

# **OVERBERG**

## **DISTRICT MUNICIPALITY**

### **CALCULATION FOR THE IMPAIRMENT OF DEBTORS POLICY**

Reviewed: 30 March 2017



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## 1. BACKGROUND

- 1.1 Section 96 of the Local Government: Municipal Systems Act, 32 Of 2000, provides that a municipality must collect all money that is due and payable to it, subject to the provisions of that Act and other applicable legislation.
- 1.2 It is recognised, however, that circumstances may arise which may make the recovery of certain debts impossible, impractical or financially unfeasible, and that such debts may have to be written off.

## 2. PURPOSE OF POLICY

- 2.1 The purpose of the policy is to –
- a. Provide guidelines for the calculation of provision for bad debt;

## 3. DEFINITIONS

In this policy –

**“Accounting Officer”** means the Municipal Manager acting in his or her capacity as accounting officer of the Municipality;

**“Chief Financial Officer”** means the Chief Financial Officer acting in his or her capacity as the Head of the finance department of the Municipality

**“Council”** means mean the Council of the Municipality;

**“Current assets”** comprise debtors, cash, inventories and the short-term portions of investments and long-term debtors of the Municipality;

**“Current liabilities”** consist of creditors, bank overdrafts and the short-term portion of long-term loans [liabilities] of the Municipality;

**“Municipality”** refers to the Overberg District Municipality.

#### **4. LEGAL CONTEXT**

4.1 The policy aims to give effect to the requirements and stipulations of –

- The Municipal Finance Management Act 56 of 2003 (MFMA);
- Treasury regulations issued in terms of the MFMA; and
- The Municipal Systems Act 32 of 2000.
- Generally Recognised Accounting Practice (GRAP)

#### **5. SCOPE FOR APPLICATION**

5.1 This policy applies to all past, present and future customers of the Overberg District Municipality (the municipality) and all contract arrangements, customers and debtors of the municipality.

5.2 All the applicable actions as contained in the Credit Control and Debt Collection Policy and bad debt write-off policy of the Municipality should have been executed and implemented.

#### **6. MANAGEMENT OF BAD DEBTS**

- a. The accounting officer must provide for an annual contribution to the bad debts provision in the operating budget of the Municipality.
- b. The total provision for the impairment of debtors must be made at least at the end of the financial year.
- c. Debt owing by any organ of state such as government departments is excluded from the calculation of impairment of debt to allow for the risk component of the outstanding debt.
- d. The total provision for the impairment of debtors of the Municipality must be equal to A + B + C, where –
  - i. A is equal to 50% of all debts excluding governmental debtors outstanding for longer than 120 days;
  - ii. B is equal to 20% of all debts excluding governmental debtors outstanding for between 91 days and 120 days; and

- iii. C is equal to 10% of all debts excluding governmental debtors outstanding for between 61 days and 90 days.

Special consideration to be given to debtors with payment arrangements with regard to the risk of non-payment.

- c. If the total provision for bad debts as required in terms of subparagraph 6(d) exceeds ten percent (10%) of the operating budget of the Municipality, the accounting officer must submit a report to the Council in which he or she must report on how the net current assets of the Municipality are managed and therein pay special attention to –
  - i. the debtors turnover rate, inventories and creditors;
  - ii. credit management and debt collection; and
  - iii. the bank overdraft.
- d. The Council may approve the writing-off of bad debts as per the Bad Debt Write-Off Policy.

## **10. REPORTING OF THE PROVISION FOR IMPAIRMENT OF DEBTORS**

- 10.1 The impairment of debtors should be reported in the financial reports under the relevant account as per the municipal standard chart of accounts.
- 10.2 The provision for the impairment of debtors must be reported according to the GRAP requirements in the financial statements taking note of the accounting policies.
- 10.3 Calculations for the impairment of debt should be retained for audit purposes.

## **11. DELEGATION OF POWER**

The accounting officer may delegate his/her responsibilities in terms of this policy to the Chief Financial Officer of the Municipality.

## **12. RELATED POLICIES**

12.1 The following policies are related to this policy:

12.1.1 Credit control and debt collection policy

12.1.2 Bad debt write-off policy

## **13. REVIEW**

This policy will be reviewed at least annually and updated if needed.

## **14. EFFECTIVE DATE**

This policy shall come into effect on 1 July 2017.