



Revenue Policy

Centlec (SoC) - Revenue Policy

CENTLEC (SOC) LTD	
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DEFINITIONS:

Revenue: - “An amount of money from sale of goods or services, or any other use of capital or assets, associated with the main operations of an organization before any costs or expenses are deducted. In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental

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grants or transfers, securities sales, mineral rights and resource rights, as well as any sales that are made.”

Sundry income: - *“Income from a source that cannot be accurately predicted, or income from revenue streams outside of a firm's primary line of business. Sales of a firm's assets, royalty income, and capital gains from a firm's investments could all be considered sundry income.”*

Grants: - *“Financial assistance in the form of money is awarded by government to an eligible grantee, with no expectation that the funds will be paid back. The term does not include technical assistance which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations.”*

Subsidies: - *“A benefit given by the government to groups or individuals, usually in the form of a cash payment or tax reduction. The subsidy is usually given to remove some type of burden and is often considered to be in the interest of the public.”*

Deferred income: - *“An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.”*

Other income (as represented on the statement of financial performance): - *“Income as required from a standard of GRAP other than GRAP 9 (Revenue from exchange transactions) or the not yet promulgated GRAP 23 (Revenue from non-exchange transactions - taxes and transfers).”*

SECTION 1: OBJECTIVES

- a) To outline the guiding principles for management of revenue.
- b) To ensure that there are adequate controls in place to provide assurance that all sources of revenue are identified.

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- c) To ensure that all revenue management processes are applied uniformly throughout Centlec. The policy will act as a guide to revenue management officials as to what is expected from an ethical point of view.
- d) To outline the guiding principles for debt management and the roles and responsibilities to ensure that all reasonable measures are taken to manage debtors efficiently and effectively; and
- e) To ensure that there are adequate controls measures in place to provide reasonable assurance that debt are being raised, recorded, monitored, recovered and written off in accordance with the MFMA.

SECTION 2: LEGISLATIVE CONTEXT

In terms of section 97 of Municipal financial management Act 56 of 2003

- (a) The accounting officer of municipal entity must ensure that the entity has and implements effective revenue collection system to give effect to its budget
- (b) That all revenue due to the entity is collected.
- (h) State that the municipal entity has and maintains a management, accounting and information system which-
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue

Furthermore section 98 states that accounting officer of municipal entity must take all reasonable steps to ensure that-

- (a) all revenue received by entity, including revenue received by any collecting agency on its behalf, is reconciled on a monthly regular basis, and
- (b) all accounts of the entity are reconciled each month

SECTION 3: POLICY PRINCIPLES

- a) The realisation of Centlec's strategic plan depends on effective budgeting procedures.
- b) Centlec subscribes to the fundamental principles that all resources will be applied economically to ensure:
 - (i) The highest standards of service delivery;
 - (ii) Education and training of all staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
 - (iii) Maintaining an environment that promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction in line with Customer Care Policy.

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- c) Centlec is legally mandated to manage and enhance revenue to ensure its financial and economic stability. Generally, this results from:
- (i) Maximising income through proper revenue;
 - (ii) Management, covering all departments;
 - (iii) Improving revenue collection to guarantee cash flow;
 - (iv) Ensure effective functioning of systems, processes and procedures;
 - (v) Enhancing monthly income by instilling a habit of regular payment, and
 - (vi) Creating an environment conducive to sustainable development, growth and service delivery.

SECTION 4: RESPONSIBILITY FOR REVENUE MANAGEMENT

1. The ultimate responsibility of revenue management is assigned in terms of Section 97 of Municipal Finance Management Act 56 OF 2003 to the Accounting Officer.
2. The Chief Financial Officer (CFO) shall:
 - a) Keep a central database of all fees, rates, tariffs and financial systems that relates to revenue accruing to Centlec for reviewing, budgetary and reporting purposes;
 - b) Distinguish between revenue prescribed or not prescribed by law;
 - c) Arrange for the creation of appropriate revenue items, to ensure effective and efficient management reporting thereon;
 - d) Reviewing annually all fees, charges or rates;
 - e) Ensure that the financial system is updated with the approved tariff structure;
 - f) Ensure that formal requests to effect changes on the financial system master file are completed;
 - g) Ensure that request for amendments are approved prior to changes being made on the financial system;
 - h) Ensure that function of making changes are restricted to an authorized official;
 - i) Ensure that monies collected are allocated to the correct revenue item and against correct debtors account;

SECTION 5: INTERNAL CONTROLS RELATING TO REVENUE

All aspects of revenue records and cash receipt shall be subjected to proper internal control.

