



DRAFT:

**POLICY ON THE IDENTIFICATION,
TREATMENT AND WRITE OFF OF BAD
DEBTS**

POLICY ON THE IDENTIFICATION, TREATMENT AND WRITE OFF OF BAD DEBTS

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1. DECLARATION OF INTENT

At its broadest level, the Municipal Finance Management Act endeavours “to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements.”

In particular, Chapter 12 of the MFMA places the onus on the Municipality to take responsibility for the preparation and adoption of an annual report in accordance with this chapter. More specifically this Chapter provides guidance on the preparation of financial statements, disclosures on intergovernmental and other allocations and other compulsory disclosures.

2. OBJECTIVE

The objective of this policy document is to clearly define the responsibilities of the Xhariep District Municipality in terms of the Municipal Finance Management Act with respect to the identification and disclosure of Bad Debts in the Annual Financial Statements. This policy document addresses the following areas:

- Terminology and Definitions with respect to Bad Debts.
- The Accounting policy with respect of Bad Debts.
- Guidance on the accounting treatment of Bad Debts.
- Guidance on the disclosure of Bad Debts in the Annual Financial Statements of the Municipality.

3. TERMINOLOGY AND DEFINITIONS

In this Policy, unless the context indicates otherwise, a word or expression to which a meaning has been assigned has the same meaning, and –

“**Annual Report**” in relation to a municipality or municipal entity, means an annual report contemplated in [section 121](#) of the MFMA;

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“Bad Debts” A debt which has become irrecoverable and is outstanding beyond the repayment terms of the municipality.

“Financial Statements” in relation to municipality or municipal entity, means statements consisting of at least—

- A statement of financial position;
- A statement of financial performance;
- A cash-flow statement;
- Any other statements that may be prescribed; and
- Any notes to these statements;

“Financial Year” means a year ending on 30 June.

“Provision for Bad Debts” An estimate, which is made for doubtful receivables, based on a review of all outstanding amounts at year-end.

4. SCOPE OF APPLICATION

From a responsibility perspective, this policy is relevant to all employees of the Municipality, whether full-time or part-time. It is, however, specifically applicable to the Council, Accounting Officer, Chief Financial Officer and Senior Manager’s whether full-time or part-time. In particular, the duly appointed Directorate and responsibility managers have significant roles in:

- *Applying the accounting policy with respect to Bad Debts.*
- *Determining whether to write off any debts and the procedure for writing of such debts*
- *Ensuring that the Bad Debts as disclosed in the Annual Financial Statements are accordance with the recognition criteria.*
- *Ensuring that Bad Debts as disclosed in the Annual Financial Statements are in accordance with the prescripts on disclosure.*

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5. GOVERNING PRESCRIPTS

This Policy has been formulated in terms of the Municipal Finance Management Act, 2003 (Act 56 of 2003), Generally Recognised Accounting Practice Statement on the Presentation of Financial Statements (GRAP1) and *GRAP 19 and IAS 37* (Provisions, Contingent Liabilities and Contingent Assets).

6. LEGAL FRAMEWORK

This policy will be implemented within the legal framework of the relevant national legislation outlined hereunder.

- *The Municipal Finance Management Act, 2003 (Act 56 of 2003)* Sections 121 – 125.
- Generally Recognised Accounting Practice Statement on the Presentation of Financial Statements (GRAP1).
- *GRAP 19 and IAS 37* (Provisions, Contingent Liabilities and Contingent Assets).

7. ACCOUNTING POLICY

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified.

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

8. GUIDING PRINCIPLES

This policy supports the following principles:

- To secure the sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government;
- To establish treasury norms and standards for the local sphere of government;
- Ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities;
- The management of the municipality's revenues, expenditures, assets and liabilities and the handling of their financial dealings.

