



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

ANNEXURE D

Examples of Unauthorised Expenditure

Office of the Accountant – General

Chief Directorate: Governance Monitoring and Compliance

Examples of Unauthorised Expenditure

APPROPRIATIONS BY PARLIAMENT AND THE PROVINCIAL LEGISLATURES

- (a) In all the above, it is clear that Schedules to the appropriation Act clearly highlight the purpose of the vote as well as its main divisions within the vote. These Schedules also provide a tabular summary of the amounts that have been allocated per vote and per main division within a vote.
- (b) In addition, these Schedules also indicate amounts that have been allocated, per vote, for the following economic classifications:
- | | |
|-------------------------------|------------------------------------|
| (i) Current Payments | (ii) Payments for Capital Assets |
| (iii) Transfers and Subsidies | (iv) Payments for Financial Assets |
- (c) **Amounts specifically and exclusively appropriated** are also reflected in the Schedules that reflect the abovementioned information.
- (d) Whilst it is recognized that Schedules to appropriation Acts contain amounts allocated to some, if not most of the above economic classifications, the question now arises as to what level do Parliament and/or the provincial legislature's appropriate money for departments, which is particularly important for, amongst others, the correct calculation of unauthorised expenditure.


TABLE 1: EXTRACT FROM A SCHEDULE TO THE APPROPRIATION ACT, 2011

VOTE	DESCRIPTION		CURRENT PAYMENT			TRANSFER AND SUBSIDIES	PAYMENTS FOR CAPITAL ASSETS	PAYMENTS FOR FINANCIAL ASSETS
			COMPESTATION OF EMPLOYEES	GOODS AND SERVICES	OTHER			
		R'000	R'000	R'000	R'000	R'000	R'000	R'000
1.	The Presidency Aim: Facilitate a common programme towards the achievement of the electoral mandate and the enhanced integrity of the state through considered planning, coordination, oversight, mobilisation and support. Programme 1. Administration Provide effective leadership, strategic management and administrative support service to the principals and the branches of the Presidency in fullfilment of the Presidency's mission and mandate. Programme 2. National planning	1 092 881	294 133	237 779		553 148		
		462 080	272 144	55 209				

Examples of Unauthorised Expenditure

<p>Develop the country's long term vision and national strategic plan and contribute towards better outcomes in government through better planning, better long term plans, more policy coherence and clear articulation of long term goals and aspiration</p>	<p>77 657</p>	<p>21 989</p>			<p>4</p>	
<p>Programme 3. National Youth Development Agency</p>						
<p>Facilitate the transfer of funds to the National Youth Development Agency to allow the agency to initiate, implement, facilitate and monitor youth development interventions aimed at reducing youth unemployment and promoting social cohesion. Of which Departmental agencies and accounts</p>	<p>392 710</p>				<p>392 710</p>	
<p>- National Youth Development Agency: Operations.</p>					<p>392 710</p>	

UNAUTHORISED EXPENDITURE AND ECOECONOMIC CLASSIFICATION

	<p>In the above extract from a Schedule to the Appropriation Act, 2011, it is clear that the schedule provides information of amounts that are allocated to the vote and to the main divisions within the vote.</p> <p>This is consistent with the definition of unauthorised expenditure which only refers to the vote and main divisions within the vote. Whilst the Schedule also provides information on amounts allocated to economic classifications (Current Payments, Transfers and Subsidies, Payments for Capital Assets and Payment for Financial Assets),</p> <p>Its mere inclusion in the Schedule does not necessarily qualify for it to be considered in the calculation of unauthorised expenditure, especially since the concept 'economic classification' is conspicuously absent in the definition of unauthorised expenditure.</p>
---	--


1. In summary, money is appropriated to a department to carry out its business. The breakdown of expenditure per economic classification is for information purposes, providing the public with additional information on how the department intends to spend the money to achieve its objectives.


