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IMPAIRMENT POLICY FOR JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

Council resolution no: 6.2 29/05/2018	**Approved Date: 29/05/2018**
Effective Date: 01 July 2018	**Review Date: Annually and/or As and when Required**

Mr. D. Molaole

Municipal Manager ……………………

Ms. P. Mogatle

Speaker ……………………

REVIEWED

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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

4. STATEMENT

This policy is applicable to all categories of debt but not limited to:

- Consumer debtors
- Sundry debtors

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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.

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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

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 been 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

<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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THE GRAP STANDARDS;

- GRAP 104
- GRAP 104.57
- GRAP 104. 58
- GRAP 104. 61
- GRAP 104. 62
- GRAP 104. 63

IMPAIRMENT AND UNCOLLECTIBILITY OF FINANCIAL ASSETS.

10. An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 11 to 13 (for financial assets carried at amortised cost) and paragraph 64 (for financial assets carried at cost) to determine the amount of any impairment loss.

11. 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 asset'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 use reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

12. An entity first assesses whether objective evidence of impairment exists individually for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

13. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an occurring after the impairment was

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recognised (such as an improvement in the debtor's credit rating), the GRAP 104 issued October 2009 27 Financial Instruments previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in surplus or deficit.

14. POLICY REVIEW

This policy will be reviewed annually

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