

**DEBTORS IMPAIRMENT**

**POLICY**

**2018/19**

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**1. OBJECTIVES OF THE POLICY**

(a) ensure any long outstanding debt is evaluated in order to determine the

possibility of realizing such income as revenue

(b) ensure that where it is evident that a particular debt cannot be turned

into revenue such debt be procedurally regarded as irrecoverable

(c) ensure that the Council of the Municipality makes provision for bad

debts in the budget

(d) ensure that outstanding monies which have been outstanding for a long

time after all attempts have been made in terms of recovering them

should then be written off

(e) ensure the identification of bad debts during the course of the financial

year

(g) ensure proper delegation of powers in terms of writing off of bad debts

**2. LEGISLATIVE AND REGULATORY FRAMEWORK**

(a)Municipal Systems Act (Act 32 of 2000)

(b)Municipal Finance Management Act (Act 56 of 2003)

(c) Standard of Generally Recognized Accounting Practice

**3. SCOPE OF THE POLICY**

This policy be applicable to all categories of debtors

**4. WRITING OFF OF IRRECOVERABLE DEBTS**

Debt shall be identified to be irrecoverable after the Credit Control and Debt Collection process has been followed and no payments having been received towards the outstanding account.

Where debts are identified as being irrecoverable, the process of writing off shall be treated as follows:

* The Chief Financial Officer to recommend to Management
* Management to recommend to the Finance Committee
* The Finance Committee to recommend to Council for final approval

The following debtor/consumer information must be made available -

* consumer detail
* irrecoverable amount broken down per service
* details on credit and debt collection process followed to recover the debt
* reasons that led to debt being identified as being irrecoverable
* confirmation that all avenues to recover debt have been exhausted, and
* confirmation that further actions would be fruitless and not cost effective

**5. APPLICATION OF PRESCRIPTION ACT**

The provision of the Prescription Act shall apply to all services including assessment rates. Applications and/or claims for prescription from debtors shall only be assessed if no formal credit control or legal actions have been instituted during prescription debt period of three (3) years.

The Chief Financial Officer shall assess applications in terms of the Prescription Act and recommend the write offs in terms of authorization levels as provided above.

Approvals granted must be processed against the relevant debtors account and reflected as debit against bad debt provision in the general ledger.

**6. RECOVERY OF IRRECOVERABLE DEBTS**

Should there be a payment in respect of the account which has already been written off, such monies must be allocated to the specific vote number for the recovery of irrecoverable debts.

**7. IMPAIRMENT OF DEBTORS**

An allowance for impairment of receivables shall be established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables.

Impairment losses shall be recognised in the statement of financial performance.

For amounts due to the municipality, significant financial difficulties of receivable, probability that the recoverable will enter bankruptcy and default of payments shall all be considered indicators of impairment.

The impairment for trade receivables shall be calculated on a portfolio basis.

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

**7.1. Consumer and other 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 (impairment percentage)** |
| Credit balance | Zero | Zero |
| Handed-over accounts to debt collectors/attorneys | Zero | 100% |
| Registered indigents | Zero | 100% |
| Accounts with balances older than 6 months (total account written-off) | Zero | 100% |

**8. REVIEW OF POLICY**

This policy must be reviewed and submitted for consideration to Council on an annual basis as part of the budget process.