DRAFT DEBT IMPAIRMENT AND WRITE OFF POLICY

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1. INTRODUCTION

1.1 The Municipal Finance Management Act, Act 56 of 2003 states that the municipality must manage its revenue by ensuring a proper system of internal control exists in respect of debtors and revenue.

1.2 The municipality must budget for realistic anticipated revenue less an acceptable provision for bad debts.

1.3 The policy aims to ensure that debtors are disclosed in the annual financial statements at the amounts deemed to be collectable and uncollectable debt is written off within the guidelines of existing policies and applicable legislation.

1.4 By adopting this policy clear guidelines are set on the treatment of the impairment and write-off of debtors.

2. OBJECTIVES OF POLICY

- The objectives of this policy are to:
- ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.
- ensure that where it is evident that a debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should then be written off.
- ensure the identification of bad debts during the financial year.
- provide guidelines on the writing off bad debts at least three months before the end of the financial year.
- ensure the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.

3. LEGISLATIVE FRAMEWORK

- Municipal Systems Act, Act 32 of 2000.
- Municipal Finance Management Act, Act 56 of 2003.
- Standards of Generally Recognized Accounting Practice.

4. STATEMENT

This policy will be applicable to all categories but not limited to the following

- Consumer debtors.
- Sundry debtors.
- Traffic fines
- Sale of stands.
- Organ of states
- Businesses
- Public Benefit Organisations

5. IDENTIFICATION OF IRRECOVERABLE DEBTS

5.1 Debt is identified to be irrecoverable after the whole credit control and debt collection process has been followed and no payments were received towards the outstanding account.

5.2 Once the debt is regarded as irrecoverable during the course of the year it must be grouped with others so that at the latest by May every year the report be submitted to Council to approve the write-off of the identified irrecoverable debts.

6. WRITING OFF OF IRRECOVERABLE DEBTS

Where debts are identified as being irrecoverable, the process of writing off will be treated as follows:

6.1 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time
The Accountant: Credit Control and Debt Collection must prepare a report within the delegated powers of the CFO containing the following:

- consumer details;
- irrecoverable amount broken down by service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exhausted; and
- confirmation that further actions would be fruitless and not cost effective.

1.1 The report of the Accountant: Credit Control and Debt Collection must be scrutinized by the Manager: Revenue and recommend the writing off to the DCFO/CFO for consideration.

6.3 Upon approval by the DCFO/CFO, the Manager Revenue will pass a credit note into the consumer account against the provision budget.

6.4 The Accountant: Credit Control and Debt Collection must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the Manager: Revenue by no later than 30 June of each year to be retained for audit purposes.

6.5 Amounts exceeding the CFO delegated authority The Accountant: Credit Control and Debt Collection must prepare a report in excess of the CFO delegated powers containing the following:

- consumer details;
- irrecoverable amount broken down per service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exhausted; and
- confirmation that further actions would be fruitless and not cost effective.

6.6 The report of the Accountant: Credit Control and Debt Collection must be scrutinized by the Manager: Revenue and recommend the writing off to council. The final report to council must be signed off by the CFO.

6.7 Upon approval by council, the credit control section will pass draw a credit note against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

6.8 The Accountant: Credit Control and Debt Collection must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to Manager Revenue to retain for audit purposes.

6.9 Interest: Interest may be waived if the capital debt is settled in a full once off payment.

7. RECOVERY OF IRRECOVERABLE DEBTS

7.1 Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number designed for the recovery of irrecoverable debts.

8. SUNDRY MATTERS

8.1 Council may from time to time implement an incentive scheme which may entitle writing off certain debts.

9. APPROVAL OF WRITE OFF

9.1 Manager Revenue is authorised by this policy and council resolution to write off total amount not exceeding R50 000.00 per consumer account.

9.2. Chief Financial Officer is authorised by this policy and council resolution. to write off total amount not exceeding R250 000.00 per consumer account.

9.3. Any amount between R251 000.00 and R500 000.00 shall be written off with the approval of the Municipal Manager.

9.4 Amount exceeding R501 000.00 shall be written off with the approval of council.

10. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT)

Consumer debtors (accounts receivable), long term receivables and other debtors are stated at cost, less a provision for bad debt.
Significant financial difficulties of the debtor and default or delinquency in payments or all debt outstanding for more than 90 days are considered indicators to determine that debtors are impaired.
Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. When an under recovery occurs during the financial year an additional contribution for impairment is made at year end.

In the assessment for impairment the following criteria shall apply:

10.1 Consumer debtors

Debtors are evaluated at each reporting date and impaired as follows:

Category of Debtors	Criteria	Provision for Irrecoverable Percentage %
Credit accounts		0%
In active accounts		100%
Accounts handed over to debt collectors	More than three months	100%
Handed power of attorneys		100%
Approved Indigents		100%
Formal arrangement on arrear debt	in excess of 60 days	100%
Debt ageing more than 90 Days		100%
Debt ageing less than 90 days		100% minus (annual collection/annual billing)

10.2 Sundry debtors

Sundry debtors are assessed individually for impairment when necessary to ensure accuracy of provision.

10.3 Sale of stands

These debtor accounts may be assessed individually to establish whether evidence exists for impairment that these debtors are irrecoverable.

10.4 Traffic Fines

- Not paid within 90 days from issue of tickets: Provide 100%, also provision of 50% below 90 days.

10.5 Organs of states

- 0% provision
- 100% provision for interest.

10.6 Businesses and other debtors

More than 120 Days Provide for 100%
Below 120 days 100% minus collection rate (annual collection / annual billing)

11. IMPLEMENTATION AND REVIEW

11.1 This policy shall be implemented once approved by council and it shall be reviewed on annual basis as part of budget processes.

12. SHORT TITLE AND COMMENCEMENT

This Policy shall be called Debt Impairment & Write Off Policy and takes effect on the 1st of July each year after council approval.

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