



**PROVISION FOR DOUBTFUL
DEBTORS POLICY**

2019/2020 FINANCIAL YEAR



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PROVISION FOR DOUBTFUL DEBTORS POLICY

1. OBJECTIVES OF POLICY

To ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.

To ensure that uncollectable debt is written off within guidelines of existing policies and applicable legislation.

2. INTRODUCTION

This policy provides guidelines on the treatment of the impairment and write-off of debtors.

The effective management of debtors include, amongst others, the following processes:

- Implementation / Maintenance of the appropriate ICT Systems and Business Processes;
- Accurate billing;
- Customer care and accounts enquiry management;
- Effective and timeous credit control;
- Impairment of debtors (Provision for Doubtful Debtors);
- Write-off of uncollectable debtors.

3. IMPAIRMENT OF DEBTORS

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis, or based on expected cash flows.

In accordance with IAS 39, an objective assessment of financial assets is made at financial year-end in order to determine possible impairment. Impairment loss is recognized as an expense in the Statement of Financial Performance.

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

3.1 CONSUMER DEBTORS

Consumer Debtors and sundry debtors are evaluated at each reporting date and impaired as follows:

- The provision for doubtful debts is compiled in accordance with GRAP.
- The following are used to calculate the provision:
 - Ageing of each Debtor;
 - Active / Inactive account;
 - Owner / tenant Account; and
 - Debtor type

The following matrix is used:

Indicator	Debtor Type					
	Residential	Business	Indigent	Government	Municipal	Agri
Aging between 0-30 days outstanding	5	5	0	5	5	5
Aging between 31-60 days outstanding	4	5	0	5	5	4
Aging between 61-90 days outstanding	3	4	0	5	5	3
Aging between 91-120 days outstanding	2	3	0	5	5	2
Aging between 121-365 days outstanding	1	2	0	5	5	1
Aging more than 365 days outstanding	0	1	0	5	5	0
Active Account	2	2	0	2	2	2
Inactive Account	0	0	0	1	1	0
Owners' Account	2	2	0	2	2	2
Tenants Account	1	1	0	2	2	1
Max points that can be earned	9	9	9	9	9	9

Scoring per matrix	% impairment	% determination
0	100.00%	Full provision
1		% impair scoring as per category 2+ Collection rate /8
2		% impair scoring as per category 3+ Collection rate /8
3		% impair scoring as per category 4+ Collection rate /8
4		% impair scoring as per category 5+ Collection rate /8
5		% impair scoring as per category 6+ Collection rate /8
6		% impair scoring as per category 7+ Collection rate /8
7		% impair scoring as per category 8+ Collection rate /8
8		Collection shortfall (100% minus actual collection rate)
9	Not impaired	No Provision

In terms of the provisions of GRAP standard AG125, the above-mentioned "Percentage of debt provided for as irrecoverable" will be reviewed and adjusted at the Statement of Financial Position date on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical

loss experience is based and remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows will be reviewed to reduce any differences between loss estimates and actual loss experience.

4. IMPLEMENTATION AND REVIEW OF THIS POLICY

The policy will be effective as from 1 July 2019.

This policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.