

# **VENTERSDORP LOCAL MUNICIPALITY**

## **Bad Debt Write Off Policy**

**2014/2015**



**VENTERSDORP LOCAL MUNICIPALITY**

**BAD DEBT WRITE-OFF POLICY**

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## **PART 1: Preamble**

Section 64 (2) (a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires that, in managing the revenue of the municipality, the municipal manager should take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with the Municipal Systems Act, 2000 (Act No. 32 of 2000) and the municipality's credit control and debt collection policy.

Section 96 (a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) requires that a Municipality must collect all money that is due and payable to it subject to the Act and any other applicable legislation.

## **PART 2: Objectives**

The objective of this Policy is to set out the factors that may be considered by Ventersdorp Local Municipality in determining irrecoverable or bad debt and to outline procedures for writing off such irrecoverable or bad debt.

## **PART 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.

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 Prescription of debt**

In terms of the Prescription Act, 1969 (Act No. 68 of 1969), a debt prescribes when payment thereof has not been demanded within certain periods of prescription. The municipality cannot legally enforce payment of a debt once the prescribed period has elapsed.

The period of prescription is interrupted and prescription begins to run anew if-

- a) Payment of the debt is demanded by a registered letter of demand, for which proof of receipt has been obtained;
- b) Payment of the debt is demanded by the issue and service of summons;
- c) The debtor acknowledges the liability; and/or
- d) The debtor commences payment of the debt.

Section 11 of the Prescription Act, 1969 (Act 68 of 1969) specifies the periods of prescription of debts as follows:

- (a) **Thirty years** in respect of-
  - i. any debt secured by a mortgage bond;
  - ii. any judgement debt;
  - iii. any debt in respect of any taxation imposed or levied by or under any law; and

- iv. any debt owed to the State in respect of any share of profits, royalties or any similar consideration payable in respect of the right to mine minerals or other substances.

(b) **Fifteen years** in respect of any debt owed to the State and arising out of an advance or loan of money or a sale or lease of land by the State to the debtor, unless a longer period applies in respect of the debt in question in terms of paragraph (a) above.

(c) **Six years** in respect of a debt arising from a bill of exchange or other negotiable instrument or from a notarial contract, unless a longer period applies in respect of the debt in question in terms of paragraph (a) and (b) above.

(d) **Three years** in respect of all other debts, save where an Act of Parliament provides otherwise.

### **3.3 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.

### **3.4 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.

### **PART 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) recommendation that the debt be written off;
- f) 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.

**PART 5: Provision for Bad Debt.**

Provision for irrecoverable or bad debt will constitute accounts that are 120 days and more in arrears where there was no payment for 12 months.

The Provision for Bad Debt general ledger account shall be adjusted with the provision amount at the year-end and supported with sufficient documentation for audit purposes.

**PART 6: SHORT TITLE**

This policy is the Bad Debt Write-Off Policy of the Ventersdorp Local Municipality.

**PART 7: ENFORCEMENT/IMPLEMENTATION**

The Policy will be implemented upon approval by Council