IMPAIRMENT POLICY FOR THE JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

Policy Resolution Number:6.2.29/05/2019	**Approved Date:29 May 2019**
Effective Date: July 2019	**Review Date: As and when required**

SIGNATURE OF THE MUNICIPAL MANAGER

SIGNATURE OF THE SPEAKER

Reaffirmed

1. INTRODUCTION

The Municipal Finance Management Act, Act 56 of 2003 states that the Municipal 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 the 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

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 the 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.
- Ensure the proper delegation of powers to the chief financial officer to write off bad debts up to 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

Ms P Q Mogatle

Speaker

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 May 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 IRRECOVERABLE DEBTS WRITE-OFFS.

The Unit responsible for debt management must prepare a report 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 finance officials responsible for debt management reconciliation to be performed on a quarterly basis must be scrutinized by the manager: Assets and Revenue and recommend the writing off to the council for consideration. The final report to the council must be signed off by the CFO.

Upon approval by the council, the credit control section will write-off approved amount against the debt impairment provision vote and process it against the relevant debtors account.

The Unit responsible for debt management must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the budget office by no later than 30 June of each year be retained for audit purposes.

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6.2 SPECIFIC DEBT WRITE-OFFS

The Unit responsible for debt management may prepare a report to the council from time to time for specific uncollectable debt transaction such as:

- Liquidation debts that are older than two 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:

- Consumer details:
- Reason for specific debt write-offs;
- Amount to be written off broken down per category:
- Confirmation that all avenues to recover debt have been exhausted; and
- Confirmation that further actions would be fruitless and not cost effective.

7. RECOVERY OF IRRECOVERABLE DEBTS

Should there be a payment in respect of the amount 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 (ALLOWANCE FOR DOUBTFUL DEBT)

Consumer debtors (accounts receivable), long term receivables and other debtors are stated at cost, less an allowance for bad debt.

Signature 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 could be 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: Government and Municipal debt.

No impairment will be provided for government and municipalities.

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

- Accounts with credit balances will be categorised as creditors. These accounts will be excluded from the impairment calculation.

- Accounts for which no payment had been received during the current year and no movement 100% impairment should be considered.

- For accounts for which payments had been received during the current year, a payment to billing percentage will be calculated to determine to what extent did the debtor pay their outstanding debt based on what had been charged for the current period.

The accounts outstanding will been categorised based on the percentage of payment of annual billing and the following principles would apply:

- Debtors which paid 100% or more of what had been charged in the current period: low risk;
- Debtors which had paid between 100% and 70% of all charges levied in the current period: Medium risk;
- Debtors which had paid less than 70% of what had been charged to their account: High risk.
- For accounts which had no payments or any charges levied on the account will be assumed to be dormant and will be classified as a high risk category.
- Accounts within the indigent debtor category are by nature they are high risk due to their low income. Debts within this account are deemed as high risk irrespective of billing, age of debt or payment thereof, as all debt of indigents are written off as and when an individual becomes an indigent debtor.

<u>THE FOLLOWING IMPAIRMENT PERCENTAGES WILL APPLY TO THE RISK CATEGORIES IDENTIFIED.</u>

	Current	30-60 days	60-90 days	90-120	120-150	150 days
Low Risk	0%	5%	10%	20%	40%	60%
Medium Risk	5%	10%	20%	40%	60%	80%
High Risk	10%	20%	40%	60%	100%	100%

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