



VICTOR KHANYE

LOCAL MUNICIPALITY – PLAASLIKE MUNISIPALITEIT

PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

1 July 2020 – 30 June 2021

Policy Number:	Approved by Council:
Resolution No:	Review Date:

1 – PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE OFF POLICY

000212

Contents

1.	APPLICATION AND SCOPE	3
2.	OBJECTIVES OF THE POLICY	3
3.	INTRODUCTION	3
5.	IMPAIRMENT OF DEBTORS	5
	CONSUMER DEBTORS	6
5.1	6
5.2	SUNDRY DEPOSITS	7
5.3	SUNDRY DEBTORS	7
7	WRITE OFF OF DOUBTFUL DEBTORS.....	9
7.1	AMOUNTS EQUAL TO OR LOWER THAN AMOUNTS DELEGATED TO THE CHIEF FINANCIAL OFFICER BY COUNCIL FROM TIME TO TIME	10
7.2	AMOUNTS EXCEEDING THE CFO'S DELEGATED AUTHORITY	10
7.3	APPLICATION OF PRESCRIPTION ACT	12
7.4	SPECIFIC DEBT WRITE-OFF INCENTIVES	12
7.5	OTHER WRITE OFFS	13

1. APPLICATION AND SCOPE

The Provision for Doubtful Debt and Debt Write-Off Policy is applicable to the Victor Khanye Local Municipality.

NOW THEREFORE the Council of the Victor Khanye Local Municipality has adopted the Provision for Doubtful Debt and Debt Write-off Policy as set out hereunder –

2. OBJECTIVES OF THE POLICY

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

3. INTRODUCTION

The effective management of debtors include, amongst others, the following processes:

- Implementation/Maintenance of the appropriate ICT Systems and Business Processes;
- Accurate billing;
- Customer care and accounts enquiry management;
- Effective and timeous credit control;
- Impairment of debtors (Provision for Doubtful Debtors);
- Write-off of uncollectable debtors.

3 – PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE OFF POLICY

This policy provides guidelines on the treatment of the impairment and write-off of debtors.

4. APPLICABLE ACCOUNTING STANDARDS

GRAP 104 financial instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.

GRAP 104.46 all financial assets measured at amortised cost, or cost, are subject to an impairment review..."

GRAP 104.57 an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial assets or group of financial assets is impaired.

If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph . 64 (for financial assets carried at cost) to determine the amount of any impairment loss".

GRAP 104.58 a "a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(a loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated".

GRAP 104.61 if there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets's

carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in surplus or deficit"

5. IMPAIRMENT OF DEBTORS

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis, or based on expected cash flows.

An objective assessment of financial assets is made at financial year-end in order to determine possible impairment. Impairment loss is recognized as an expense in the Statement of Financial Performance.

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

5.1 CONSUMER DEBTORS

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

Category of Debtor	Percentage of debt regarded as collectable	Percentage of debt provided for as irrecoverable (ie Impairment Percentage)
Credit balances	Zero	Zero
Accounts with balances only in current (0 – 30)	100%	Zero
Inactive accounts	Zero	100%
Approved indigents	Zero	100%
Pending indigents	Zero	100%
No payment received during preceding 6 months	Zero	100%
State debtors (National, Provincial, Local and SOE's)	100%	Zero
Farm owned properties	100%	Zero
<p>All other debtors:</p> <p>Significant financial difficulties of the debtors and default or delinquency in payments or all debt outstanding for more than 30 days are considered indicators to determine that debtors are impaired.</p> <p>The remainder of the debtors are evaluated using a payment ratio which can be defined as the sum of the debtors's total payment for the year divided by the debtors's total billing for the year. Any payment ratio less than 100% will lead to a provision for a bad debt.</p>		

5.2 SUNDRY DEPOSITS

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

5.3 SUNDRY DEBTORS

Sundry debtors are those Suspense Control Accounts classified as financial instruments with debit balances as at year-end. Sundry debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

6 IDENTIFICATION OF IRRECOVERABLE DEBTS

6.1 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.

6.2 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 April every year the report should serve before the Council in order to write off the irrecoverable debts.