Examples of Unauthorised Expenditure

2. Economic classification is an analytical presentation of government receipts and payments. **If a deficit is shown**, the budget balance provides information about the scale of financial resources required to finance governments operations (this would normally be unauthorised expenditure).

CALCULATION OF UNAUTHORISED EXPENDITURE

3. The following eight (8) examples demonstrate how unauthorised expenditure must be calculated in different circumstances:

	<p>Definition</p> <p>Unauthorised Expenditure is defined in section 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) to mean:</p> <ul style="list-style-type: none">a) <i>overspending of a vote or a main division within a vote; or</i>b) <i>expenditure that is not made in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.</i>
---	--

	<p>Section 1 of the PFMA defines vote, main division within a vote and overspending as follows:</p> <ul style="list-style-type: none">• Vote means one of the main segments into which an appropriation Act is divided and which (a) specifies the total amount which is usually appropriated per department in an appropriation Act; and, (b) is separately approved by Parliament or a provincial legislature, as may be appropriate, before it approves the relevant draft appropriation Act as such.• Main division within a vote (often referred to as a programme) means one of the segments into which the vote is divided and which (a) specifies the total amount which is appropriated for the item under that segment; and (b) is approved by Parliament or a provincial legislature, as may be appropriate, as part of the vote.• Overspending in relation to a vote means when expenditure under the vote exceeds the amount appropriated for that vote; or in relation to a main division within a vote, means when expenditure under the main division exceeds the amount appropriated for that main division, subject to the virement rules contained in section 43 of the PFMA.
---	---

Examples of Unauthorised Expenditure

EXAMPLE 1: OVERSPENDING OF A VOTE AND MAIN DIVISION WITHIN A VOTE

	Total budget	Actual expenditure	Variance
Programme 1: Administration	100	100	-
Programme 2: Digital Migration	250	250	-
Programme 3: Infrastructure Development	300	320	-20
TOTAL	650	670	-20

In this example 1, the overspending of the main division within a vote (programme) is the same as the overspending of the Vote. Examining the expenditure of programme 3, it is noted that the overspending relates to purchase of capital assets (see below).

Economic classifications	Total budget	Actual expenditure	Variance
<i>Programme 3: Infrastructure Development</i>	300	320	-20
Current payments	120	120	-
Payments for capital assets	130	150	-20
Transfers and subsidies	50	50	-
Payments for financial assets	-	-	-

The amount recognized as unauthorized expenditure is therefore R20.

Cash position of department at end of the financial year:

Total appropriation received	650
Total amount spent	670
Bank overdraft balance	(20)
Savings to be surrendered	-
Bank balance after surrenders	(20)

Examples of Unauthorised Expenditure

EXAMPLE 2: OVERSPENDING OF A VOTE AND MAIN DIVISION WITHIN A VOTE WITH SAVINGS IN ANOTHER MAIN DIVISION

Economic classifications	Total budget	Actual expenditure	Variance
Programme 1: Administration	100	90	10
Programme 2: Digital Migration	250	250	-
Programme 3: Infrastructure Development	300	320	-20
TOTAL	650	660	-10
Detail of economic classification per programme:			
<i>Programme 1: Administration</i>	100	90	10
Current payments	85	76	9
Payments for capital assets	10	9	1
Transfers and subsidies	-	-	-
Payments for financial assets	5	5	-
<i>Programme 3: Infrastructure Development</i>	300	320	-20
Current payments	120	120	-
Payments for capital assets	130	150	-20
Transfers and subsidies	50	50	-
Payments for financial assets	-	-	-

In this example, the principles of virement will be applied to demonstrate how shifting of funds from one programme to programme may reduce or limit unauthorised expenditure from incurring provided that there is sufficient savings to be shifted and if such savings are moved within the rules set in section 43 of the PFMA and section 5 of the appropriation act respectively.

