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**GREATER LETABA MUNICIPALITY**

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**VIREMENT POLICY**

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1. **PREAMBLE**

The municipality as per mSCOA regulations is regulated to facilitate the movements of budget allocations for projects, item within its function or sub-function not allowed to change the region and funding guides

2. **DEFINITIONS**

The following words shall have the meanings hereby assigned to them-

- 2.1. **"Municipality"** means Greater Letaba Municipality, except where stated otherwise;
- 2.2. **"Policy"** means this document and its contents;
- 1.3 **"Approved Budget"** means an annual budget that is approved by the Municipal Council and by a Provincial or the National Executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the Municipal Finance Management Act.
- 1.4 **"Council"** means the elected council of the Municipality referred to in section 18 of the Municipal Structures Act.
- 1.5 **"mSCOA"** means Municipal Standard Chart of Accounts. In mSCOA project based budgeting is done and all transactions are linked to six segments (Project, Fund, Functions, Item, Region and Costing). And also means multi-dimensional classification framework providing the method and format for recording and classifying financial transaction in formation in the general ledger forming part of the books of accounting containing a standard list of available accounts.
- 1.6 **"Chief Financial Officer (CFO)"** means a person designated by the accounting officer in terms of section 80(2) (a) of the Municipal Finance Management Act.
- 1.7 **"Financial year"** means the financial year ending on 30 June of every year.
- 1.8 **"Fruitless and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised;
- 1.9 **"Irregular expenditure"** means irregular expenditure as defined in the Municipal Finance management Act;
- 1.10 **"Line Item"** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditures;

- 1.11 **"Unauthorised expenditure"** means unauthorised expenditures as defined in the Municipal Finance Management Act;
- 1.11 **"Vote"** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned;
- 1.12 **"Virement"** refers to the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the Municipal Manager. To enable budget managers to amend budgets to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner. This is essentially a means of utilizing funds set aside for one purpose within a vote for expenditure of a different purpose.

## **2 OBJECTIVES**

The objective of this policy is to:

- 2.1 Provide control measures when funds are moved between line items, departments, projects, programmes and votes.
- 2.2 To delegate certain authority for transfers of funds between items, projects programmes and votes to the Municipal Manager. This is due to the fact that the budget is based on projected estimates and therefore situation may arise that certain estimates are either under-budgeted or over-budgeted.
- 2.3 The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets.
- 2.4 To enable the tracking and reporting of transfers (shifting) of funds.
- 2.5 To facilitate efficiency in the budgeting process of the municipality.

## **3 IMPLEMENTATION**

- 3.1 The Municipal Manager as the Accounting Officer and therefore head of the administration, must ensure that the stipulations of this policy is implemented by ensuring that:
- 3.1.1 Each member of the staff is aware of the stipulations of this policy;

3.1.2 Each member of staff to whom the policy apply adheres to the policy, i.e. they follow the policy in execution of their daily tasks or functions.

3.1.3 Disciplinary measures are in place to ensure adherence to this policy

3.2 Each staff member of the Municipality must ensure that movements of funds between votes, programs and items are executed in terms of this policy.

#### **4 RESPONSIBILITIES**

4.1 Strict budgetary control measures must be maintained throughout the financial year in order to ensure that:

4.1.1 The spending of funds occurs in accordance with the approved budget.

4.1.2 Revenue and expenditure are properly monitored and reported on; and

4.1.3 Spending is reduced as necessary when revenue is anticipated to be less than projected in the approved budget.

4.2 It is the responsibility of each director or head of a department to which funds are allocated, to plan and conduct assigned functions and operations so that the budget allocated to such department and the specific task or project is not exceeded.

4.3 The Chief Financial Officer (CFO) must on monthly basis supply every departmental director with a detailed financial reporting pack indicating actual versus budgeted totals to assist in performing budgetary control and financial management processes

4.4 The relevant departmental directors must on monthly basis scrutinise the monthly financial reporting packs and compare actual versus budgeted expenditures in order to early identify instances of over expenditure.

4.5 Over expenditure that occurs on a general ledger account vote must be investigated by the relevant departmental director.

4.6 The relevant director of the department must report on monthly basis to the CFO on reasons for over expenditure and rationale for movement of funds.

