the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

DEPARTMENTAL POLICY ON DEBT MANAGEMENT

Version 2

(Reviewed in March 2015)

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1. DEFINITIONS

Unless otherwise indicated, the following terms shall be defined as follows:

"Department"	Department of Roads and Public Works, Northern Cape Province
"Accounting Officer"	A person in terms of section 36 of the PFMA.
"PFMA"	Public Finance Management Act, Act 1 of 1999
"Debt"	An amount owing to the Department
"Debt Collecting Agency"	An entity/body appointed by the Department to recover the monies on behalf of the Department
"Programme Manager"	The Senior Management Service (SMS) Member who are responsible for managing a certain Departmental Programme / Directorate.
"Responsibility Manager"	The Senior Management Service (SMS) or Middle Management Service (MMS) Member who is responsible for the management and budget of a certain programme or sub-programme.
"Employee / Official"	(a) any person that has been appointed permanently, notwithstanding that such appointment may be on probation, to a post contemplated in section 8 (1) (a) of the Public Service Act, and includes a person contemplated in section 8 (1) (b) or 8 (3) (c) of that Act; or (b) any person that has been appointed on contract in terms of section 8 (1) (c) (ii) of the Public Service Act
"Debt write-off"	occurs when a Department official determines, after all appropriate recovery actions have been used, that an asset is non-recoverable and recovery activities are terminated. Write-offs represent the financial statement recognition of non-recoverable assets.

2. INTRODUCTION

According to section 11.2 of the Treasury Regulations; the responsibility for the management of debtors [Section 38(1)(c)(i) and (d) of the PFMA] lies with the Accounting Officer of the Department.

The Accounting Officer is therefore required in terms of the legislation to take effective and appropriate steps to timeously collect all money due to the institution including, as necessary-

(a) maintenance of proper accounts and records for all debtors, including amounts received in part payment; and

(b) referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.

The development of Debtors Management Policy will enable the Department to realise some of its responsibilities; i.e. service delivery imperatives; economic and efficient usage of resources; etc

There are certain circumstances when the expenditure paid out by the Department to employees or suppliers is incorrect or a certain service warranting payment has been made or goods sold to third parties encountering delay in payment. In these circumstances it is essential that the Department has a debt management policy and procedure manual that sets out systems and processes that identifies the debt, sets up the debt and controls the recovery of that debt. The general ledger contains debt or disallowance accounts that can be used by the Department to correct transactions and expenditure and make and control financial recoveries from individuals or firms.

This policy; therefore; seeks to ensure effective and efficient debt collection management by the Department. The Policy covers; systems, processes and procedures involved in the management of debts including the recovery and writing off of such debts.

3. REGULATORY FRAMEWORK

3.1. The Constitution of the Republic of South Africa (Act No. 108 of 1996), section 215 and 217,

3.2. The Public Finance Management Act no.1 of 1999 (as amended by Act no 29 of 1999):

- Section 38 dealing with general responsibilities of accounting officers and specifically subsection 38 (1)(a)(i), 38(1)(b),38(1)(d),38(1)(h) and
- Section 45 dealing with the responsibilities of other officials.

3.3. Labour Relations Act, 1995 (Act No. 65 of 1995);

3.4. Basic Conditions of Employment Act, 1998;

3.5. Pension Funds Act, 1956;

3.6. Prescription Act, 1969 (Act No.68 of 1969);

3.7. Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000);

3.8. Promotion of Access to Information Act, 2000 (Act No. 2 of 2000); and

3.9. Treasury regulations, section 11.

4. OBJECTIVE AND SCOPE

4.1. This policy applies to all officials of the department; employed in terms of the Public Service Act in the Department of Roads and Public Works, both full-time and/or part-time employees, or paid on a salaried or an hourly individual basis.

4.2. The objective of this policy is to regulate the processes and procedures to be followed when collecting or writing-off debt owed to the Department as a result of delay or non-payment of services or goods due to service rendering or sale.

4.3. To prevent financial losses by ensuring that all monies owed to the Department are recovered timeously ;

4.4. To ensure effective and efficient management; provide realistic percentage provision and to ensure consistency in writing off irrecoverable debts; pursuant to meeting the intended department's objectives with regards to service delivery imperatives.

5. PRINCIPLES, VALUES AND PHILOSOPHY

5.1. This policy is intended to reflect the department's commitment to the principles, goals and ideals described in the department vision and core values.

