dr.jsmlm

Dr JS Moroka Local Municipality

REVIEWED FOR 2018/2019 FINANCIAL YEAR

CONTENTS PAGE

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 statements 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. OBJECTIVES OF POLICY

The objectives of this policy are to:

- ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.
- ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.
- ensure that the Council of the municipality makes enough provision for bad debts in the budget.
- 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.
- ensure the identification of bad debts during the course of the financial year.
- provide guidelines on the writing off of bad debts at least three months before the end of the financial year.
- ensure the proper delegation of powers to the chief financial officer to write off bad debts up to a certain amount.

3. LEGISLATIVE FRAMEWORK

- Municipal Systems Act, Act 32 of 2000.
- Municipal Finance Management Act, Act 56 of 2003.
- Standards of Generally Recognized Accounting Practice.

4. STATEMENT

This policy will be applicable to all categories but not limited to the following

- Consumer debtors.
- Sundry debtors.
- Traffic fines
- Sale of stands.
- Organ of states
- Businesses
- Public Benefit Organisations

5. IDENTIFICATION OF IRRECOVERABLE DEBTS

5.1 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.

5.2 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 May every year the report be submitted to Council to approve the write-off of the identified irrecoverable debts.

6. WRITING OFF OF IRRECOVERABLE DEBTS

Where debts are identified as being irrecoverable, the process of writing off will be treated as follows:

6.1 Amounts equal to or lower than amounts delegated to the Chief Financial Officer (CFO) by Council resolution from time to time
The Accountant: Credit Control and Debt Collection must prepare a report within the delegated powers of the CFO containing the following:

- consumer details;
- irrecoverable amount broken down by service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exhausted; and
- confirmation that further actions would be fruitless and not cost effective.

6.2 The report of the Accountant: Credit Control and Debt Collection must be scrutinized by the Assistant Manager: Revenue and recommend the writing off to the CFO for consideration.

6.3 Upon approval by the CFO, the credit control section will draw a Dr JS Moroka cheque against the debt impairment provision vote in the income and expenditure ledger and process it against the relevant debtors account.

6.4 The Accountant: Credit Control and Debt Collection must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to the Assistant Manager: Revenue by no later than 30 June of each year to be retained for audit purposes.

6.5 Amounts exceeding the CFO delegated authority The Accountant: Credit Control and Debt Collection must prepare a report in excess of the CFO delegated powers containing the following:

- consumer details;
- irrecoverable amount broken down per service;
- details on credit and debt collection processes followed to recover the debt;
- reasons that led to debt being identified as being irrecoverable;
- confirmation that all available avenues to recover debt have been exhausted; and
- confirmation that further actions would be fruitless and not cost effective.

6.6 The report of the Accountant: Credit Control and Debt Collection must be scrutinized by the Assistant Manager: Revenue and recommend the writing off to the Mayoral Committee for consideration. The final report to the Mayoral Committee must be signed off by the CFO.

6.7 Upon approval by the Mayoral Committee, the credit control section will draw a Dr JS Moroka cheque against the debt impairment provision votes in the income and expenditure ledger and process it against the relevant debtors account.

6.8 The Accountant: Credit Control and Debt Collection must annually prepare a reconciliation of debt impairment accounts/votes with supporting documentation to be submitted to Assistant Manager Revenue to retain for audit purposes.

7. 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 designed for the recovery of irrecoverable debts.

8. SUNDRY MATTERS

8.1 Council may from time to time implement an incentive scheme which may entitle writing off of certain debts.

9. APPROVAL OF WRITE OFF

9.1 Chief Financial Officer is authorised by this policy and council resolution to write off total amount not exceeding R50 000.00
9.2 Any amount exceeding R50 000.00 shall be written off with the approval of council.

10. 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 150 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 methodologies:

10.1 Consumer debtors

Debtors are evaluated at each reporting date and impaired as follows:

Category of Debtors	Criteria	Provision for Irrecoverable Percentage %
Credit accounts		0%
In active accounts		100%
Accounts handed over to debt collectors	More than three months	100%
Handed power of attorneys		100%
Approved Indigents	in excess of 60 days	100%
Formal arrangement on arrear debt	in excess of 60 days	100%
Debt ageing more than 90 Days		100%
Debt ageing less than 90 days		0%

10.2 Sundry debtors

Sundry debtors are assessed individually for impairment when necessary to ensure

10.3 Sale of stands

These debtor accounts may be assessed individually to establish whether evidence exists for impairment that these debtors are irrecoverable.

10.4 Traffic Fines

- Not paid within 90 days from issue of tickets: Provide 100%

10.5 Organs of states

- 0% provision

10.6 Businesses and other debtors

More than 120 Days Provide for 50%

11. IMPLEMENTATION AND REVIEW

11.1 This policy shall be implemented once approved by council and it shall be reviewed on annual basis as part of budget processes.

****
****