#### **5 VIREMENT PRINCIPLE**

- 5.1 A virement form must be completed at all times when funds are moved from one main vote to another or when moved between sub votes.
- 5.2 The directors of departments between which the movement is done must sign the virement form before virement are referred for approval.
- 5.3 Virement must be approved in the following manner before they are executed:
  - 5.3.1 Virement within a department must be approved by the Director Finance, subject to subsection 5.3.3;
  - 5.3.2 Virement between a departments must be approved by Municipal Manager.
  - 5.3.3 Virement within the Finance Department must be authorised by the Municipal Manager.
- 5.4 Virement forms must be filed and supporting documents such as the rationale for the veriment must be attached.
- 5.5 A monthly virement report must be compiled and presented to the Budget Committee with reasons for the movement of funds.
- 5.6 A quarterly veriment report must be compiled and submitted to Council.
- 5.7 A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;
- 5.8 Where the Finance and Administrative function or sub function is directly linked to another Function or sub function, then savings in the linked function/ sub-function may be applied in the Finance and Administrative function or *vice versa*<sup>2</sup>. Therefore virement between Rates Services and Trading Services and across Trading Service are not allowed;
- 5.9 Virement should not be permitted in relation to the revenue side of the budget.
- 5.10 Virement between functions should be permitted where proposed shifts in funding facilitate sound risk and financial management e.g. the management of central insurance funds and insurance claim from separate votes);
- 5.11 Virements from capital budget to the operating budget should not be permitted, Operational funds to the Capital Budget may be done, but only via an Adjustments budget;

5.12 Virements towards personnel expenditure should not be permitted, except where:

-temporary/contracted (budget for as contracted services in terms to the mSCOA Classification) staff status has changed to permanent staff; or

-the budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority).

5.13 Virements to or from the following items should not be permitted : bulk purchases; debt impairment. Interest charges; depreciation. Grants to individuals, revenue foregone, insurance and VAT;

5.14 Virements should not result in adding 'new' projects to the Capital Budget;

5.15 Virements of conditional grant funds to proposes outside of that specified in the relevant conditional grant framework must not be permitted; and

5.16 There should be prudent limits on the amount of funds that may be moved between a function and its sub-functions. In best practise, a maximum percentage or monetary value of the budget of a Function/programme/project may be re-allocated/shifted through virement( e.g. not more that 5 per cent of the budget may be moved to or from a function, programme, project, etc.). The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts.

## 6 RESTRICTIONS

6.1 Virement in relation to the revenue is prohibited.

6.2 Virement between votes is permitted where the proposed shifts in funding facilitate sound risk and financial management.

6.3 Virement from the capital budget to the operating budget is prohibited;

6.4 Virement for projects or expenditure which were not budgeted for must not be allowed unless it is in a case of an emergency;

6.5 No virement is permitted in the first three months or the final month of the financial year without the express agreement of the CFO and Municipal Manager. This must only be in extreme reasonable circumstances;

6.6 Virement towards personnel expenditure is prohibited;

6.7 Virement to or from the following items is prohibited:

- 6.7.1 Bulk purchases;
- 6.7.2 Debt impairment,
- 6.7.3 Interest charges;
- 6.7.4 Depreciation,
- 6.7.5 Grants to individuals,
- 6.7.6 Revenue foregone,
- 6.7.7 Insurance and
- 6.7.8 VAT;
- 6.7.9 Entertainment;
- 6.8 Virement resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval;
- 6.9 No virement may commit the Municipality to increase recurring expenditure, which commits the Council's resources in the following financial years, without the prior approval of Council. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copiers or fax machines.
- 6.10 If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- 6.11 Virement of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework (agreement) is not permitted;
- 6.12 Virement in capital budget allocations are only permitted within specified action plans and not across funding sources; i.e. funds cannot be moved from internally funded projects to fund externally funded projects.
- 6.13 Virement amounts may not be rolled over to subsequent years, except in the case of an appropriation of for expenditure made for a period longer than that financial year. (Municipal Finance management Act sec 30).

**7 LIMITS ON AMOUNTS TO BE TRANSFERED**



7.1 Virement limitations:

7.1.1 Virement for a year must not exceed a maximum of 0.5% of the total approved budgeted operating expenditure.]

## 8 REPORTING

8.1 The Municipal Manager or delegated senior official must compile a virement report and present it to the Budget Committee and Council with recommendations; such as factor to be considered when planning or drawing the budget in order to avoid under provisions.

8.2 The report must be presented to the Budget Committee on a monthly basis and Council on a quarterly basis.

## 9 REVIEW OF THIS POLICY

9.1 The Veriment Policy must be reviewed on an annual basis and be submitted to Council for approval together with the annual budgets, if changes occur to the policy stipulations.

Municipal Manager

Mr Sewane MO

