BLOUBERG MUNICIPALITY

APPROVED AMENDMENT ON :

DEBTORS IMPAIRMENT AND WRITE-OFF POLICY

2016/2017

1. INTRODUCTION.

The Municipal Finance Management Act, Act 56 of 2003 states that the municipality 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 less an acceptable provision for bad debts.

The policy aims to ensure that debtors are disclosed in the annual financial statement 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. LEGISLATIVE FRAME WORK.

2.1 The municipal Finance Management Act (MFMA) Act 56 of 2003 aims to modernize budget and financial Management Practices in the municipality in order to maximize the capacity of the municipality's service delivery to all residents, customers and users.

2.2 It also gives effect to the principles of transparency as required by Section 215 and 216 of the constitution.

2.3 The Council of the municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in Chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

3. OBJECTIVES OF THE POLICY

3.1. Ensure that monies which have been outstanding for a long period after all attempts have been made in terms of recovering them should then be written-off.

3.2. To provide the identification of bad debts during the course of the financial year.

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

3.4 Ensure that the Council of the municipality makes enough provision for bad debts in the budget.

4. 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 April every year the report be submitted to Council to approve the write-offs of the identified irrecoverable debts.

5. SPECIFIC DEBTS WRITE-OFF.

4.1. The Chief Financial Officer shall prepare a report to Municipal Manager and Mayoral Committee once a year for specific uncollectable debts transactions such as:

- Liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936;
- Undeveloped sites brought back to Council;
- Outstanding debts that were handed over for collection and rendered uncollectable by tracing agencies or 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.

4.2. The report for specific debt write-offs must contain the following:

- Debtor's name,
- Debtor's address,
- Methods taken to collect the debt,
- Reasons(s) why the debt is uncollectable,
- Description of debt,
- Period of the debt and / or date(s) of invoice,
- Amount to be written off,
- Reason for write-off.

4.3. Supporting documents must be retained and available that shows:

- Evidence to support the write-off,
- Recovery history,
- Details of tracing and enquiries carried out.

4.4. Upon approval, retains written evidence of the approval by Council at the The Revenue Unit in a proper form that meets accounts/ audit requirements for good record keeping.

4.5. Finally, make necessary adjustments to the relevant accounts.

6. RECOVERY OF IRRECOVARABLE 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 designed for the recovery of irrecoverable debts.

7. SUNDRY MATTERS.

Council may from time to time implement an incentive scheme which may entitle writing off of certain debts.
The Chief Financial Officer may also negotiate or grant settlement discount or wave interest for clients who want to settle their accounts.

8. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT).

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

Significant financial difficulties of the debtor and default or delinquency in payments or all debt outstanding for more than 360 days are considered indicators to determine that debtors are 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 methodology is used:

CONSUMER DEBTORS IMPAIRMENT PER THEIR SIGNIFICANT

In terms with paragraph 62 of GRAP 104, *financial instruments*:
An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

9. SHORT TITLE AND COMMENCEMENT

This policy shall be called the impairment of debtors and write-off policy. It commences once approved by Council.

10. REVIEW OF THIS POLICY.

This policy must be reviewed on annual basis to take into account developments of legislation governing financial management in local government as well as accounting standards.