

INTSIKAYETHUMUNICIPALITY



DEBTORS IMPAIRMENT POLICY

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.

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.
- Property Rates
- Rental

5. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBT)

5.1 Impairment of financial assets

5.1.1 In accordance with the adopted accounting policy, consumer debtors (accounts receivable from exchange and non-exchange transactions), long term receivables and other debtors are stated at cost, less a provision for bad debts.

5.1.2. A financial asset or a group of financial assets are impaired, and impairment losses are incurred if, and only if, this is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that a loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

5.2. TIMING OF ASSESSMENT

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

5.3 EVIDENCE OF IMPAIRMENT

5.3.1. Objective evidence of a potential impairment will be recognised when one of the following events occur during a reporting period:

5.3.1.1. Where a debtor has been classified as an indigent;

5.3.1.2. Where no payments have been recorded against a specific consumer account for the duration of the financial year to which a reporting period relates (delinquent debtors);

5.3.1.3. Where intermittent payments are recorded against a specific consumer account (consumers under financial distress);

5.3.1.4. Accounts that have been handed over to a debtor collector/ attorney for specialised recovery;

5.3.1.5. Consumer accounts with arrears 90 days and greater outstanding as at the reporting date.

5.5. RISK CATEGORISATION

5.5.1. We will first assess whether there is any objective evidence of impairment for debtors that are individually significant. These debtors will be assessed on their own for evidence of impairment.

Where no objective evidence exists that an individually significant debtor is impaired, it will be assessed with all other debtors. Debtors that are significant and who have been individually assessed for impairment and an impairment loss recognised will not be included with the other debtors.

The remaining debtors shall be classified into key risk categories based on their respective payment history and any other relevant trait as management may define, for purposes of this policy the following primary risk categories are defined; management discretion may be applied to further enhance the categorisation of risk within the upper and lower thresholds established:

5.5.1.1. High Risk (100% impairment loss recognised);

5.5.1.2. Medium Risk (50% impairment loss recognised);

5.5.1.3. Low Risk (10 % impairment loss recognised);

5.5.2. Risk Matrix Group	Risk Factor (% impaired)
Indigent Consumers	High
Accounts with no payments received in the past 12 months	High
Accounts with partial payments received in the past 12 months	Medium
Accounts subject to formal repayment arrangements	Low
Accounts with balances outstanding less than 60 days	Low
Traffic fines issued and at least 50% paid	Medium

with the year	
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5.6. TRAFFIC FINES

Determine the traffic fines due in the current year, in the event that the collection is below 50%, the municipality will provide 50% as the doubtful debt. This implies that a major amount of fines issued is uncollected within any financial year.

Further to the very low collection an assessment is made to check if there are any cancellation or reduction by courts on fines in the current year and those are not included in traffic fines due.

Based on the above analysis a criteria which is adopted is 50% of the outstanding amount when the collection is below 50% will be impaired.

6. IMPLEMENTATION AND REVIEW

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