



**treasury**

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**PROVINCIAL TREASURY**

**STANDARD OPERATING**

**PROCEDURE GUIDELINE ON**

**VIREMENT OF FUNDS**

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## 1. PURPOSE

- 1.1 The purpose of this Provincial Treasury Standard Operating Procedure Guideline is to define processes and procedures relating to the Virement of Funds and ensure compliance with regulatory prescripts and uniformity in application of financial norms and standards.
- 1.2 This Provincial Treasury Standard Operating Procedure Guideline must be read in conjunction with Provincial Treasury Instruction Note No. 24: Virement of Funds.
- 1.3 In the event of any inconsistency between this Provincial Treasury Standard Operating Procedure Guideline and related government legislation, such legislation prevails.

## 2. DEFINITIONS

In this Provincial Treasury Standard Operating Procedure Guideline, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the PFMA and the National Treasury Regulations, has the same meaning; and –

*“Accounting Officer”* means a person mentioned in terms of section 36 of the PFMA;

*“Adjustments Budget”* means the formalising (Tabling in Provincial Legislature) of any necessary adjustments that have been made to the current budget of the Province in a financial year;

*“CFO”* means the Chief Financial Officer referred to in Chapter 2 of the National Treasury Regulations;

*“Main division within a vote”* means one of the main segments into which a vote is divided;

*“PFMA”* means the Public Financial Management Act (Act 1 of 1999);

*“Shifting of funds”* means the re-allocation of funds erroneously allocated during a specific financial year, or the shifting of funds due to the reclassification of expenditure; or the shifting of funds between and within votes, or to follow the transfer of functions; e.g. from one programme to another; however, the original purpose of the funds remains the same;

*“Standard Operating Procedure (SOP)”* means the method of functioning that has been established over time to execute a specific task or react to a specific set of circumstances or situation or process. Standard operating procedures document the normal or accepted methodology and help form the basis for evaluating conformance with the regularity framework;

“*Treasury Regulations*” means the regulations issued by National Treasury in terms of Section 76 of the PFMA;

“*Virement*” means the supplementing of the budget under a main division/economic classification of a vote, from savings under another main division/economic classification within the same vote, to defray excess expenditure on budgeted for services/projects within prescribed limits; and

“*Vote*” means one of the main segments into which the provincial budget is divided and which is separately approved by Provincial Legislature when the budget is tabled.

### **3. LEGISLATIVE FRAMEWORK**

3.1 In terms of the PFMA, an adjustments budget of a province may provide for:

- a) The shifting of funds between and within votes or to follow the transfer of functions in terms of section 42, as per section 31(2)(e); and
- b) The utilisation of savings under a main division within a vote for the defrayment of excess expenditure under another main division within the same vote in terms of section 43, as per section 31(2)(f).

#### **3.2 Section 43: Virement between Main Divisions within a Vote**

- a) In terms of section 43(1) an Accounting Officer for a department may 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.
- b) In terms of section 43(2) the amount of a saving under a main division of a vote that may be utilised in terms of sub-section (1) may not exceed eight percent of the amount appropriated under that main division.
- c) In terms of section 43(3) an Accounting Officer must within seven days submit a report containing the prescribed particulars concerning the utilisation of a saving in terms of subsection (1) to the executive authority responsible for the department and to the relevant treasury.
- d) In terms of section 43(4) this section does not authorise the utilisation of a saving in: -
  - i) An amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote;
  - ii) An amount appropriated for transfer to another institution; and

- iii) An amount appropriated for capital expenditure in order to defray current expenditure.
  - e) In terms of section 43(5) the utilisation of a savings in terms of sub-section (1) is a direct charge against the relevant Revenue Fund provided that, in the case of a province, that province enacts such utilisation as a direct charge.
  - f) The National Treasury must make regulations or issue instructions to departments concerning any matter that must be prescribed for departments in terms of this Act in terms of section 76(1) and (2).
  - g) Regulations in terms of sub-section (1) and (2) of Section 76 may prescribe matters for which the prior approval of a treasury must be obtained in terms of section 76(3).
- 3.3 In terms of the National Treasury Regulations 6.3, for purposes of Section 43(1) of the PFMA:
- a) Compensation of employees and transfers and subsidies to other institutions, excluding transfers and subsidies to other levels of government for purposes of paying levies and taxes imposed by legislation may not be increased without approval of the relevant Treasury;
  - b) New transfers and subsidies to other institutions may not be introduced without the approval of the relevant Treasury;
  - c) 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; and
  - d) Virement of funds for compensation of employees to transfers and subsidies for the payment of severance/exit packages are excluded from the provisions of (a) and (b).

