service providers to assist entities with their operational activities. This amount was shifted as follows:

R700k was shifted to Programme 3 to provide costs associated with Electronic Management Information System.

R2.4 million was shifted to Programme 4 to provide for costs relating to the appointment of service providers to assist with specialised assignments, such as translations and transcripts.

R562k was shifted within Programme 5 from Goods and services to Transfers and subsidies: Households in respect of bursaries to non-employees. This resulted from a change in SCOA classifications, where bursaries which were paid under Goods and services are now being paid under Transfers and subsidies: Households. The original purpose of the funds remains unchanged.

Other adjustments:

R5 million was allocated to support services pensioners' medical aid obligation under Transfers and subsidies: Households in Programme 2.

R3.7 million was returned to the department by Municipality DEF relating to funds transferred to the municipality for specific projects, due to a council resolution undertaken by the municipality to withdraw from the projects. These funds were returned to the Provincial Revenue Fund and are now being allocated back to the department to be spent on similar projects undertaken by Municipality MNO. This amount is allocated under Transfers and subsidies: Provinces and municipalities in Programme 5.