

PUBLIC WORKS, ROADS AND INFRASTRUCTURE

| Policy Name | Impairment of Debtors Policy |
|-------------------------------------|------------------------------|
| The revision/ version of the Policy | 01 |
| Domain | Finance |

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1. ACCRONYMS AND ABBREVIATIONS

AMD: Accounting Manual for Departments.

CFO: Chief Financial Officer

PFMA: Public Finance Management Act 1 of 1999 as amended

HOD: Head of Department

MTSF: Medium Term Strategic Framework

2. INTRODUCTION

The PFMA 1 of 1999 section 40 (b) and (c) states that the Accounting Officer for a department, trading entity or constitutional institution—must prepare financial statements for each financial year in accordance with General Recognised Accounting Practices and submit those financial statements within 2 months after the end of the financial year to the Auditor General for Auditing and the relevant Treasury to enable Treasury to prepare consolidated financial statements.

The Department of Public Works, Roads and Infrastructure is also guided by the Accounting Manual for departments which stipulates that

At the end of each reporting period, a department should assess whether there
is any objective evidence that a financial asset recognised or recorded in the
primary or secondary financial information respectively, is impaired. If there is
objective evidence that an impairment on a financial asset has occurred, the loss
must be recorded in the notes to the financial statements.

It is against this background that the department deemed necessary to develop policy to guide and ensure the identification of doubtful debts during the course of the financial year as well as to provide guidelines on the impairment of debtors.

3. PURPOSE AND OBJECTIVE OF THE POLICY

The purpose of this Policy is to provide guidance with regards to impairment of debtors as per the requirements of the PFMA and AMD. The following are objectives of the policy:-

- 3.1 Prescribe the guidelines, procedures and circumstances in which debts may be impaired.
- 3.2 Ensure the identification of doubtful debts at the end of financial year.
- 3.3 Ensure that there is an effective and efficient debt reporting and monitoring mechanism.

4. AUTHORITY OF POLICY

This policy is issued under the Executing Authority for the Department of Public Works, Roads and Infrastructure: Limpopo Provincial Administration.

5. LEGISLATIVE FRAMEWORK

The Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999 and The Accounting manual for Departments Chapter 9, (Section 6.4). AMD-

When this Policy is in conflict with the above legislation or any other legislation, the provision of that other legislation prevails

6. SCOPE OF APPLICATION

This policy is applicable to all Bad Debtors of the Department of Public Works, Roads and Infrastructure.

7. DEFINITIONS

Default: means failure to fulfil an obligation (debt).

Arrears: means any amount due, owing and payable by the debtor to the department in respect of outstanding debt not paid on the due date.

DPWR&I: refers to the Limpopo Provincial Government: Department of Public Works, Roads and Infrastructure

Debtors: refers to a person or organization that owes DPWRI money.

Executive Authority – Member of Executive Council (MEC) of the Department of Public Works, Roads and Infrastructure

Financial Year: An annual period at the end of which the department's accounts are closed. March year end.

Impairment: refers to a loss in the future economic benefits or service potential of an asset.

8. POLICY PRONOUNCEMENT

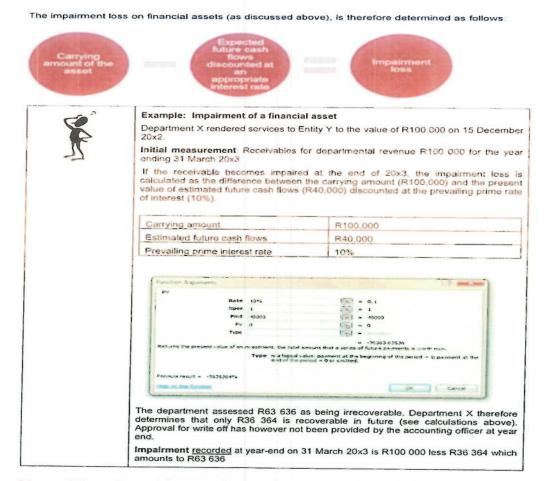
Implementation of this policy will be guided by the Accounting Manual for Departments guide, Chapter 9, General Departmental Assets and Liabilities.

9. IMPAIRMENT

- 9.1 Objective evidence that a financial asset is impaired can be as a result of the occurrence of one or more of the following events:
- 9.1.1 Significant financial difficulty experienced by the borrower/debtor;
- 9.1.2 Delays in payments (including interest payments) or failure to pay/defaults; or
- 9.1.3 It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation.
- 9.2 Impairment estimates could be determined by estimating the present value of the expected future inflow of cash that is expected in settlement of the recorded financial asset. The present value is determined by using an appropriate interest rate to discount the future expected cash flow.
 - 9.2.1 Debtors will be evaluated at each reporting date and impaired as follows:-

| Category of Debtors | Expected future cash flow | How impairment is calculated |
|--|--------------------------------------|--|
| Zero Balances | Zero | Zero |
| Handed over debt to legal | Zero | Carrying amount of the debtor less expected future cash flow discounted at an appropriate rate (As |
| Formal arrangement on arrear debt. (Based on 9.1.1). | Monthly instalment debt of 12 months | prescribe in the AMD) Carrying amount of the debtor less expected future cash flow discounted at an appropriate rate (As prescribe in the AMD) |
| Date ageing more than 120 days | Zero | Carrying amount of the debtor less expected future cash flow discounted at an appropriate rate (As prescribe in the AMD) |
| Date ageing less than 120 days | 100% | Zero |

Example



Since all impairment is recorded and not recognised, it does not reduce the carrying value of the recognised financial asset.

10. DEFAULT

Non-compliance to this policy may lead to misstatement of Impairment in the Annual Financial Statements.

11. INCEPTION DATE

Inception date of this policy will be the date after approval by the Executive Authority.

12. TERMINATION AND REVIEW CONDITIONS

The policy shall be reviewed at the end of the MTSF Period and at an interval of three (3) years or amended by the relevant legislation.

13. ENQUIRIES

Enquiries with regard to any matter relating to this policy will be directed to the Director, Debt Management Unit and particular representations can be made to HOD.

APPROVED/NOT-APPROVED

Approved as per recommendations

MR. AJ.D NDOU DAT

MEMBER OF EXECUTIVE COUNCIL