#### **4. APPLICATION OF THE VIREMENT RULES**

- 4.1 Once the Appropriation Bill has been approved by the Provincial Legislature, the Accounting Officer can vire up to eight percent savings of the adjusted budget under a programme (subject to transfer and capital limitations) towards the defrayment of excess expenditure under another programme.
- 4.2 When an Adjustment Budget is being prepared for the Province, Accounting Officers must ensure that the required information on all virements effected up to that point was submitted to the Provincial Treasury and included in the Adjustment Budget.

- 4.3 Apart from the above-mentioned adjustments and in terms of section 31(2)(e) of the PFMA the Adjustments Budget can provide for the further shifting and viring of funds (unlimited) between and within votes for approval by the Provincial Legislature.
- 4.4 After the finalisation of the Adjustments Budget appropriation process, the Accounting Officer can again vire up to eight percent of savings under a programme to defray excess expenditure under another programme, limited to the provisions of the Act.
- 4.5 The Accounting Officer's authority to shift funds after appropriation by the Provincial Legislature is therefore not limited to appropriations in the main budget.
- 4.6 Virements may occur after the final Adjustments Budget is tabled but must be reflected in the Annual Financial Statements of departments.
- 4.7 The differences between a virement and shifting of funds are attached as Annexure C.

## **5. TRANSFERS TO MUNICIPALITIES**

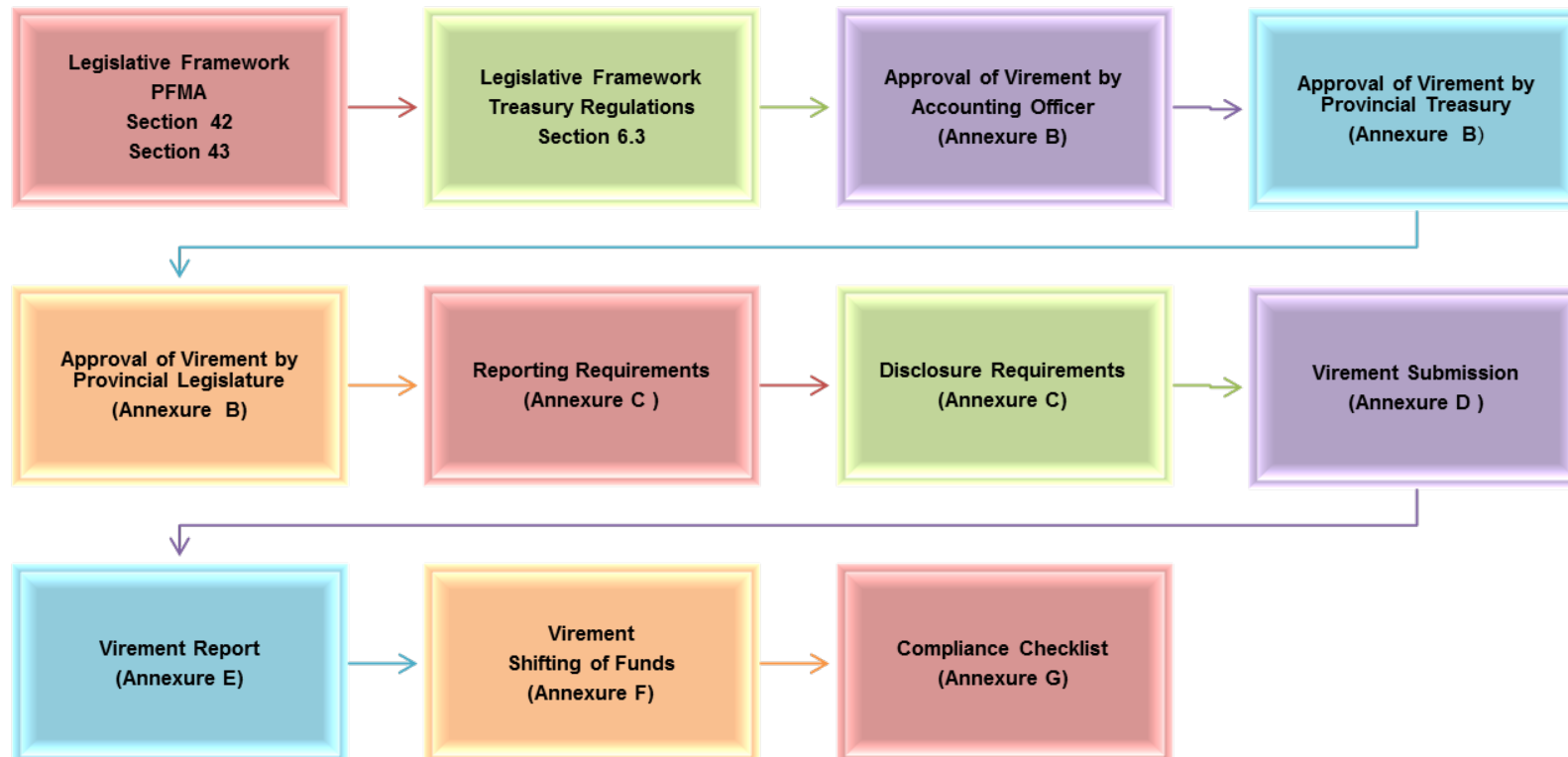
- 5.1 In terms of National Treasury Regulations, section 6.3, new transfers and subsidies to other institutions may not be introduced without the approval of Provincial Treasury. Similarly, section 43(4) of the PFMA does not authorise the utilisation of a saving in an amount appropriated for transfer to another institution.
- 5.2 The applicable legislation does not specifically include municipalities in the definitions of "institutions". In order for Provincial Treasury to monitor and manage the movement of funds which were not included in the main or adjusted budget, "other institutions" in the context of sections dealing with virement is interpreted as "departments, constitutional entities and any other entities which were not specifically listed in the Appropriation Act".
- 5.3 By implication, the following must be authorised by the Provincial Treasury:
  - a) Introduction of a new grant allocation to a municipality;
  - b) Introduction of a grant allocation to a new municipality, or
  - c) An increase in an amount earmarked for transfer to a municipality.
- 5.4 In terms of the annual Division of Revenue Act, all transfers to municipalities must be gazetted. In order to allow sufficient time for the publication of the gazette and to ensure that municipal planning can be finalised and expenditure incurred prior to financial year end, the Provincial Treasury will only consider new transfers to municipalities up to and including 31 January of any year.

