



**UTHUKELA**  
UMKHANDLU WESIFUNDA  
DISTRKSMUNISIPALITEIT  
DISTRICT MUNICIPALITY

Bad Debt Provision &  
Write off Policy

## **1. APPLICATION AND SCOPE**

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

## **2. 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.

## **3. 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.

## 4. 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 basis, 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.

### 4.1 Consumer debtors

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

Methodology followed for the calculation of debt impairment.

- To look at the billing vs payments for the year per category of consumer debtors.
- To determine the risk by looking at the non- payment rate % over the Outstanding debtors balance excluding the current account. Per category (in %).
  
- The detailed levied report is grouped between Billing and payments.
- The purpose of the grouping is to calculate an individual payment rate over the last 12 months.
- The calculation is then split between active and inactive.
- The reason for the split is to consider the difference in the risk of non-payment between the two.
- Active accounts is current accounts that should be recoverable.
- The active accounts that are in credit are being excluded from the calculation.
- Inactive accounts are accounts that has been closed and no longer incur billing and neither do we expect to receive payment.
- Inactive accounts that are in credit are excluded from the calculation and all other accounts with outstanding balances are impaired in full.
- The payment rate is calculated by taking billing versus payment for the year, where payments are more than the billing the payment rate is being limited to 100% or 0% depending on payment rate scenario
- Only inactive arrangements were impaired

## 4.2 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.

## 4.3 Sundry deposits

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

## 4.4 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.

## 5. 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:

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

The Revenue Manager 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, 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 Revenue Manager must be scrutinized by the Chief Financial Officer and his recommendations must be documented in the report.

The final report containing the recommendations of both the Revenue Manager and the Chief Financial Officer must be presented to the Municipal Manager 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.

## **5.2. Delegation for bad debt write off**

5.2.1. The recommended delegated levels for write off are as follows:

- Chief Financial Officer – Debtor Account balance up to R50,000 in consultation with the Senior Manager: Revenue
- Accounting Officer – Debtor Account balance up to R1 000,000 in consultation with the Chief Financial Officer
- Debtor Account balance that is R1 000,001+ must be approved by the Municipal Council or its delegated authority.

### **5.2.2. 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 Revenue Manager 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 Revenue Manager must be scrutinized by the Chief Financial Officer and his recommendation must be documented in the report.

The final report containing the recommendations of both the Revenue Manager and the CFO must be presented to the Municipal Manager for consideration.

If approved by the Municipal Manager 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 Revenue and retained for audit purposes.

### **5.3. 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 Revenue 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.

### **5.4. Specific Debt-Write-Off Incentives**

The Manager Revenue 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 off 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 Revenue and retained for audit purposes.

### **5.5. Other write-offs**

Municipality 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.

**6. EFFECTIVE DATE**

The policy shall come to effect upon approval by Council of UThukela District Municipality.

**POLICY APPROVAL**

This policy has been considered and approved by the COUNCIL OF UTHUKELA DISTRICT MUNICIPALITY as follows:

Resolution No: \_\_\_\_\_

Approval Date: \_\_\_\_\_