# MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

# IMPAIRMENT OF DEBTORS AND WRITE OFF POLICY- FINAL 2016/17

**TABLE OF CONTENT**

## 1. INTRODUCTION

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.

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

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.

By adopting this policy clear guidelines are set on the treatment of the impairment of debtors 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 particular 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 that 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 course of the financial year.
- Provide guidelines on the writing off of 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 is applicable to all categories of debt but not limited to:

- Consumer debtors
- Sundry debtors
- Housing rental debtors

## 5. IDENTIFICATION OF IRRECOVERABLE DEBTS

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.

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 April every year the report is 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: Billing 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.

The report of the Accountant: Billing must be scrutinized by the senior manager: Budget and Revenue and recommend the writing off to the CFO for consideration.

Upon approval by the CFO, the credit control section will draw a Maluti-A-Phufong cheque against the debt impairment provision vote in the income and expenditure ledger and process it against the relevant debtors account.

The Accountant: Billing must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

6.2 Amounts exceeding the CFO delegated authority

The Accountant: Billing 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.

The report of the Accountant: Billing must be scrutinized by the Senior manager: Budget and Revenue and recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO.

Upon approval by the Mayoral Committee, the credit control section will draw a Maluti-A-Phufong cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The Accountant: Billing must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year be retained for audit purposes.

6.3 Specific debt write offs

- The Accountant: Billing may prepare a report to the Mayoral Committee from time to time for specific uncollectable debt transactions such as:
- liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936;
- outstanding debts that are older than two (2) years that cannot be recovered during the transfer of immovable property as in terms of section 118(1)(b) of the Systems Act, Act 32 of 2000; and/or
- for a specific debt category
- fifteen years in respect of any debt owed to the State and arising out of lease of land by the State to the debtor; in terms of the Prescription Act 68 of 1969 – Chapter 111 section 11(b)

The report for specific debt write-offs must contain the following:

- consumer details;
- reason for specific debt write-offs;
- amount to be written off broken down per service;
- confirmation that all avenues to recover debt have been exhausted; and
- confirmation that further actions would be fruitless and not cost effective.

Where outstanding debtors are older than two (2) years and could not be recovered during the transfer of immovable property, as per section 118(1)(b) of the Systems Act, Act 32 of 2000, the Council must attach the proceeds from the sale of the property, failure to, the debt be written off as irrecoverable.

The report of the Accountant: Billing must be scrutinized by the Senior manager: Budget and Revenue and recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO.
Upon approval by the Mayoral Committee, the credit control section will draw a Maluti-A-Phufong cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The Accountant: Billing must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

## 7. **RECOVERY OF IRRECOVERABLE DEBTS**

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

Council may from time to time implement an incentive scheme which may entitle writing off of certain debts as a settlement discount.

## 9. 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 150 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 methodologies:

I. **Consumer debtors**

Debtors are evaluated at each reporting date and impaired as follows

- Accounts with balances only in current and 30 days are considered of good quality by management. These accounts will be excluded from the impairment calculation.
- If, in that year, some debtors participated in a relief program, such debtors are not impaired and a list of the debtors must be extracted from the system.
- The relief debtors' balance is listed under current receivables and the discount expense is expensed in the Statement of Financial Performance.
- Debtors with arrangements are classified under long term receivables and are excluded from the debtors balance used in the risk categorisation impairment as the impairment on the long term receivables is computed separately (computed as the total arrangement debtors less total payments received in service of those debtor's balances).

**Impairment of the accounts:**

The impairment policy is based on a weighting system that allocates points based on a set of criteria; the total of which is then used to determine the percentage write-off necessary for each debtor balance. The point system is applied as follows:

| Category | Points allocated/ Default risk |
|---|---|
| | |
| Debt older than 150 days | 1 |
| No payments received in the current year | 1 |
| Rates outstanding | High risk |
| | |
| Total points | xxx |

a) The points for debtors that are 150days and older and the points for no payments are added together. If the debtor has 2 points it is immediately considered a high risk.

b) Rates are a higher risk than any other service as this is the service being paid last by consumers. Due to this additional risk to rates all rates accounts, at this point, with 2 points were impaired 100%.

c) All other accounts with 2 points, at this point, are impaired at 90%

- Management assign risk categories to each town extension and each debtor type.
- The final risk column is then determined based on the higher of the two risks identified above (debtor type and town extension) and the percentage impairment determined as per table below:

| **High risk** | | **Medium risk** | | **Low risk** | |
|---|---|---|---|---|---|
| Points | Write off rate | Points | Write off rate | Points | Write off rate |
| Rates (nature of debtor) | 100% | | | | |
| 5 points | 90% | 4 points | 63% | 3 points | 60% |
| 4 points | 62.5% | 3 points | 41% | 2 points | 33% |
| 3 points | 42.5% | 2 points | 20% | 1 point | 6% |
| | | | | | |

**II. Sundry debtors**

Sundry debtors are assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are irrecoverable.

**10. SHORT TITLE**

This policy shall be called the Impairment of Debtors and Write-Off Policy.