The following internal control procedures, but should not be limited to, must be implemented by the revenue department:

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- a) Segregation of duties for authorization, recording and custodian functions or where this is not possible, mitigating procedures should be in place; (i.e The official responsible for receipting of monies received from debtors cannot be responsible for administration of debtor's accounts)
- b) Daily cash collected must be reconciled to deposit slips;
- c) Timeous depositing of cash collected;
- d) All collections on hand at the end of the year shall be deposited at the bank on the last working day of the fiscal year;
- e) Reconciliation to the general ledger and other supporting accounting ledgers shall be performed in a timely manner for receivable balances, subsidiaries ledgers and revenue collection;
- f) Access to cash should be restricted.

SECTION 6: COLLECTION AND RECORDING OF REVENUE

The following applies:

- a) Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to Centlec. However, when uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.
- b) Monies collected by the department cannot be utilised for expenditure.
- c) No money may be accepted unless an official receipt can be issued immediately.
- d) All revenue must be correctly allocated to the relevant debtors account on the revenue system.
- e) Any unknown receipts will be temporarily posted to an unallocated receipts account. These amounts must be traced to deposits remittances and must be followed up by contacting the payee or bank where applicable, to verify from whom the payment was received.
- f) The unallocated receipts account must be cleared at least on a weekly basis.
- g) All revenue received or accrued should be recorded and this should be reconciled to the debtor accounts and receipts.
- h) All monies received must be deposited daily in the Centlec's bank account.

The Chief Financial Officer shall:

- a) Ensure that Centlec's credit control and debt collection policy and the by-laws of Mangaung Metropolitan Municipality (MMM) are implemented and enforced;

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- b) Establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to Centlec; and
- c) Report thereon to the Board and the parent municipality;

Receipts of monies:

- a) In accordance with the audit regulations, the receipt of all monies must immediately be recorded by means of a numbered official receipt or in any other way approved by the Chief Financial Officer.
- b) No alteration must be made to a receipt, ticket or other form of acknowledgement of payment.
- c) Any error that appears on a receipt, ticket or other form of acknowledgement of payment must be corrected by issuing a new receipt and the cancellation of the erroneous one.
- d) Every cancelled receipt form must be returned to its proper place in the receipt book or, in the absence of a receipt book, filed according to the instructions of the Chief Financial Officer.
- e) Any cash surplus found at any time must immediately be declared, a receipt issued in terms of the audit regulations and deposited without delay to the credit of the appropriate account.
- f) Any cash deficits must immediately be reported to the departmental head concerned and replaced in accordance with the instructions of the CFO.

SECTION 7. MEASUREMENT OF REVENUE

Revenue shall be measured at the fair value of the consideration received or receivable after taking into account the amount of any discounts and rebates allowed by Centlec.

Sale of Goods:

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- a) Centlec has transferred to the purchaser the significant risks and rewards of ownership of the goods,
- b) Centlec retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- c) The amount of revenue can be measured reliably,
- d) It is probable that the economic benefits or service potential associated with the transaction will flow to Centlec, and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Tariff charges:

Revenue from tariffs charges for electricity consumed, including collection charges and interest, shall be recognised when:

- a) It is probable that the economic benefits or service potential associated with the transaction will flow to Centlec;
- b) The amount of the revenue can be measured reliably, and
- c) There has been compliance with the relevant legal requirements.

Collection charges are recognised once the period legally prescribed for the levying of the charge has elapsed. Legal fees actually incurred in recovering non-payment of amounts billed should be recognised as an expense and not offset against revenue from collection charges.

Interest is levied on unpaid amounts each month as determined by the Board of Directors from time to time.

SECTION 8: OVERPAYMENTS

Where a client has overpaid for services rendered, the refund shall be affected by means of a credit to the next bill. Cash refunds will only be carried out where a client paid in cash for prepaid services.

