

JOE MOROLONG LOCAL MUNICIPALITY



BAD DEBT WRITE-OFF

POLICY

REVIEW

MUNICIPAL BAD DEBT WRITE-OFF POLICY
LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003

TABLE OF CONTENTS

1. Preamble
2. Objective
3. Reasons for write-off of bad debt
4. Procedure for writing off bad debt
5. Recovery of irrecoverable debt
6. Impairment of debtors
7. Short title
8. Review of this policy

1. Preamble

The Council of **Joe Morolong Local Municipality** resolves to adopt the following as the policy on writing off the bad debts as irrecoverable. Writing off bad debts allows the Council to reclaim VAT output declared and ensures that the level of debtors is not overstated in the Council's financial statements.

The Council of the municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in Chapter 9 of the Local Government Municipal Systems Act, Act 32 of 2000 as amended.

2. Objectives

The objective of this Policy is to set out the factors that may be considered by Joe Morolong Local Municipality in:

- Determining irrecoverable or bad debt and to outline procedures for writing off such irrecoverable or bad debt.
- To provide the identification of bad debts during the course of the financial year.
- The writing off of bad debts at least before or at the end of the financial year.

3. Reason for write off of Bad Debt.

Debt owed to the Municipality will be regarded as irrecoverable or bad and written off in the following instances:

3.1 The consumer is untraceable

The Municipality must take all reasonable steps to trace the debtor and collect the debt owed to the municipality. A reasonable effort to trace the debtor will include, but is not limited to, the following:

- a) Utilising all available information on the municipality's records;
- b) Utilising the telephone directory to locate the debtor; and
- c) Contacting the following institutions or persons in order to locate the debtor:
 - The Department of Home Affairs;

- The South African Revenue Service;
- Officials and/or colleagues at the debtor's last place of employment.

The Municipal Manager shall consider all other economically viable avenues for debt recovery, including the use of tracing agents. This shall be for debts above R15 000.

If the debtor cannot be traced after all reasonable steps have been taken, a submission shall be made to council requesting a write-off of the debt.

The submission must highlight all steps taken to trace the debtor and must show that it would be uneconomical to take any further step.

3.2 Insolvent estate

- The consumer is insolvent (bankrupt) if his/her liabilities exceed his/her assets and upon sequestration, a trustee is appointed by a High Court to take control of the insolvent estate.
- The Municipality's claim against an insolvent estate or an estate that is being administered as insolvent cannot be paid if there are no liquid assets in the insolvent estate to cover the debt.
- However, part payment of the debt will be recovered
- Only the portion that may be irrecoverable will be written off

3.3 Debt that cannot be proved.

Debt for which no source documentation is available to substantiate or prove the claim, the Municipal Manager must have satisfied him/her that all reasonable steps have been taken to locate the source document.

3.3.1 Disputes that relates to consumption services untraced.

Where disputes have been lodged against the bill of the municipality in respect of water or electricity meter that cannot be validated. Any debt that will remain after recalculation of the correct or acceptable bill must be written off.

4. Procedure for writing of Bad Debt.

A submission must be made to Council requesting the write-off of the debt.

The submission must contain the following information:

- a) the name, address, amount and relevant particulars of the debt;
- b) the nature of the debt and the date incurred;
- c) an outline of measures taken to collect the debt;
- d) reason(s) why the debt is deemed to be irrecoverable or bad;
- e) Period of the debt and / or date(s) of invoice,
- f) recommendation that the debt be written off;
- g) the vote or account classification against which the write-off must be charged.

All debts written off must be disclosed in the Municipality's Annual Financial Statements.

In considering a debt for write off the following conditions will apply:

- Each case will be considered on its merits,
- Except for bulk write off that may be approved by council.
- Each request will be supported by relevant documentation,
- Each case will receive authorization from the appropriate authorized officer (CFO) and / or member of the Bad debt committee in accordance with the policy.
- Appropriate records of all authorized write offs will be maintained and reviewed periodically against live caseload.

5. 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.

6. 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 120 days are considered indicators to determine that debtors are impaired. However, this is with the exclusion of business, industrial and government debt.

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 is a summary of the methodologies are applied:

Consumer debtors

Debtors are evaluated at each reporting date and impaired as per the approved municipal impairment methodology.

Sundry debtors

Sundry debtors are assessed individually for impairment when necessary to ensure that no evidence exists that these debtors are irrecoverable. The methodology used for these debtors will be the same one used for other debtors

7. Short Title

This policy is called Bad Debt Write-Off Policy of the **Joe Morolong Local Municipality**.

8. Review of This Policy

This policy must be reviewed on annual basis to take into account developments of legislation governing financial management in local government as well as accounting standards.