**6. COMPLIANCE CHECKLIST**

- 6.1 Compliance checklists ensure consistency in application of procedural requirements and financial norms and standards and facilitate compliance monitoring with regulatory requirements, policy and procedural frameworks.
- 6.2 The compliance checklist, attached as Annexure G, should be implemented or adapted, where applicable, to support departmental requirements.

ANNEXURE A

PROCESS FLOW: VIREMENT OF FUNDS









		<p>PFMA must be strictly adhered to as Provincial Treasury may not approve amounts in excess thereof.</p> <ul style="list-style-type: none"> <li>▪ Provincial Treasury will evaluate the submission in terms of the information provided and verify that the department's budget has sufficient budgeted funds allocated to transfer the amount/s requested.</li> </ul>	Provincial Treasury	Section 43(2).
4.	Approval of Virement Submission by Provincial Treasury.	<ul style="list-style-type: none"> <li>▪ Once the submission has been approved by Provincial Treasury, a letter of approval signed by the Head of Treasury or delegated authority will be forwarded to the department's Accounting Officer and Chief Financial Officer. <ul style="list-style-type: none"> <li>▪ The letter of approval will include the following: <ul style="list-style-type: none"> <li>▪ The Department's file reference;</li> <li>▪ Reference to the original submission;</li> <li>▪ Details of approved virement; and</li> <li>▪ A reminder for the department to update their projections and include the virement in the monthly expenditure IYM and Adjustments Estimate input, where applicable, for the financial year in question.</li> </ul> </li> </ul> </li> <li>▪ Should the virement submission not meet the necessary requirements, a letter will be forwarded to the department's Accounting Officer detailing areas</li> </ul>	Provincial Treasury	

		<p>lacking clarity and/or insufficient information.</p> <ul style="list-style-type: none"><li>▪ Once the submission has been updated it must be re-submitted to Provincial Treasury for re-evaluation and approval, as applicable.</li></ul>		
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**ANNEXURE C**

<b>REPORTING AND DISCLOSURE REQUIREMENTS</b>				
	<b>Task</b>	<b>Process</b>	<b>Responsibility</b>	<b>Comments</b>
1.	Reporting to Provincial Treasury.	<ul style="list-style-type: none"> <li>▪ The Accounting officer must within seven (7) days of executing a virement, submit a Report to Provincial Treasury.</li> <li>▪ The report must include the following:                             <ul style="list-style-type: none"> <li>▪ State which main division within the vote the virement was made from and to which main division within the vote the funds were re-allocated to; and</li> <li>▪ Provide reasons for the virement.</li> </ul> </li> </ul>	Accounting Officer.	<p>Refer to Annexure E: Virement Report.</p> <p>Refer to PFMA, Section 43(3).</p>
2.	Disclosure of Virement in Annual Financial Statements (AFS).	<ul style="list-style-type: none"> <li>▪ Virements that occur after the tabling of the final Adjustments Budget for the Province must be reflected in the Department's Annual Financial Statements and shown separately as provided for in the appropriation statement per programme.</li> </ul>	Delegated official in designated component.	