SECTION 9: PRE-PAID AND CREDIT METERS

The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs.

Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter. Categories of consumption and charges shall be as follows:

- a) With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
- b) The tariff for domestic consumption of electricity shall not exceed 75% per kWh of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same tariff per kWh.
- c) All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50kWh (fifty) of electricity consumed per month.

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- d) All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.
- e) All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.

Pre-paid revenue:

All prepaid revenue is accounted for separately in detail in the Pre-Paid Electricity Vending Policy.

Credit meters (rotational and bulk meters)

- a) Meter readings are performed by a service provider appointed when there is no capacity and the readings of rotational meters (residential conventional meters) are performed by meter readers of the service provider.
- b) For bulk meters (businesses), readings are obtained through the transmission of data from the modem installed on the meter to the server of the service provider.
- c) Appointed service provider or relevant official sends the readings to the finance division on a CD of for billing purposes. The CD contains photo images of the meters read and the readings (name of client, address, previous reading and current reading).
- d) The Accountant Billing uploads the CD onto the E-Venus system and changes them into an Excel format.
- e) The CD is retained by the Accountant Billing for record-keeping purposes.
- f) The Accountant Billing reviews the readings for possible under- and/or over-charging. He also verifies the readings for reasonableness.
- g) The Accountant Billing prepares a deviation report regarding the readings and submits it to the Manager Billing for review.
- h) Queries raised on the deviation report are reverted back to appointed service provider or relevant official for appropriate follow up or re-performing of meter reading.

SECTION 10: ACCOUNTS BILLING

- a) Billing of accounts shall be performed on a monthly basis and shall be in accordance with the procedures and directives communicated by the General Manager: Revenue Management from time to time.
- b) For meters which do not have any readings, the system automatically estimates the bill for the customer, however, such accounts with estimations shall be followed up to ensure that, actual readings are obtained within the shortest possible time and prior to the next billing cycle.

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- c) The Manager Billing sends the bills to the approved service provider for printing of the manual bills and the approved service provider sends the account statements to the Post Office to be posted to the different customer addresses.

- d) The account invoice will reflect the following details:
 - (i) Customer name;
 - (ii) Consumer account number;
 - (iii) Consumer postal address;
 - (iv) Residence details to which the services have been supplied;
 - (v) The metered electricity consumption or estimated consumption within a specified period;
 - (vi) The total amount due and payable;
 - (vii) The amount in arrears, if any;
 - (viii) The final date of payment(due date); and
 - (ix) The method, name and location of any authorized agents where payments may be made.

SECTION 11: BANK RECONCILIATIONS

Bank Reconciliations must be performed at least on a daily basis and reviewed and signed off at least on a monthly basis so as to ensure that all the revenue of the entity is duly and properly accounted for.

SECTION 12: DIRECT REVENUE

Unconditional Grants:

Revenue from grants is assumed to be in accordance with the published grant amounts or official grant allocations.

Recording of the unconditional grant:

Grants received from MMM (Mungaung Metropolitan Municipality) are recorded in the Division of Revenue Act, as a grant to MMM and the portion that Centlec receives from MMM will be recorded in full as revenue in terms of GRAP 9 by creating a receivable.

Receipting of the unconditional grant:

The unconditional grants are generally received in three instalments in a financial year. The receipt of each will be allocated to the receivable account created for unconditional grants. Any surplus funds not needed for immediate application is to be invested in terms of Centlec's investment policy.

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Conditional Grants:

Revenue from conditional grants is recognised when the conditions tied to the grant are met.

Recording of the conditional grant:

Upon receipt the grant will be recorded against an unspent grant creditor / deferred income account. The money on the grant can only be released if the expenditure complies with the condition attached to the grant. Until this condition is met the unspent portion of such a grant will be owned to the grantee.

All grant submitted to the parent municipality must first be authorised for submission by a resolution of the Board of directors. Only the Board may approve grant applications.

The Board or an approved designee is the only person authorised to sign and accept grants awarded.

Interest earned on Investments:

Interest on investments is assumed to be collectable when due. Interest shall be recognised using the effective interest rate method.