A: Calculation of virement allowance	
Appropriated amount under programme	R100
Virement percentage to shift	8%
Total amount to be shifted to programme 3	R8
B: Calculation of the unauthorised expenditure	
Overspending in programme 3	(R20)
Saving in programme 1	R8
Unauthorised expenditure	(12)

Examples of Unauthorised Expenditure

C: Calculation of a saving to be surrendered back	
Saving in programme 1	R10
Virement utilised in programme 3	(R8)
Saving to be surrendered back	R2
	<i>The department would surrender R2 and record R12 as unauthorised expenditure</i>
D: Cash position of department at end of the financial year	
Total appropriation received	R650
Total amount spent	R660
Bank balance	(R10)
Savings to be surrendered	(R2)
Bank balance after surrenders	(R12)

EXAMPLE 3: OVERSPENDING OF A MAIN DIVISION WITHIN A VOTE

	Total budget	Actual expenditure	Variance	
Programme 1: Administration	100	100	-	
Programme 2: Digital Migration	250	230	20	Underspending
Programme 3: Infrastructure Develop	300	320	-20	Overspending
TOTAL	650	650	-	
Detail of economic classification per programme:				
<i>Programme 2: Digital Migration</i>	250	230	20	
Current payments	170	170	-	
Payments for capital assets	80	60	20	
Transfers and subsidies	-	-	-	
Payments for financial assets	-	-	-	
<i>Programme 3: Infrastructure Develop</i>	300	320	-20	
Current payments* (goods & services)	120	135	-15	
Payments for capital assets	130	135	-5	
Transfers and subsidies	50	50	-	
Payments for financial assets	-	-	-	

**The overspending relates to the purchase of goods and services and not compensation of employees*

Examples of Unauthorised Expenditure

A: Calculation of virement allowance	
Appropriated amount under programme 2	R250
Virement allowance	8%
Total amount to be shifted in programme 3	R20
B: Calculation unauthorized expenditure	
Current payment (goods and services)	(R15)
Payment of capital expenditure	(R5)
Saving from programme 2	R20
Unauthorised expenditure	R0
C: Calculation of a saving to be surrendered back	
Saving in programme 2	R20
Overspending in programme 3	(R20)
Saving to be surrendered back	R0
D: Cash position of department at end of the financial year	
Total appropriation received	R650
Total amount spent	R650
Bank balance	R0
Savings to be surrendered	R0

The saving on programme 2 could be used to defray the excess expenditure on programme 3 provided that prior approval/ authorization is obtained from National Treasury to do so (savings on payments for capital assets may not be used for overspending on current payments without the approval of the National Treasury, as required in terms of section 5 of the Appropriation Act, 2012 (Act No.7 of 2012). This is only applicable to national departments unless provincial appropriation acts contain a similar provision.

The department therefore has no unauthorized expenditure as the vote was not exceeded and will consequently not need to surrender any surplus funds.

If the department did not obtain treasury approval to use the R20 saving from capital (asset) expenditure to defray excess expenditure in current payment, then the department would have an unauthorized expenditure of R15 after offsetting the R20 saving in Programme 2 against the R5 overspending for capital in Programme 3.

Examples of Unauthorised Expenditure

EXAMPLE 4: SAVING ON THE TOTAL VOTE WITH AN OVERSPENDING IN A MAIN DIVISION WITHIN A VOTE

A - BEFORE application of virement and/or movement of capital expenditure

	Total budget	Actual expenditure	Variance
Programme 1: Administration	100	100	-
Programme 2: Social Cohesion	200	250	-50
Programme 3: Policy Development	200	130	70
TOTAL	500	480	20
Detail of economic classification per programme:			
Programme 2: Social Cohesion	200	250	-50
Current payments* (goods and services)	120	170	-50
Payments for capital assets	80	80	-
Transfers and subsidies	-	-	-
Payments for financial assets	-	-	-
Programme 3: Policy Development	200	130	70
Current payments	100	50	50
Payments for capital assets	50	30	20
Transfers and subsidies	50	50	-
Payments for financial assets	-	-	-

*The overspending relates to the purchase of goods and services and not compensation of employees.