**ANNEXURE D**

**(DEPARTMENTAL LETTERHEAD)**

Head of Department  
Provincial Treasury  
P O Box 3613  
PIETERMARITZBURG  
3200

**VIREMENTS FOR YEAR END 31 MARCH YYYY**

The Department has finalised the expenditure for the YYYY/YYYY financial year and in preparing the financial statements virements have been completed.

Approval is hereby requested for the following virements:

An example would be as follows:

An amount of R29 000 was moved from Corporate Services under transfers and subsidies to Financial Management under goods and services.

**Recommendation**

Provincial Treasury approves the virements.

**Recommended by:**

**Chief Financial Officer**

**Supported by:**

**Accounting Officer**

**ANNEXURE E**

**(DEPARTMENTAL LETTERHEAD)**

Head of Department  
Provincial Treasury  
P O Box 3613  
PIETERMARITZBURG  
3200

ATTENTION:

**Approval of Funds in Terms of Section 43(3) of the PFMA: YYYY/YYYY Financial Year**

**1. Purpose**

To report on the utilisation of a saving within a main division of the department's vote towards the defraying of excess expenditure under another main division within the vote.

**2. Motivation**

The Accounting Officer has approved the following virements in terms of section 43(3) of the PFMA.

In finalising the virements the department has remained within the eight percent limit in accordance with section 43(2) of the PFMA.

2.1 The following virements were made between programmes:

An example would be as follows:

An amount of R29 000 was moved from Office of the MEC under compensation of employees to Financial Management under goods and services.

2.2 The following virements were made within programme (No.): (Name of programme)

An example would be as follows:

An amount of R15 000 was moved within the Office of the MEC from compensation of employees to goods and services.

**3. Recommendation**

Provincial Treasury notes the virements.

**Recommended by:**

**Chief Financial Officer**

**Supported by:**

**Accounting Officer**



**ANNEXURE F**

**Differences between Virement and Shifting of Funds**

<b>Virement</b>	<b>Shifting of Funds</b>
Total appropriation remains the same.	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 <b>under one main division</b> (programme) towards the defrayment of increased expenditure <b>under another main division</b> within the same vote.	<p>Re-allocation of funds during a specific financial year; e.g. when funds were incorrectly allocated in the Estimates and Provincial Revenue and Expenditure budget process.</p> <p>Shifting of funds due to the reclassification of expenditure.</p> <p>Shifting of funds between and within votes; or To follow the transfer of functions; e.g. from one programme to another; however the original purpose of the funds remains the same.</p>
May utilise a maximum of eight percent of the amount appropriated under the main division.	No limitations on amounts to be shifted; however the original purpose of the funds must remain the same.
<p><b>The following is not permissible, except with the approval of Provincial Legislature:</b></p> <ul style="list-style-type: none"> <li>▪ Virement of an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote;</li> <li>▪ Virement of an amount appropriated for transfer to another institution; and</li> </ul>	The approval of Provincial Treasury to be obtained for the shifting of funds, with reasons provided for the shift.

Virement	Shifting of Funds
<ul style="list-style-type: none"> <li>▪ Virement of capital expenditure in order to defray current expenditure.</li> </ul> <p><b>Approval of Provincial Treasury to be obtained for:</b></p> <ul style="list-style-type: none"> <li>▪ Increases to personnel expenditure and transfers to other institutions;</li> <li>▪ New transfers and subsidies to other institutions; and</li> <li>▪ Use of allocations earmarked by Provincial Treasury for a specific purpose (excluding personnel expenditure) for other purposes.</li> </ul>	

**ANNEXURE G**

**COMPLIANCE CHECKLIST: VIREMENT OF FUNDS**

PROCESS		Y/N
1.	<b>Compliance with regulatory prescripts:</b>	
	PFMA: Section 42, as per 31(2)(e)	
	PFMA: Section 43, as per 31(2)(f)	
	PFMA: Section 43(1)	
	PFMA: Section 43(2)	
	PFMA: Section 43(3)	
	PFMA: Section 43(4)	
	PFMA: Section 43(5)	
	Treasury Regulations 6.3	
2.	Approval of Virement by Provincial Treasury, as legislated.	
3.	Approval of Virement by Provincial Legislature, as legislated.	
4.	Eight percent proviso strictly adhered to for approval by Provincial Treasury.	
5.	Submission for Virement approved by Accounting Officer and supported by Chief Financial Officer.	
6.	Approval of Virement by Accounting Officer, as legislated.	
7.	Report submitted to Provincial Treasury within seven days of executing virement.	
8.	Virement occurring after tabling of final adjustments budget reflected in annual financial statements.	