

VICTOR KHANYE LOCAL MUNICIPALITY

2015/2016 BUDGET RELATED POLICY

PROVISION FOR DOUBTFUL DEBT AND WRITE OFF  
POLICY



# VICTOR KHANYE

LOCAL MUNICIPALITY – PLAASLIKE MUNISIPALITEIT

## PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

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

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## 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.

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 bad debts. The provision is made on an individual basis, or based on expected 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

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                                                                        |



|                                                       |                                                                 |          |
|-------------------------------------------------------|-----------------------------------------------------------------|----------|
| 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     |
| All other debtors:                                    | Per debtor per service taking into account the payment history; |          |
| • Current vs long outstanding debt;                   |                                                                 |          |
| • Ageing less than 60 days but more than 30 days      | 60 – 90 %                                                       | 10 – 40% |
| • Ageing less than 90 days but more than 60 days;     | 30 – 60 %                                                       | 40 – 70% |
| • Ageing more than 90 days;                           | 0%                                                              | 100%     |

#### 4.2 SUNDRY DEPOSITS

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

#### 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.

## **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**

Debt collector identifying irrecoverable debtors within the delegated powers of the MM must prepare a report for the attention of the MM 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.

## 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 MM 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 MM, 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.

### **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.

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.

#### 5.4 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.

#### 5.5 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 MM, formal report must be submitted to the Finance Portfolio Committee, Mayoral Committee and Council for consideration.