Bad Debts Policy

CENTLEC (SOC) LTD	
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DEFINITIONS:

Bad Debt: is an amount owed by a debtor that is unlikely to be recovered.

Bad Debt Write-off: a process of writing-off irrecoverable debt owed by a debtor after exhausting all avenue available to the entity to effectively collect the debt.
Provision for bad debt: the provision for bad debts represents an estimated amount of bad debt that will arise against the future recognition of certain accounts receivable as being uncollectible.

SECTION 1: OBJECTIVES

a) To outline the entity's policy on the principles, procedure and management of bad debt, provision for and write off of bad debts.
b) To provide for improvement on the entity's debtors accounts and financial records by writing off debts that are not possible to recover.

SECTION 2: LEGISLATIVE CONTEXT

In terms of section 97(1)(h) of Municipal Finance Management Act, 56 of 2003 (MFMA), the Accounting Officer of a municipal entity must take all reasonable steps to ensure: -

a) that the municipal entity has and maintains a management, accounting and information system which recognises revenue when it is earned; accounts for debtors; and accounts for receipts of revenue;

b) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed; and

c) that all revenue received by the municipal entity, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

Section 97(3) on the other hand stipulates that the Accounting Officer must immediately inform the parent municipality of any payments due by an organ of state to the entity in respect of service charges, if such payments are regularly in arrears for periods of more than 30 days.

Furthermore, section 96 of Municipal Systems Act provides that a municipality *(in this case the entity)* must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its tariff policies and complies with the provisions of this Act.

SECTION 3: POLICY PRINCIPLES

The following principles shall be considered and serve as a guideline in the process to determine when a debt may be written-off:

a) Before any debt can be written-off, all the applicable actions as contained in the approved Credit and Debt Collection policy of entity should have been executed/implemented.

b) In cases where the Debt Collection and Credit Control policy is not relevant and applicable, other available administrative procedures must be considered for collection of debt.

c) Debt must have been in arrears for (3) three or more years and all avenues have been exhausted by the entity to collect the outstanding debt.

d) In cases of natural persons, a debtor has passed away and the deceased estate is insolvent.

e) Any other reason the board of directors deems just and appropriate to warrant a write-off.

f) No blanket write-off shall be applied for any debt owed to the entity, each debt will be assessed individually and on the basis of the merits of each individual case, a decision will then be arrived at as to whether a write-off of debt is considered or not.

SECTION 4: PROCEDURES FOR WRITE-OFF

4.1 Debt Write-off

a) Debts will be written off only when the recovery procedures as specified in the approved Credit Control and Debt Collection policies of the entity have proven unsuccessful and further action is either not cost effective or highly unlikely to succeed.

b) The decision to write off individual debts should include consideration of the cost of recovery action versus the amount of the debt being pursued.

c) The General Manager: Revenue Management will recommend, in writing, to the Chief Financial Officer debts to be written off and such recommendation(s) shall be accompanied by all the necessary supporting documentation.

d) The Chief Financial Officer shall review the listed accounts for write-off, together with recommendations and other supporting documents and compile a comprehensive report to be tabled to the board of directors to recommend write-off after being satisfied that the recovery procedures have been complied with and that all reasonable attempts to recover debt have been exhausted.

4.2 Authority to Write-Off Bad Debts

a) The Chief Financial Officer shall table to board of directors a comprehensive written report recommending write-off of debts.

b) After consideration by the board of directors, the report, together with any inputs, comments and resolutions of the board of directors shall be submitted to the Accounting Officer of the parent municipality for tabling to the Council of the parent municipality.

c) Only the Council of the parent municipality shall have the authority to approve the final write-off of debt, regardless of the rand value.

4.3 Administration and Management

a) The Chief Financial Officer shall maintain a register of debts that have been written off which shall be available for audit purposes. The register will record the details of each debt written-off, the council resolutions that approved the write off and any subsequent action to reinstate and recover debt.

b) In order to prevent unauthorized bad debts journal entries, access to both the cash receipt function and the bad debts recording function are to be restricted with no journal adjustments to take place on the debtors' module without specific approval by the Chief Financial Officer or his / her delegate.

c) In order to provide further assurance of the validity of the accounting information of the debtors accounts, an independent reconciliation between approved adjustments and actual adjustment shall be performed every time after approval and processing of Bad Debts Write-Off journals entries.

d) A senior official responsible for debtors shall perform a monthly analytical review of debtors' accounts to ensure that bad debts are written off in a timely manner after approval by the council of the parent municipality.

e) The Chief Financial Officer shall ensure that the General Ledger Accounts Balances are reconciled on a monthly basis to the Subsidiary Debtors Ledgers.

SECTION 5: PROVISION FOR BAD DEBTS

a) Annually during the budgeting process, a provision for bad debts shall be made after recognition of doubt as to the collectability of certain debts and the potential for a current debt to deteriorate and become bad.

SECTION 6: POTENTIAL RISK OF NON-COMPLIANCE

a) The Chief Financial Officer shall ensure that there are controls in place at all times in order to deal with the following possible risks against debtors' accounts and writing-off of debt:

(i) Recovery of debtors with insignificant account balances, where costs of recovery including manpower, postage and collection agent fees outweigh any possible benefit that could be obtained in return;
(ii) Unauthorised access to Debtors accounts which may give effect to unauthorised write-off of bad debts;
(iii) Lack of proper internal controls systems and segregation of duties. e.g A cashier who has access to both cash and accounts receivable may take cash and could hide the fact by false bad debt journals;
(iv) Failure to provide for bad debts or failure to write off bad debts after approval by the council of the parent municipality could result in overstatement of debtors.

SECTION 7: REPORTING

a) All bad debts actually written-off during the financial year must be reported at all appropriate levels as part of internal reporting and shall disclose in the Annual Financial Statement.

b) Provision for Bad-Debts calculated in relation to doubtful debts must be disclosed in the notes to the Annual Financial Statements.

c) A report of all bad debts write offs shall be submitted to the Accounting Officer of the entity (CEO) and to Accounting Officer of Mangaung Metropolitan Municipality immediately after approval by the council.

SECTION 8: REVIEW PROCESS

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