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Dr JS Moroka Local Municipality

REVIEWED FOR 2025/2026 FINANCIAL YEAR

IMPAIRMENT OF DEBT AND WRITE OFF POLICY

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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. A receivables that have been placed under or applied for liquidation or sequestration;

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

The objective to write off irrecoverable debt is to have a debtors book that does not reflect irrecoverable debt

6.1 The Chief Financial Officer is authorised by this policy to write off total amount not exceeding R5 000 000.00 and annually should be reported to council within two months from the end of financial year. Any amount exceeding R5 000 000.00 shall be written off with the approval of council.

6.2 In the submission of the report for writing off the irrecoverable debts the Council must be provided with the following;

- The debt collection procedures implemented to recover the debt
- The reasons why the debt collection procedures were not successful and had to be abandoned;
- Reasons why the debt or a portion thereof is regarded as being irrecoverable.

6.3 Debt can be regarded as irrecoverable under the following circumstances;

- Debt that was subjected to the debt collection process provided in the Credit Control and Debt Collection policy and was unsuccessful to collect the debt.
- Debt of which the cost to collect debt has exceeded the debt amount.
- Debt of indigent debtors, on the annual basis, the writing off arrears accounts at the time of enrolment as an indigent household.
- Debt of the deceased debtor

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- Debt of the account holders who have lodged the dispute on the account
- Poor administration of the consumer accounts or lack of implementation of credit control.
- Debt of the account holders who have not received the service and were billed due the flat rate system
- Debtors who have applied for once off incentive schemes

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 of writing off certain debts.

9. APPROVAL OF WRITE OFF

9.1 Chief Financial Officer is authorised by this policy to write off total amount not exceeding R5 000 000.00 and annually should be reported to council

9.2 Any amount exceeding R5 000 000.00 shall be written off with the approval of council.

10. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT)

10.1 Timing of assessment

The Municipality will assess at the end of each reporting date whether there is objective evidence that receivable accounts are impaired.

10.2 Evidence of impairment

The following accounts are specifically excluded from impairment testing:

- Receivable accounts with an overall credit balance at reporting date;

Any one of the following events are considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired.

- Where there are no payments from the customer during the financial year (per the Debtors report).
- Where debtors have been classified as 'abeyance' (indigent debtors)
- Accounts handed over to debt collectors
- All accounts with balances outstanding over 60 days

10.3 Calculation and recognition of impairment loss

- The Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
- The impairment is assessed at the end of each reporting period whether there is any objective evidence that a debtor or group of debtors is impaired. If any such evidence exists, the municipality shall apply the paragraph below to determine the amount of any impairment loss.
- If there is objective evidence that an impairment loss on debtors measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the debtor’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the debtor’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.
- Impairment = Present Value of the expected cashflow.
- The value of impairment recognised in the statement of financial performance may differ depending on whether additional amounts have been written off during the year.

10.4 Risk categories

INDICATOR	RESIDENTIAL	BUSINESS	GOVERNMENT	INDIGENTS
Aging between 0-30 days outstanding	3	5	5	0
Aging between 31-60 days outstanding	3	4	5	0
Aging between 61-90 days outstanding	2	3	4	0

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Aging between 91-120 days outstanding	1	2	3	0
Aging between 121-365 days outstanding	0	1	3	0
Aging more than 365 days outstanding	0	0	2	0
Payment received in 12 Months	0	0	0	0
No payment receive in 12 Months	0	0	0	0
	9	15	22	0

RISK FACTOR	SCORE MATRIX	PAYMENT EXPECTED
Very High risk	0	0%
High risk	+5	10%
Medium risk	+10	40%
Low risk	+15	70%
Very low risk	+20	90%

The original effective interest rate cannot be used due to the balance of the receivables account representing a series of individual transactions throughout the period. As a practical expedient the R208 government bond rate (redemption date 2021) of 6.75% is used as the risk free rate. This is in line with GRAP 104 Financial Instruments Application Guidance par AG85. As the risk increases, an adjustment of 0.50% per increase in risk is made. This rate will be reviewed annually.

Source

- GRAP 104 Financial Instruments
- GRAP 104 Application Guide
- National Treasury Accounting Guidelines GRAP 104 Financial Instrument

10.5 Sundry debtors

Sundry debtors are assessed individually for impairment when necessary to ensure

10.6 Sale of stands

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

10.7 Traffic Fines

Traffic fines will be impaired when the possibility of collecting the fines cannot be ascertained and where the prospects of a successful prosecution of an offender are not certain. Traffic fines shall be impaired after a period of three months if they have not been collected. The period of impairment shall be

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calculated from the date of issue of the fine or the date of issue of the warrant of arrest.

- All traffic fines that have prescribed shall be written off. The write off shall be done by a resolution of the Council. Cancelled traffic fines shall also be written off by a resolution of the Council.

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.