EXPECTED FUTURE PAYMENT LEVELS

In terms of the budgets approved by the council, and in accordance with commonly accepted best practice, this municipality will have to strive to its utmost to ensure that payment levels for the present and future financial years, in respect of all amounts legitimately owing to the municipality is maintained at a minimum of 98%.

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It is generally accepted that payment levels averaging below 98% per month are untenable, and are a certain forerunner of financial disaster for a municipality. Even with payment levels of 98% it means that the council will annually have to provide on its expenses budget a contribution to bad debts of 2% of the aggregate revenues legitimately owing to this municipality – a contribution that is made at the direct cost of improved service delivery and developmental projects.

9. WRITING OFF OF BAD DEBTS

9.1 CREDIT CONTROL AND DEBT COLLECTION POLICY ACTIONS

All the applicable actions as contained in the Credit Control and Debt Collection Policy of the municipality should have been executed and implemented.

9.2 ESTATE NOTICES MONITORING

Estate notices in the Government Gazette must be checked regularly to enable the municipality to institute claims against insolvent and deceased estates of persons owing money to the Municipality.

9.3 TRACING OF DEBTORS

In the event that the debtor's address is not known, all reasonable steps must be taken to trace the debtor. A reasonable effort to trace the debtor will include, but is not limited to, the following:

- (a) Utilising all the information available (such as vehicle registration number, school attended by children, etc.) to locate the debtor;
- (b) Utilising the telephone directory for the last town or city in which the debtor lived to locate the debtor and/or his/her relatives; and
- (c) Contacting the following institutions or persons in order to locate

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the debtor:

- The Vehicle Registration Authorities;
- The Department of Home Affairs; and
- Officials and/or colleagues at the debtor's last place of employment.

The Accounting Officer shall consider all other economically viable avenues for debt recovery, including the use of tracing agents, factoring of debts, recourse against sureties, guarantors or lessees, etc.

9.4 PREVENTION OF PRESCRIPTION OF DEBT

(a) Prevention:

Proceedings out of the appropriate court having jurisdiction for the recovery of a debt must be commenced as soon as is appropriate in order to prevent prescription of the debt. A summons process for payment of the debt must be successfully concluded as soon as possible to prevent prescription of the debt in terms of the Prescription Act.

(b) Prescription Act, 1969 (Act No. 68 of 1969):

Section 10 (1) of the Prescription Act provides that a debt shall be extinguished by prescription after the lapse of the period which in terms of the relevant law applies in respect of the prescription of such debt. The Municipality cannot legally enforce payment of a debt once the debt has prescribed, but the period of prescription is interrupted:-

- (i) By the service on the debtor of any process whereby the creditor claims payment of the debt (Section 15). "Process" means a Summons or Notice of Motion, which must actually

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be served on the debtor and not simply issued by the court, and does NOT include a registered letter of demand.

- (ii) the debtor acknowledges liability, whether expressly or tacitly (Section 14); payment of a portion of the debt can constitute a tacit acknowledgement of liability.

The completion of prescription may also be delayed in certain circumstances (Section 13).

- (c) In terms of Section 11 of the Prescription Act, 1969 (Act 68 of 1969), the periods of prescription of debts are as follows:

- (i) **Thirty years** in respect of -
- any debt secured by a mortgage bond;
 - any judgment debt;
 - any debt in respect of any taxation imposed or levied by or under any law; and
 - any debt owed to the State in respect of any share of the profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances.
- (ii) **Fifteen years** in respect of any debt owed to the State and arising out of an advance or loan of money or a sale or lease of land by the State to the debtor, unless a longer period applies in respect of the debt in question in terms of paragraph (i) above.
- (iii) **Six years** in respect of a debt arising from a bill of exchange or other negotiable **instrument** or from a notaries contract, unless a longer period applies in respect of the debt in question in terms of paragraph (i) or (ii) above.

- (iv) **Three years** in respect of all other debts, save where an Act of Parliament provides otherwise.

