

MAFUBE LOCAL MUNICIPALITY

Bad Debts Policy 2024-2025



1. OBJECTIVES OF THIS POLICY

The objective of this policy is to:

- | Outline the municipality's policy to staff on the principles, procedure and management of bad debt, provision for and write off of bad debts.
- | Provide for improvement on the municipality's debtors accounts and financial records by writing off bad debts that are not possible to recover.

2. LEGISLATIVE CONTEXT

In terms of section 64(2) of Municipal Finance Management Act, the accounting officer is responsible for the management of the revenue of the municipality and must for this purposes take all reasonable steps to ensure that the municipality 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; and

That the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed.

Furthermore, section 96 of Municipal Systems Act provides that a municipality must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and for

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this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act.

3. PRINCIPLES FOR WRITING-OFF OF BAD DEBTS

- a) Before any debt can be written-off, all the applicable actions as contained in the approved Credit Control and Debt Collection policy of Council should have been executed/implemented.
- b) In cases where the Credit Control and Debt Collection policy is not relevant and applicable, other available administrative procedures must be considered for collection of debt.

4. FACTORS TO BE CONSIDERED FOR WRITE-OFF DEBTS

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

- a) Debt has been in arrears for (2) two or more years and all avenues have been exhausted by management to collect the outstanding debt.
- b) Debtor has passed away and the deceased estate is insolvent.
- c) Any other reason the Council deems just and appropriate to warrant a write-off.

5. PROCEDURE

5.1 Write offs



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Debts will be written off only when the recovery procedures as specified in the Council's Credit Control and Debt Collection policy have proven unsuccessful and further action is either not cost effective or highly unlikely to succeed.

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

The Revenue Manager will recommend to the Chief Financial Officer debts to be written off and provide with the recommendations all the necessary supporting documentation.

The Chief Financial Officer must review and approve all debts for write off after being satisfied that the recovery procedures have been complied with and that all reasonable attempts at recovery have been exhausted.

5.2 Authority to Write-Off Bad Debts

The Chief Financial Officer may approve the write off of individual bad debts to the value of R 4 000 accumulated.

Individual bad debts in excess of R 4 000, accumulated, will be referred to the Council for write off approval.

A list of all bad debts write offs will be submitted to the Finance Portfolio Committee for noting.

5.3 Administration and Management

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The Revenue Accountant must maintain a register of debts that have been written off which will be available for presentation to the Audit Committee. The register will record the details of the debt, the authority for write off and any subsequent action to reinstate and recover.

To prevent unauthorised 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, as specified in the municipality's Accounting Journal Entries Policy.

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 should be performed every time after approval and processing of Bad Debts Write-Off journals entries. The Revenue Manager will perform a monthly analytical review of debtors' accounts to ensure that bad debts are written off in a timely manner.

The Financial Accountant will ensure that the General Ledger Accounts Balances are reconciled on a monthly basis to the Subsidiary Debtors Ledgers.

6. PROVISION FOR BAD DEBTS

Annually the provision for bad debts will recognize any doubt as to the collectability of debts and the potential for a current debt to deteriorate and become bad.

7. POTENTIAL RISK OF NON-COMPLIANCE

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Steps would be taken to recover 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;

Unauthorised write-off of bad debts;

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;

Failure to write off bad debts could trigger audit queries; and

Debtors could be overstated due to insufficient provision for bad debts.

8. REPORTING

All bad debts actually written-off during the financial year must be reported to council and disclosed in the Annual Financial Statement.

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