

Bad Debt Provision and Write off Policy

1. **APPLICATION AND SCOPE**

The Provision of Doubtful Debt and Debt Write-off Policy is applicable to the Uthukela District Municipality.

1. **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.

1. **INTRODUCTION**

The effective management of debtors includes, amongst others, the following processes:

* Implementation/maintenance of the appropriate ICT systems and business processes.
* Accurate billing.
* Customer care and accounts query management.
* Effective and timeous credit control.
* Impairment of debtors (provision for doubtful debtors).
* Write-off of uncollectable debtors.

The policy provides guidelines on the treatment of the impairment and write-off of debtors.

1. **IMPAIRMENT OF DEBTORS**

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debt. The provision is made on an individual bases, and 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.

* 1. **Consumer debtors**

Consumer debtors are evaluated at the end of each reporting date and impaired as follows:

Management criteria and assumptions for the calculation of debt impairment:

* Original interest rate is used (to work out discount rate).
* 30 days payment terms.
* Analysis of accounts per category (billing vs time it takes for the amount to be fully collected).
* The total balance as disclosed is collectable in the next three years.

Methodology followed for the calculation of debt impairment.

* To look at the billing vs payments for the three consecutive financial years per category of consumer debtors.
* To determine the time it takes to collect a month’s billed amount. Per category (in %).
  1. **Study loans**

Amounts outstanding in respect of study loans represent debt in respect of the old Staff Study Loan Policy, in terms of which the Council granted an advance to a staff member for the cost of the course enrolled for. Should the candidate fail, the cost of the loan was to be recovered from the staff member. If the candidate passed the course, the advance was expensed in the Statement of Financial Performance. It is a condition of the policy that the staff member receiving such a bursary has to stay in the service of the municipality for the same period of the study course paid for by the municipality. Should the employee leave the service of the municipality such employee is required to repay the municipality pro-rata in respect of each month or part thereof from the date of termination of service to the date when the bursary period would have expired.

Study loans are therefore assessed at every Statement of Financial Position date and the portion of the loan that expired during the year is expensed. The balance of these loans up to the date of termination of the contract is considered to be fully recoverable.

* 1. **Sundry deposits**

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

* 1. **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.

1. **WRITE-OFF OF DOUBTFULL DEBTORS**

Where debt are identified as being irrecoverable (in periods subsequent to debtors being impaired), the process of write-off will be treated as follows:

* 1. **Amounts equal to or lower than amounts delegated to the Chief Financial Officer by Council from time to time**

The Income Accountant identifying irrecoverable debtors within the delegated powers of the CFO must prepare a report for the attention of the CFO detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, detailson credit and debit 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 Accountant Income must be scrutinized by the Manager Income and his recommendations must be documented in the report.

The final report containing the recommendations of both the Accountant Income and the Manager Income must be presented to the Chief Financial Officer for consideration.

Request approved by the CFO will be processed against the relevant debtors account and reflected as debit against the Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Accounts must be prepared annually by the Manager Income and retained for audit purposes.

* 1. **Amounts exceeding the CFO’s delegated authority**

The process for the consideration of write-off of debts in respect of amounts in excess of the CFO’s delegated authority must be dealt with as follows:

The Income Accountant identifying irrecoverable debts in excess of the delegated powers of the CFO must prepare a report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debit 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 Income Accountant must be scrutinized by the Manager Income and his recommendation must be documented in the report.

The final report containing the recommendations of both the Income Accountant and the Manager Income must be presented to the Chief Financial Officer for consideration.

If approved by the CFO, 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 the debt provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Manager Income and retained for audit purposes.

* 1. **Application of prescriptive act**

The provisions of Prescription Act will apply to all services debt. 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.

The Manager Income will assess applications in terms of prescribed requirements. If in accordance 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 Manager Income and retained for audit purposes.

* 1. **Specific Debt-Write-Off Incentives**

The Manager Income must identify and investigate specific uncollectable debt categories. A report with full details as to the reasons for categorized debt write-off to be submitted to council for approval.

Where any other debt is written of in term of incentives offered to consumers in terms of a Council resolution a report with full details must be submitted to Council.

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

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Manager Income and retained for audit purposes.

* 1. **Other write-offs**

Department identify deemed irrecoverable debts and prepare a 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 CFO, formal report must be submitted to the Finance Portfolio Committee, Mayoral Committee and Council for consideration.