

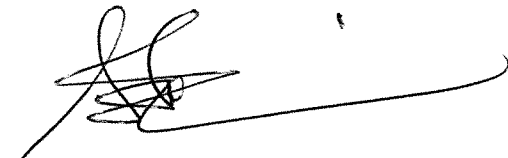
MATATIELE LOCAL MUNICIPALITY




MATATIELE
LOCAL MUNICIPALITY

IMPARIMENT AND WRITE OFF OF DEBTORS POLICY

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DR. DCT NAKIN
MUNICIPAL MANAGER


CLLR. MM MBEDLA
MAYOR

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PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

1. APPLICATION AND SCOPE

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

2. OBJECTIVES OF 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 of 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.

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

4. IMPAIRMENT OF DEBTORS

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

In accordance with IAS 39, 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:

4.1 CONSUMER DEBTORS

4.1.1. 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 (i.e impairment percentage)
Credit balance	Zero	Zero
Inactive accounts	Zero	100%
Handover account to debt collectors		
<ul style="list-style-type: none"> Debt collectors 	Monthly payments received in the financial year	100% less payment percentage for the period
<ul style="list-style-type: none"> Clearance handover (s118 of Municipal Systems Act) 	Zero	100%
Approved indigents	Zero	100%
Formal arrangements	Monthly instalments in respect of the financial year	100% less payment percentage for the period
Debt ageing from 90 days and above	Monthly payments received in the financial year	100% less payment percentage for the period
Debt ageing less than 90 days	100%	Zero

4.1.2. Consumer receivables and sundry receivables that are in arrears at the end of the financial year will be assessed individually for evidence of impairment. Traffic fine debtors will not be assessed individually as the amounts are insignificant due to the nature of these debtors.

4.2 SUNDRY DEPOSITS

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable. Should there be any indication to impair the debt; impairment rate is calculated as the inverse of the payment percentage for the year

4.3 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. Should there be any indication to impair the debt; impairment rate is calculated as the inverse of the payment percentage for the year

5. 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:

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

Revenue and Expenditure manager is responsible for 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 Revenue and Expenditure manager must be scrutinized for approval by the CFO and his recommendation must be documented in the report.

Requests approved by 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.

5.2 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:

Revenue and Expenditure manager is responsible for 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 Revenue and Expenditure manager must be scrutinized by the CFO and his recommendation must be documented in the report.

If approved by the CFO, a formal report must be submitted to the Finance Standing Committee, EXCO 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.

5.3 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.

Revenue and Expenditure 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.

5.4 OTHER WRITE-OFFS.

BTO – Revenue and Expenditure identifies deemed irrecoverable debts and prepares 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 Standing Committee, EXCO and Council for consideration.