6.3 Debts can be regarded as irrecoverable under the following circumstances:-

6.3.1. General

- 6.3.1.1 Debt that was subject to all the collection procedures provided for in this policy and still was unsuccessful to collect the debt and where the debt collection process had been abandoned.
- 6.3.1.2 Debt of which the cost to collect debt has exceeded the debt debt amount.
- 6.3.1.3 Debt of indigent debtors that cannot be collected after the implementation of the debt collection procedures applicable to indigent consumers.
- 6.3.1.4 Small amount debt which the cost to collect the debt is more than the debt amount.

6.3.2 Debt of deceased estate

- 6.3.2.1 Claims must have been submitted to the estate of the deceased
- 6.3.2.2 The executor of the estate advised Council in writing that there are no funds in the estate, and if the heir is employed he will be fully liable for the outstanding debt.

6.3.3 Debt of debtors who have emigrated

- 6.3.3.1 Debt collection procedures must have been implemented;
- 6.3.3.2 Council was informed by a reliable source that the debtor had emigrated.

6.3.4 Debt that has prescribed

- 6.3.4.1 Debt collection procedures must have been implemented;
- 6.3.4.2 Debt must be older than three years
- 6.3.4.3 Debt must comply with the provisions of section 10 Chapter III of the Prescription Act No 68 of 1969

6.3.5 Debt of insolvent estates

- 6.3.5.1 Debt collection procedures must have been implemented
- 6.3.5.2 Claims must have been submitted to the liquidators of the insolvent estate
- 6.3.5.3 The liquidators of the solvent estate must advise Council in writing that there are no funds in the estate
- 6.3.5.4 Council received dividends on the amount owing and was advised that the estate had been finalized and there will be no further dividends forthcoming.

6.3.6 Debt of indigent Households

- 6.3.6.1 Approved indigent debtors who qualify and remain with indigent status for more than two years, may be written off after obtaining a Council resolution.
- 6.3.6.2 Any debt accrued, in excess of the discounted monthly levies, will be recoverable in terms of the credit control policy.

7 WRITE OFF OF DOUBTFUL DEBTORS

Where debts are identified as being irrecoverable (in periods subsequent to debtors being impaired), the process of write-off will be treated as follows:

7.1 AMOUNTS EQUAL TO OR LOWER THAN AMOUNTS DELEGATED TO THE CHIEF FINANCIAL OFFICER BY COUNCIL FROM TIME TO TIME

Debt collector identifying irrecoverable debtors within the delegated powers of the CFO must prepare a report for the attention of the CFO detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective.

The report of the debt collector must be scrutinised by the revenue manager and his recommendation must be documented in the report.

The final report containing the recommendations of both the debt collector as well as the revenue manager must be presented to the chief financial officer for consideration.

Requests approved by the Municipal Manager in consultation with the CFO will be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the director income and retained for audit purposes.

7.2 AMOUNTS EXCEEDING THE CFO'S DELEGATED AUTHORITY

The process for the consideration of write-off of debts in respect of amounts in excess of CFO delegated authority must be dealt with as follows:

The debt collector identifying irrecoverable debts in excess of chief financial officer delegations and prepare report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective.

The report of the debt collector must be scrutinised by the revenue manager and his recommendation must be documented in the report.

The final report containing the recommendations of both the debt collector as well as the revenue manager must be presented to the chief financial officer for consideration.

If approved by the CFO, a formal report must be submitted to the Finance Portfolio Committee, Mayoral Committee and Council for consideration.

Approvals granted by council must be processed against the relevant debtors account and reflected as debit against bad debt provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the director income and retained for audit purposes.

7.3 APPLICATION OF PRESCRIPTION ACT

The provisions of Prescription Act will apply to all services debt, excluding assessment rates. Applications and/or claims for prescription from debtors will only be assessed if no formal credit control or legal actions have been instituted during prescription debt period of three (3) years.

Income manager will assess application in terms of prescribed requirements. If in compliance with Prescription Act, approval may be granted to write-off prescribed portion of debt.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the director income and retained for audit purposes.

7.4 SPECIFIC DEBT WRITE-OFF INCENTIVES

Revenue manager to identify and investigate specific uncollectable debt categories. Report with full details as to the reasons for categorized debt write off to be submitted to council for approval.

Municipal manager to approve the writing off of interest on accounts where a once off settlement is made.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the director income and retained for audit purposes.

7.5 OTHER WRITE OFFS

Department/Entity identify deemed irrecoverable debts and prepare report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted.

If approved by the CFO, formal report must be submitted to the Finance Portfolio Committee, Mayoral Committee and Council for consideration.