



Virement Policy

Centlec (SoC) Ltd – Virement Policy

CENTLEC (SOC) LTD	
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DEFINITIONS

“Appropriation” - money set aside by council for a specific purpose.

“Cost Centre” - a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost center manager.

“Government Finance Statistics (GFS)” - a classification framework informing the Function and Sub-Function Segments

“Line Item” - an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over.

“Transfer” - shifting of allocated funds from one department, line-item or both to the other.

“Vote” – means one of the main segments (directorates) into which a budget of an entity is divided for the appropriation of money for the different functional areas(cost centres) of the municipality which specifies the total amount that is appropriated for the purposes of the vote’s functional areas concerned

“Virement” - the agreed transfer of appropriated funds from one budget heading, to which it has been allocated, to another budget heading.

SECTION 1: OBJECTIVES OF VIREMENT POLICY

- a) To provide greater flexibility to the senior managers (heads of departments) of the entity in managing their budgets;
- b) To provide clear guidance to senior managers on when they may shift funds between items, projects and programmes.
- c) To enable senior managers to act on occasions such as disasters, emergency and unforeseen events as they arise so as to accelerate service delivery in a financially responsible manner; and
- d) To empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the entity’s system of delegations.

SECTION 2: LEGISLATIVE BACKGROUND

Section (95) of Municipal Finance Management Act, 56 of 2003 (MFMA) stipulates that the Accounting Officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure:

- a) *that the resources of the entity are used effectively, efficiently, economically and transparently;*
- b) *that full and proper records of the financial affairs of the entity are kept;*
- c) *that the entity has and maintains effective, efficient and transparent systems-*
 - i. *of financial and risk management and internal control; and*
 - ii. *of internal audit complying with and operating in accordance with any prescribed norms and standards;*
- d) *that irregular and fruitless and wasteful expenditure and other losses are prevented;*
- e) *that expenditure is in accordance with the operational policies of the entity; and*
- f) *that disciplinary or, when appropriate, criminal proceedings, are instituted against any official of the entity who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of MFMA 56 of 2003.*

Section 87(8) further provides that a municipal entity may incur expenditure only in accordance with its approved budget or an adjustments budget.

SECTION 3: POLICY PRINCIPLES

The following principles shall apply in dealing with transfers and virement of budgeted funds:

- a) It is the responsibility of each Head of each Department (Vote) to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilized effectively and efficiently.
- b) Each official of the entity exercising financial management responsibilities must take all reasonable steps within that official's area of responsibility to ensure that the provisions of section 105 of MFMA to the extent applicable to that official, including any delegations in terms of section 106, are complied with.
- c) This policy applies only to transfers between line items within votes of the entity's operating budget. **No transfers between or from capital projects / items or between departments shall be performed under this policy.** Any variations from or adjustments within capital projects or between departments

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shall be dealt with in terms of the adjustment budget process provided for in terms of section 28 of MFMA and the entity's approved Budget and Reporting policy.

- d) The total amount transferred from and to line items within a particular cost centre in any financial year may not exceed 5% of the total operating budget allocated to that cost centre.
- e) mSCOA provides a uniform and standardised financial transaction classification framework for municipalities and their entities to transact in and record its transactions using seven (7) segments. Six of these mSCOA segments are project, function, item, regional and costing.

SECTION 4: VIREMENTS & GFS CLASSIFICATION FRAMEWORK

- a) In order to facilitate comparisons in local government, The National Treasury introduced the Government Finance Statistics (GFS) system as classification framework informing the Function and Sub-Function Segment. GFS functions provide a reasonably high level grouping of related service delivery activities for local government. It is therefore important that whatever organisational structure of the entity must be able to relate them to GFS sub-functions to the extent possible.
- b) According to the National Treasury, the GFS classifications promote comparability, reliability and transparency of local government finances. Comparability, reliability and transparency contribute to: clear lines of accountability; useful information for setting policy and priorities at all levels of government; better financial management in general; and cheaper borrowing costs due to enhanced credit ratings.
- c) With the above background in mind, virements can therefore only: -
 - (i) be done within a function (between the various cost centres that are linked to the function regardless of the department), and
 - (ii) Any virement between functions need a Board of Directors decision

SECTION 5: AUTHORISATION AND APPROVAL OF VIREMENTS

A transfer of funds from one line item to another and from one cost center within a department to another subject to this policy shall be approved and authorized as follows:

- (i) Requestor – General Manager;
- (ii) Recommender – Executive Manager
- (iii) Approver – Chief Financial Officer
- (iv) Authorizer – Chief Executive Officer

SECTION 6: VIREMENT REQUIREMENTS

In order for a department to transfer funds from one line item to another or cost center to another, a saving has to be identified within the monetary limitations of the approved “giving” line item or cost center allocations within the department.

