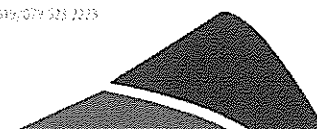


MATATIELE LOCAL MUNICIPALITY IMPAIRMENT AND WRITE OFF OF DEBTORS POLICY

<u>POLICY INFORMATION</u>	
<u>DATE OF COUNCIL ADOPTION:</u>	<u>28/05/2026</u>
<u>COUNCIL RESOLUTION NUMBER:</u>	<u>CR 1081/28/05/2026</u>
<u>POLICY NUMBER:</u>	<u>MLM/BTO/P31</u>

Where Nature, Agriculture, Tourism are Investments of Choice.

Electrical Services: 039 522 9151 Prepaid Sales: 039 523 327 Finance Office: 039 737 3565 Disaster and Fire: 039 737 3611/039 523 2225
Police(SAPS): 039 737 9111/9105 Water: 039 529 1176 Ambulance: 03977 Traffic: 039 523 9224





MRS. N.N. ZEMBE
ACTING MUNICIPAL MANAGER

28/05/2026

DATE

CLLR. P.M. STUURMAN
MAYOR

28/05/2026

DATE

CLLR N NGWANYA
SPEAKER COUNCIL

28/05/2026

DATE

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Authority	Date
HOD Approval	
MM Approval	
Council Approval	
Date of next Review	

Approval of Policy

Please note that the implementation of the policy contained in this document is subject to approval and signing off by all relevant Heads and/or Committees, including but not limited to:

- Municipal Manager; and
- Municipal Council.

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PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

APPLICATION AND SCOPE

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

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.

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.

IMPAIRMENT OF DEBTORS

Impairment of Financial Assets

(In terms of GRAP 104 – Financial Instruments, Revised 2019)

1. Policy Purpose

The purpose of this policy is to establish a sound governance framework for the recognition, measurement, monitoring, and disclosure of impairment of financial assets in accordance with GRAP 104 (Revised 2019). The policy promotes prudent financial management, transparency, audit readiness, and consistent application of expected credit loss (ECL) principles across all municipal departments responsible for financial reporting.

Impairment and write off policy effective on 01 July 2026

2. Policy Scope

This policy applies to all financial assets of the Municipality within the scope of GRAP 104, including:

- Trade receivables
- Sundry and other receivables measured at amortised cost
- Loans and advances
- Lease receivables
- Loan commitments and financial guarantee contracts within the scope of GRAP 104

Statutory receivables are excluded and are covered under the GRAP 108 Impairment of Statutory Receivables Policy.

3. Definitions

For purposes of this policy, the following terms have the meanings assigned to them below:

- Expected Credit Loss (ECL) – The present value of the difference between the contractual cash flows due and the cash flows the Municipality expects to receive over the life of a financial asset.
- Lifetime Expected Credit Loss - Expected credit losses resulting from all possible default events over the expected life of a financial asset.
- 12-Month Expected Credit Loss – Expected credit losses resulting from default events that are possible within 12 months after the reporting date.
- Credit Risk – The risk that a counterparty to a financial asset will fail to meet its contractual obligations, resulting in financial loss to the Municipality.
- Credit-Impaired Financial Asset - A financial asset for which one or more events have occurred that have a detrimental impact on the estimated future cash flows.
- Default - A situation where a debtor is past due for a defined number of days or exhibits other indicators of inability to meet its credit obligations.

- Amortised Cost - The amount at which a financial asset is measured at initial recognition, minus principal repayments, adjusted for cumulative amortisation, and adjusted for any loss allowance for expected credit losses.

4. Policy Principles

The Municipality applies the following principles in accounting for impairment:

- Expected credit losses are recognised on a forward-looking basis, rather than when losses are incurred
- ECL calculations incorporate reasonable and supportable information, including historical experience, current conditions, and forward-looking information, using approaches appropriate to the nature of the financial asset.
- Historical experience, current conditions, and forward-looking economic information are considered
- Materiality and professional judgement are applied consistently and appropriately
- Assumptions and methodologies are reviewed regularly for relevance and consistency
- All impairment assessments are supported by adequate supporting evidence

5. Impairment Approach

5.1 Simplified Approach for Receivables

In line with GRAP 104 paragraphs 5.30–5.31, the Municipality applies the simplified approach to trade and service receivables. Under this approach:

- The loss allowance is always measured at lifetime expected credit losses
- No assessment of significant increases in credit risk (staging) is required, as indicated in the GRAP Standard

- Impairment is calculated collectively for groups of receivables with shared credit risk characteristics
- Segmentation and loss rates are informed by historical loss patterns, payment behaviour, and debtor profiles.

5.2 General Approach for Other Financial Assets

The general approach does not apply to receivables and lease receivables assessed under the simplified approach.

For financial assets not subject to the simplified approach, the Municipality applies the general ECL model, which includes the following stages:

- Stage 1 – 12-month expected credit losses for assets that have not experienced a significant increase in credit risk since initial recognition
- Stage 2 – Lifetime expected credit losses for assets that have experienced a significant increase in credit risk
- Stage 3 – Lifetime expected credit losses for credit-impaired financial assets

The assessment of a significant increase in credit risk is based on a combination of quantitative thresholds and qualitative indicators, including but not limited to delinquency status, adverse financial information, and changes in counterparty risk profiles

6. Measurement Basis

Expected credit losses represent the present value of expected cash shortfalls over the life of a financial asset.

For receivables, ECL is determined using:

- Ageing analysis
- Historical write-off and recovery trends
- Segmented loss rates by debtor category

Forward-looking adjustments based on observable macroeconomic and municipal-specific indicators

7. Methodology

A detailed impairment methodology, aligned with this policy and GRAP 104 requirements, is maintained as a supplementary document. The methodology provides detailed calculation steps, data sources, and assumptions and is applied consistently with this policy. This methodology is formally approved by the Chief Financial Officer (CFO) and reviewed periodically to ensure continued relevance and compliance

6. 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:

6.1 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 scrutinised for approval 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.

6.2 AMOUNTS EXCEEDING THE CFO'S DELEGATED AUTHORITY

The process for the consideration of write-off of debts in respect of amounts more than 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 scrutinised 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's income and retained for audit purposes.

6.3 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.

6.4 OTHER WRITE-OFFS.

BTO – Revenue and Expenditure identify 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