The department may use the “virement allowance” (as per section 43 of the PFMA) to reduce the overspending on Programme 2, if it has not already done so. The virement amount for programme 3 is: R16 (R200 x 8%). **The limitation of 8% is only on the transferring programme and NOT on the receiving programme.**

In addition the R20 saving on payments for capital assets may be used for overspending on current payments but only with the approval of the National Treasury, as required in terms of section 5 of the Appropriation Act, 2012 (Act No.7 of 2012). *This is only applicable to national departments* unless provincial appropriation acts contain a similar provision as contained in the Appropriation Act No.7 of 2012.

In light of the above the appropriation statement tables would change to reflect the following:

Examples of Unauthorised Expenditure

B - AFTER application of virement and movement of capital expenditure

	Total budget	Actual expenditure	Variance
Programme 1: Administration	100	100	-
Programme 2: Social Cohesion	232	250	-18
Programme 3: Policy Development	168	130	38
TOTAL	500	480	20
Detail of economic classification per programme:			
Programme 2: Social Cohesion	232	250	-18
Current payments*	152	170	-18
Original amount	120		
+ Virement of R16 from Program 3	16		
+ Capital transfer R20 from Program 3	20		
Payments for capital assets	80	80	-
Transfers and subsidies	-	-	-
Payments for financial assets	-	-	-
Programme 3: Policy Development			
	168	130	38
Current payments	84	50	34
Original amount	100		
Less: Virement of R16 to Program 2	-16		
Payments for capital assets	34	30	4
Original amount	50		
Less: Capital transfer to Program 2	-16		
Transfers and subsidies	50	50	-
Payments for financial assets	-	-	-
Calculation of the bank balance			
Total appropriation received	R500		
Total amount spent	R480		
Saving to be surrendered	R20		
Unauthorised Expenditure	R18		
Total Amount to be surrendered	(R38)		
Bank balance	(R38)		

Examples of Unauthorised Expenditure

EXAMPLE 5: INCORRECT UTILISATION OF FUNDS OUTSIDE THE MANDATE OF THE VOTE OR MAIN DIVISION WITHIN A VOTE


Economic classifications	Total budget	Actual expenditure	Variance
Programme 1: Administration	80	80	-
Programme 2: Public finance and budget man	160	160	-
Programme 3: Asset and liability management	40	40	-
TOTAL	280	280	-

In this example there is no overspending of the main division within a vote (programme) or the vote for this provincial treasury.

At the end of the financial year it was discovered that the provincial treasury used some of programme 2's funding to procure condoms for the general public. ***Total cost of procuring condoms for the year was R15.***

The utilization of the programme money to procure condoms for the general public meets the second part of the definition of unauthorized expenditure, namely "expenditure not in accordance with the purpose of a vote, or in the case of a main division, not in accordance with the purpose of the main division."

An amount of R15 used to procure condoms will thus be recorded as unauthorized expenditure.

	<p>Reasons for the unauthorised expenditure</p> <p>Because the provincial treasury used funds for a purpose other than what it was intended for, the provincial treasury will be required to surrender R15 back to the relevant revenue fund.</p>
---	--

Cash position of department at end of the financial year	
Total appropriation received	R280
Total amount spent	R280
Saving to be surrendered	0
Total Amount to be surrendered	(R15)¹
Bank balance	(R15)

¹ Although the department has spent its appropriated funds without incurring any over-expenditure, however funds were spent not in accordance with the purpose of the main division, then such money spent will result in an unauthorised expenditure. The same amount spent must be surrendered back to the relevant revenue fund at the financial year.

