

WRITING OFF OF BAD DEBTS AND THE IMPAIRMENT OF DEBTORS POLICY

**REVISED 1 JULY 2012
(No amendments)**



**STEVE TSHWETE
LOCAL MUNICIPALITY
MP313**

1. **INTRODUCTION**

The Council of Steve Tshwete Local Municipality resolves in terms of section 97 (1)(d)(ii) of the Local Government : Municipal Systems Act, Act 32 of 2000 as amended and the Local Government Municipal Finance Management Act section 64 (f) to adopt the following as the policy on writing off the bad debts as irrecoverable and the impairment of debtors.

2. **PREAMBLE**

The Municipal Finance Management Act (MFMA) Act 56 of 2003, aims to modernize budget and financial management practices in municipality in order to maximize the capacity of the municipality to deliver services to all residents, customers and users. It also give affect to the principles of transparency as required by sections 215 and 216 of the constitution.

The Council of the municipality in adopting this policy on writing off bad debts recognises its responsibilities as set out in chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

3. **VISION**

The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Council:

- to ensure any long outstanding debt is evaluated in order to determine the possibility of realising such income as revenue.
- to ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- to ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- to 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.

4. **STATEMENT**

This policy aims to set down principles for the implementation of the writing off of bad debts and the provision for doubtful debt.

5. **OBJECTIVES**

The objectives of this policy are to provide for:

- the identification of bad debts during the course of the financial year.
- the writing off of bad debts at least three months before the end of the financial year.
- the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.
- the proper provision for doubtful debt.

6. **IDENTIFICATION OF IRRECOVERABLE DEBTS**

When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection process has been followed in terms of trying to obtain payment, then such accounts should be regarded as irrecoverable.

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 should serve before the Council in order to write off the irrecoverable debts.

7. **WRITING OFF OF IRRECOVERABLE DEBTS**

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

7.1 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time

The Chief Accountant : Estate Affairs and Credit Control 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 exchanged; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Chief Accountant : Estate Affairs and Credit Control must be scrutinized by the Assistant Town Treasurer : Treasury Office and recommended the writing off to the CFO for consideration.

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

The Chief Accountant : Estate Affairs and Credit Control 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.

7.2 Amounts exceeding the CFO delegated authority

The Chief Accountant : Estate Affairs and Credit Control 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 exchanged; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Chief Accountant : Estate Affairs and Credit Control must be scrutinized by the Assistant Town Treasurer : Treasury Office 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 Steve Tshwete cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The Chief Accountant : Estate Affairs and Credit Control 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.

7.3 Specific debt write offs

The Chief Accountant : Estate Affairs and Credit Control may submit 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;
- erven brought back by Council;
- 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

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

- customer details;
- reason for specific debt write offs;
- amount to be written off broken down per service; and
- confirmation that further actions would be fruitless and not cost effective.

The report of the Chief Accountant : Estate Affairs and Credit Control must be scrutinized by the Assistant Town Treasurer : Treasury Office 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 Steve Tshwete cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

The Chief Accountant : Estate Affairs and Credit Control 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.

8. **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.

9. **SUNDRY MATTERS**

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

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 150 days are considered indicators to determine that debtors are impaired.

Impairment of debtors (provision for doubtful debt) is recognised 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:

10.1 **Debtors**

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

<u>Category debt</u>	<u>Percentage of debt provided as irrecoverable</u>
Credit balances	Zero
In-active accounts	100%
Hand over accounts to debt collectors	100%
Hand over accounts to power of attorneys	100%
Approved indigents	100%
Formal arrangement on arrear debt	100%
Debt ageing more than 180 days	100%
Debt ageing less than 180 days	Zero

10.2 Sundry debtors

Sundry debtors may be assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are irrecoverable should the process in 10.1 not be sufficient.

10.3 Sale of erven

Loans were given at a low interest rate of 7,5% per annum to encourage development through the sale of erven since the inception of the MFMA no new loans are granted. These debtor accounts may be assessed individually to establish whether evidence exists for impairment that these debtors are irrecoverable.

11. **SHORT TITLE**

This policy shall be called the Writing Off of Irrecoverable Debts and Impairment of Debtors Policy.