Interest earned on unspent conditional grants invested will be allocated directly to the unspent grant creditors account if the conditions of such a grant require it. All other interest earned will be allocated to a revenue account.

Interest earned on the reporting date but not yet allocated by the investee shall be calculated and allocated to an interest receivable account.

Interest on accounts in arrears:

Unpaid accounts at date of payment, excluding accounts delivered to indigents, shall be said to be in arrears.

The interest rate applicable will be the prime rate as at the time of arrears plus one per cent calculated daily pro rata for the period that the account is in arrears.

Interest will be levied until the debtor's account is deemed to be impaired, as per the bad debt policy and when the debtors repay the arrears.

Other direct revenue:

Estimation determining other direct revenue is based on history for similar revenue, estimated cash flows and costs involved where applicable.

Other income is recorded separately from and does not form part of revenue disclosure.

Other income is usually recorded by way of journal entries as there is not usually a cash flow involved. If there is a cash flow, then normal receipting procedures will apply.

SECTION 13. ACCOUNTING DISCLOSURES

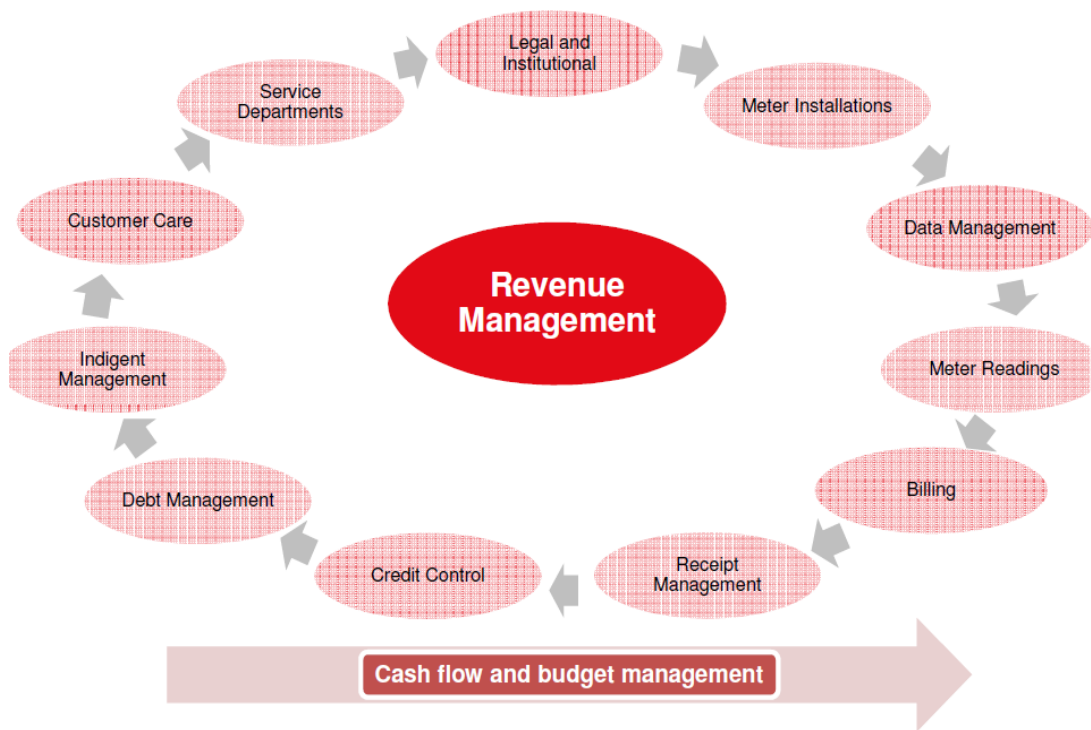
Disclosure of interest on arrear accounts

Interest charged on arrear accounts will be disclosed as a separate line item in the statement of financial performance.

Disclosure of interest earned on external investments

Interest earned will be disclosed as a separate line item on the statement of financial performance or if appropriate as part of the balance on the payables disclosed on the statement of financial position

ANNEXURE A: REVENUE MANAGEMENT CYCLE



SECTION 14: REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by the board of directors on: _____

Signed: _____
Chairperson of the Board

Date: _____