Examples of Unauthorised Expenditure

EXAMPLE 6: INCORRECT UTILISATION OF FUNDS OUTSIDE THE MANDATE OF THE VOTE OR MAIN DIVISION WITHIN A VOTE WITH AN OVERSPENDING IN THE TOTAL VOTE


Economic classifications	Total budget	Actual expenditure	Variance
Programme 1: Administration (capital expenditure)	100	90	10
Programme 2: Digital Migration	260	260	-
Programme 3: Infrastructure Development (current expenditure)	140	170	-30
TOTAL	500	520	-20

Virement allowance” (as per section 43 of the PFMA) for programme 1 is: R8 (R100 x 8%)

At the end of the financial year it was discovered that the department used some of programme 2’s funding to procure a helicopter for the accounting officer. Total cost of procuring helicopter for the year was R20.

The utilization of the programme 2’s budget to procure a helicopter for the accounting officer meets the second part of the definition of unauthorized expenditure, namely “expenditure not in accordance with the purpose of a vote, or in the case of a main division, not in accordance with the purpose of the main division.”

The R20 used to purchase the helicopter will thus be recorded as unauthorized expenditure.

	<p>Because the department used funds not in accordance with the purpose of the vote or main division within the vote, the department will be required to surrender R20 (for the purchase of the helicopter) back to the relevant revenue fund.</p>
---	--

The saving of R8 (100x 8%) on programme 1 could be used to defray the excess expenditure of (R30) on programme 3 provided that the department obtained prior approval from the relevant treasury to do so (savings on payments for capital assets may not be used for overspending on current payments without the approval of the relevant treasury, Appropriation Act No.11 of 2005).


A: Calculation of unauthorised expenditure	
Overspending on programme 3	(R30)
Saving from programme 1 (limited to 8% of budget)	+R8
Unauthorised expenditure (overspending)	(R22)
Unauthorised (outside purpose of a programme (2))	(R20)
Unauthorised expenditure	(42)

Examples of Unauthorised Expenditure

Cash position of department at end of the financial year:	
Total appropriation received	R500
Total amount spent	R520
Bank Overdraft balance	(R20)
Saving to be surrendered	(R2)
Unauthorised expenditure to be surrendered: Prog 2	(R20)
Bank balance after surrenders	(R42)

The department would surrender a saving of R2 (R10 saving less R8 virement) and record R42 as unauthorised expenditure.

EXAMPLES ON CONDITIONAL GRANTS

	<p>Section 16(1) of Division of Revenue Act (2012) states that despite anything to the contrary contained in any law, an allocation referred to in Schedules 4 to 8 may only be utilised for the purpose stipulated in the Schedule concerned and in accordance with the framework published in terms of section 15.</p> <p>Would overspending or improper use of conditional grant money be classified as unauthorised or irregular expenditure? Please refer to the following examples</p>
---	--


EXAMPLE 7: INCORRECT UTILISATION OF A CONDITIONAL GRANT

A provincial department received the following conditional grant:			
	Total budget	Actual expenditure	Variance
Community Library Services Grant	80	78	2
<p>To transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through a re-capitalized programme at provincial level in support of local government and national initiatives.</p>			

Examples of Unauthorised Expenditure

At the end of the financial year it was discovered that the department used some of the conditional grant funding to appoint officials in **Programme 1: Administration**. These officials were not appointed to provide an administrative function for the conditional grant but to support the department as a whole. Total compensation paid to these officials for the year was **R30** (funded from the grant budget)

The utilization of the conditional grant money to pay officials in Programme 1 meets the second part of the definition of unauthorized expenditure, namely “expenditure not in accordance with the purpose of a vote, or in the case of a main division, not in accordance with the purpose of the main division.”

	<p>Because the department used funds for a purpose other than for what it was intended, the department will be required to surrender R30 back to the relevant revenue fund.</p>
---	--

The **R30** will thus be recorded as unauthorized expenditure.