There must be sufficient, non-committed budgetary provision available within the “giving” line item and / or cost concerned to give effect to the budgetary transfer.

In addition, the department concerned must clearly indicate from which line item and / or cost center and to which line item and / or cost center, including clear identification of vote numbers, transfers will be made, the amount involved and a clear motivation for the transfer.

Virement resulting in adjustments to the approved SDBIP by the user Department need to be submitted with an Adjustment Budget to the Board of Directors with altered outputs and measurements for approval, and must indicate changes to the (SDBIP), and the impact that this will have on the performance objectives as set out in the entity’s Multi-Year Business Plan.

An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the prescribed procurement processes as contained in the entity’s approved Supply Chain Management Policy.

SECTION 7: VIREMENT RESTRICTIONS AND LIMITATIONS

- a) Virements shall only be considered during the periods as outlined below:
- **1st Quarter ending September:** Virements should be submitted from 01 to 15 October,
 - **2nd Quarter ending December:** Adjustment Budget – Virements should be submitted from 01 December to 15 January, and
 - **3rd Quarter ending March:** Virements should be submitted from 01 to 15 April.
- b) In cases of emergency situations a virement shall be submitted with a motivation signed by the duly delegated officials.
- c) Virements are not be permitted in relation to the revenue side of the budget;
- d) Virements from the capital budget to the operating budget are not be permitted;
- e) Virements to or from the following items are not be permitted:
- i. bulk purchases,
 - ii. debt impairment,
 - iii. interest charges,
 - iv. depreciation,
 - v. revenue foregone,
 - vi. insurance,
 - vii. Value Added Tax (VAT),
 - viii. Ring-fenced allocations, and
 - ix. Statutory Funds.
- f) A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the Multi-Year Business Plan for the current or subsequent years;
- g) No virement may commit the entity to increase recurrent expenditure, which commits the entity's resources in the following financial year, without the prior approval of the Board of Directors. (*This refers to expenditures such as entering into multi-year lease or rental agreements for the leasing of vehicles, photo copiers or fax machines*);
- h) No virement may be made to cover/ allow for irregular or fruitless and wasteful expenditure;
- i) Virements must not be made where it would result in over expenditure;
- j) Virement amounts shall not be rolled over to subsequent years, or create expectations on the following budgets;

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- k) Virements towards personnel expenditure are not be permitted; unless if specifically approved by the Board of Directors.

For a virement to be processed a virement journal should be completed and be approved accordingly.

SECTION 8: ACCOUNTABILITY AND PROCESS FOR TRANSFERS AND VIREMENTS

Accountability to ensure that virement application forms are completed in accordance with entity's virement policy and are not in conflict with the Department's strategic objectives rests with the Head of the relevant Department.

Virements shall be permitted where the proposed transfer of funds facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes).

Permissible budget transfers and virements shall be recommended by the Executive Manager (Head of Department), by completing the appropriate documentation and forward to the Chief Financial Officer for verification and further processing for approval.

All the necessary virements documentations must be signed for by the Executive Manager (Head of Department) and the General Manager within which the cost center is allocated.

The Chief Financial Officer shall prescribe a form on which all proposals for virements under this policy shall be made, which form shall include, but not limited to the following requirements:

- a) the name of the department concerned;
- b) particulars of the person making request for virement / transfer;
- c) descriptions and vote numbers of the line items from and to which the transfer is to be made;
- d) the amount of the proposed transfer;
- e) the cause of the saving in the line item from which the transfer is to be made;
- f) motivation for the transfer;
- g) a narrative of any consequences that such transfer may have for the multi-year business plan and SDBIP;
- h) signature of the General Manager (Requester), Executive Manager (Recommender), Chief Financial Officer (Approver) and Chief Executive Officer (Authorizer).

SECTION 10: REPORTING

The Chief Financial Officer shall, report to the Accounting Officer (CEO) on all the virements, and the CEO shall, within seven (7) working days of the end of each month following any virement / transfer, submit a report of all the virements and budget transfers in the preceding month.

SECTION 11: REVIEW PROCESS

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.