EMAKHAZENI LOCAL MUNICIPALITY

IMPAIRMENT OF DEBTORS POLICY

APPROVED BY COUNCIL ON:

IMPLEMENTATION DATE

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1. OBJECTIVES OF 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 a revenue such debt be procedurally regarded as irrecoverable.

c. ensure that the Council of the municipality makes enough 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.

f. provide guidelines on the writing off of bad debts at least three months before the end of the financial year.

g. ensure the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.

2. LEGISLATIVE AND REGULATORY FRAMEWORK

a. Municipal Systems Act, Act 32 of 2000.

b. Municipal Finance Management Act, Act 56 of 2003.

c. Standards of Generally Recognized Accounting Practice.

3. SCOPE OF 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 whole 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:

4.1 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time

The Revenue Accountant must prepare a report within the delegated powers of the CFO containing the following:

a. consumer details;

b. irrecoverable amount broken down by service;

c. details on credit and debt collection processes followed to recover the debt;

d. reasons that led to debt being identified as being irrecoverable;

e. confirmation that all available avenues to recover debt have been exhausted; and

f. confirmation that further actions would be fruitless and not cost effective.

The report of the Revenue Accountant shall be considered by the Deputy Manager: Finance who shall recommend the writing off to the Chief Financial Officer for consideration.

Requests approved by the Chief Financial Officer will be processed in the accounting records against the debt impairment provision and the relevant debtors account.

The Revenue Accountant shall annually prepare a reconciliation of debt impairment account with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

4.2. Amounts exceeding the Chief Financial Officer delegated authority

The Revenue Accountant must prepare a report of irrecoverable debts in excess of the Chief Financial Officer delegated powers containing the following:

a. consumer details;

b. irrecoverable amount broken down per service;

c. details on credit and debt collection processes followed to recover the debt;

d. reasons that led to debt being identified as being irrecoverable;

e. confirmation that all available avenues to recover debt have been exhausted; and

f. confirmation that further actions would be fruitless and not cost effective.

The report of the Revenue Accountant must be considered by the Deputy Manager: Finance who shall present the recommended report to the Chief Financial Officer for consideration.

If approved by the Chief Financial Officer, the report shall be submitted to the Mayoral Committee and then Council for consideration.

Approvals granted by Council must be processed in the general ledger against the debt impairment provision and against the relevant debtors account.

The Revenue Accountant shall annually prepare a reconciliation of debt impairment account with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

4.3 Application of Prescription Act

The provisions of Prescription Act shall apply to all services debt, excluding 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.

Deputy Manager: Finance shall assess applications 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 general ledger.

The Revenue Accountant shall annually prepare a reconciliation of debt impairment account with supporting documentation to be submitted to the budget office by no later than 20 July of each year to be retained for audit purposes.

5. 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 the irrecoverable debts.

6. IMPAIRMENT OF DEBTORS

Receivables shall be recognised subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

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 the receivables.

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

The municipality shall assess at each statement of financial position date whether there is any objective evidence that a debtor or group of debtors is impaired.

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

The impairment for trade receivables shall be calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios shall be applied to debtors' balances in the portfolio and scaled to the estimate loss emergence period.

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

6.1 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 (Impairment Percentage)
Credit balances	Zero	Zero
Inactive accounts	Zero	100%
Hand-over accounts to debt collectors	Zero	100%
Approved indigents	Zero	100%
Pending indigents	Zero	100%
No payment received during preceding six months	Zero	100%

Consumer debtors are eva7.luated at each reporting

Category of debtor	Percentage of debt regarded as collectable	Percentage of debt provided for as irrecoverable (Impairment Percentage)
Formal arrangement on arrear debt	Monthly instalment debt in respect of 12 months	100% of balance of account less 12 months instalments
Disconnection of services in excess of 6 times during the preceding 12 months	Zero	100%
Date ageing more than 120 days	Zero	100%
Date ageing less than 120 days	100%	Zero

6.2 Other debtors

Other debtors are assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are irrecoverable.

7. REVIEW OF POLICY

This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.