Cash position of department at end of the financial year:	
Total conditional grant received	R80
Total amount spent	R78
Saving to be surrendered	(R2)
Total unauthorised expenditure	(R30)
Total Amount to be surrendered	(R32)
Bank balance (R32- R2(saving))	(R30)

Examples of Unauthorised Expenditure

EXAMPLE 8: OVERSPENDING ON A MAIN DIVISION WITHIN A VOTE THAT INCLUDES CONDITIONAL GRANTS

Program 2 detail in Appropriation Statement

2011/2012							
Detail per programme	sub -	Adjusted Appropriation	Shifting of Funds	Virement	Final appropriation	Actual Exp	Variance
		'000	'000	'000	'000	'000	'000
2.1 Public Schools	Primary	5 189 520	-	-	5 189 520	5 341 652	(152 132)
Current Payment							
Transfer and Subsidies		269 138	-	5 222	274 360	291 594	(17 234)
Payment for Capital assets		62 340	-	1 633	63 973	84 177	(20 204)
2.2 Public School	Secondary	12 397 941	-	5 375	12 403 316	12 675 367	(272 051)
Current Payment							
Transfer and subsidies		993 617	-		993 617	1 016 698	(23 081)
Payment for Capital Assets		54 790	-	(327)	54 463	42 294	12 169
Payment for Financial Assets					-	12 693	(12 693)
2.3 Professional service							
Current Payment		11 417	-	-	11 417	15 268	(3 851)
Transfer and Subsidies		-	-	-	-	-	-
Payment for Capital Assets		1 186	-	-	1 186	262	924
2.4 Human Resource Development							
Current Payment		61 545	-	-	61 545	65 900	(4 355)
Transfers and subsidies		-	-	-	-	-	-
Payment for Capital Assets		-	-	-	-	-	-

Examples of Unauthorised Expenditure

2.5 In – School Sport and Culture						
Current Payment	31 498	-	-	31 498	27 875	3 623
Transfer and Subsidies	-	-	-	-	-	-
Payment for Capital Assets	150	-	-	150	11	139
2.6 Conditional Grants						
Current Payment	39 307	-	-	39 307	26 563	12 744
Transfers and Subsidies	824 573	-	-	824 573	822 713	1 860
Payment for Capital Assets	913 960	-	-	913 960	724 130	189 830
Total	20 850 982	-	11903	20 862 885	21147197	(284 312)

Economic classification	Final Appropriation	Actual expenditure	Variance
Programme 2 (Total)	20,862,885	21147197	(284,312)
Current Payments	17,736,603	18,152,625	(416,022)
Transfers & Subsidies	2,092,550	2,131,005	(38,455)
Payment for capital assets	1,033,732	850,874	182,858
Payment for fin assets	-	12,693	(12,693)

From the above analysis, the unauthorised expenditure could be: R467, 170 (416,022 + 38,455 + 12,693) OR R284, 312 if the National Treasury granted approval to defray the capital savings. However there is a need to further consider the variance on the conditional grant and see what impact it has, if any, on the calculation of unauthorised expenditure.

Examples of Unauthorised Expenditure

Economic classification	Final Appropriation	Actual expenditure	Variance
Programme 2 (excl conditional grant)	19,085,045	19,573,791	(488,746)
Current Payments	17,697,296	18,126,064	(428,768)
Transfers & Subsidies	1,267,977	1,308,292	(40,315)
Payment for capital assets	119,772	126,742	(6,970)
Payment for fin assets	-	12,693	(12,693)
Conditional grant to be surrendered	1,777,840	1,573,406	204,434
Total	20,862,885	21,147,197	(284,312)

There is underspending on the conditional grant part of Program 2 and the saving would need to be surrendered. The calculation for unauthorised expenditure is summarized on the below table.

Unauthorised Expenditure		(488,746)
Total allocation received	20,862,885	
Total amount spent	21,147,197	
Bank overdraft	(284,312)	
Conditional grants to be surrendered	(204,434)	
Voted funds to be surrendered	0	
Total Bank Overdraft	(488,746)	

Total overspending on Program 2 excluding conditional grant