9.5 GENERAL

Should all the above efforts prove to be unsuccessful and the debtor cannot be traced or it would be uneconomical to take the matter any further, only then must a submission be made requesting the write-off of the debt. This submission must detail all steps taken and the Municipality must maintain audit trails in such instances, and document the reasons for the abandonment of the actions or claims in respect of the debt.

10. WRITE OFF DEBTS OWING TO THE MUNICIPALITY

10.1 GENERAL CONDITIONS

The Municipality will consider debts for write-off in the following general circumstances:

- (a) When debts have prescribed, as contemplated paragraph 9.4 above;
- (b) When debts have not been recovered from the deceased, where their estates have been finalized, and recovery of the debts from the heirs is not possible;
- (c) When debts are owed by debtors who cannot be traced, notwithstanding compliance with the provisions in paragraph 9.3 above;
- (d) When no source documentation is available to substantiate or prove the claims, provided that the Accounting Officer must have satisfied him/herself that all reasonable steps have been taken to locate the source documents;
- (e) When the debtor has emigrated without paying the debts, leaving no assets available for attachment, and the debtors'

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whereabouts are unknown; and

- (f) When it is not economical to pursue the debt further.

Note: Unless affordable arrangements can be made with tracing agents or attorneys, the costs associated with the tracing of a debtor and subsequent legal costs occasioned thereby, could exceed the amount claimed. It would therefore not be in the Municipality's interest to attempt recovery of debts where the prospects of recovery are remote, and where the possibility exists that the costs associated with recovery may exceed the debt.

10.2 SPECIFIC CONDITIONS

The Municipality will consider debts for write-off in the following specific circumstances:

10.2.1 Sundry Debt

Debt owed to Council arising from auxiliary services rendered by Council will be regarded as irrecoverable in the following instances:

- If the debt has prescribed;
- In the circumstances contemplated in 9.1 (a) to (f) above.

10.3 FINAL ACTION

Whenever all the legal avenues, procedures and steps listed above have been exhausted, the arrear amounts should be classified as irrecoverable and should be written off by the person to whom the authority to do so has been delegated under the Municipality's system of delegations.

Immediately after 30 June each year, or more regularly if requested by Council, the Accounting Officer must present to the Council a report listing the following:

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- (a) For noting – details of the debts that were written off during the year ending 30 June under delegated authority, together with the reasons for the write offs; and
- (b) For consideration – details of any debt, not included under (a) above, which is believed to be irrecoverable, together with the reasons for this conclusion. The council shall then approve the write-off of such arrears, if it is satisfied with the reasons provided.

11. DELEGATED AUTHORITY

The Accounting Officer can be given delegated authority to write-off debt under the following circumstances:

- (a) the debt amounts to five thousand rand (R5 000.00) or less ;
- (b) all reasonable steps have been taken to recover the debt as stipulated under paragraph 9 above;
- (c) the debt is considered to be irrecoverable in terms of any one of the conditions stipulated in paragraph 10 above;

In such cases, the reason for each write-off must be listed in the report against each individual item, and audit trails for each write-off must be kept for control purposes.

12. CREDIT BUREAU LISTING

Debtors whose outstanding debts are written off due to any of the following reasons must be listed with the Credit Bureaus:

- Untraceable;
- Prescription;
- Insolvent;
- Emigration.

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13. BAD DEBTS RECOVERED

The approval of Council for the write-off of any debt does not mean that actions to recover the money will be terminated, however, further actions will be instituted depending on the costs involved and if the debt is recovered it will be recorded in the financial records of Council as recovered.

14. IMPLEMENTATION

The Accounting officer may deviate or override provisions of this policy where necessary taking into consideration the applicable legislation.

15. GUIDING PRINCIPLES: DISCLOSURE

Bad Debts are disclosed as follows:

- As part of Consumer Debtors and other receivables in the notes to the financial statements.
- In the accounting policy notes to the Annual Financial Statements.