5.2. No debt shall be deducted from an employee or beneficiary debtor prior to being duly informed of such debt;

5.3. The policy must be implemented consistently, fairly and equitably; and

5.4. Arrangements to repay debts must be treated holistically but also taking into account that different repayment periods maybe determined for different debtors based on their individual circumstances.

6. PROCEDURES

6.1. ACCOUNTS RECEIVABLES

For purposes of collection effort, sundry debtor accounts can be classified as follows: employees, general public, vendors and suppliers, and other government department and agencies.

As per Government Gazette Vol. 446, NOTICE 1410 OF 2002, interest to be levied on debts owing to the state is indicated as follows:

The Minister of Finance has, in terms of section 80(2) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended), with effect from 01 June 2000 approved the differentiation between categories of debts set out below which must be paid into a Revenue Fund in terms of section 80(l)(b):

(a) Debts to the State resulting from the service relationship between public servants and the State shall be recovered without interest, with the exception of the following categories of debt, which shall be levied with interest at a rate as determined by the Minister in terms of section 80(l)(b) of the Public Finance Management Act of 1999:

(aa) Wrongly granted remuneration where the person concerned has left the employ of the State, or where the monetary advantage resulted from his or her own fraudulent action; or

(bb) Loss and/or damage which originates as a result of circumstances where mala fides (evil intention) or the intentional causing of losses or damage were present, or where the person concerned has left the employ of the State; or

(cc) Breach of contract or any delictual claim relating to the contractual relationship.

(b) Debts to the State by debtors who are not in the employ of the State, are to be recovered with interest at a rate as determined by the Minister in terms of section 80(l)(b) of the Public Finance Management Act of 1999, with the exception of the following categories of debt, which are to be recovered without interest: (i) Overpayment of amounts paid to a debtor for social and unemployment benefits; or (ii) Debts resulting from support provided by State medical institutions to State patients.

This is an abridged process of debt recognition

STEP 1	**RESPONSIBLE COMPONENT**
IDENTIFICATION ☞ Salary overpayments, remuneration granted in-error ☞ State guarantee debts ☞ Bursary and/or loan debts ☞ Tax debts ☞ Debts in respect of collective agreement-, statutory- and discretionary deductions ☞ Travel and subsistence advances ☞ Private telephone call debts ☞ Vehicle accident debts ☞ Sundry debts ☞ Debtor fees ☞ Overpayments to suppliers ☞ Debts arising from theft and losses (where negligence was proved: custodian of asset) ☞ Cellphone limits exceeded (in cases where supplier did not activate the limit / soft lock)	- Human Resource Management - Finance Section - Supply Chain Management - Programme Units

STEP 2

COMMUNICATION All debts that have been identified are to be reported to the relevant Finance Section(Debt Component) to be raised as debts in the general ledger of the Department.	- Human Resource Management - Finance Section - Supply Chain Management - Programme Units
STEP 3	
DEBT TAKE-ON All debts that have been identified and communicated shall be raised in the general ledger of the Department on BAS as follows: ☞ In service debts – complete an adjustment journal ☞ Out-of-service debts – complete a debt take-on ☞ Supplier disallowances - complete an adjustment journal ☞ Forward the original debt take-on forms for data capturing on BAS and ensure acceptance thereof by the system through the input validation report. ☞ Open a debtor's file and keep copies of the debt take-on form and all other relevant documentation and/or correspondence.	- Finance Section: Debtors Section
STEP 4	
DEBTOR NOTIFICATION Advise the relevant debtor of the debt amount due, and any other collection arrangements. Where the debtor is still in service of the State, recover the outstanding debt from the monthly salary payable. Place notification letter on debtor's file.	- Finance Section: Debtors Section
STEP 5	
DEBT SETTLEMENT Ensure that all money collected is allocated to the debt account. Where money has been paid in cash, place a copy of the receipt allocation on the debtor's file. Once the outstanding debt amount has been settled, archive the debtor's file.	- Finance Section: Debtors Section
STEP 6	
NON-PAYMENT Consult the Legal Services Component for possible hand-over to the State Attorney or any other attorney for collection. Place all relevant correspondence on the debtor's file.	- Finance Section: Debtors Section

STEP 7

MONTHLY REPORTING Follow-up on all debts and ensure that all recoveries have been effected and allocated to the debt accounts.	- Finance Section: Debtors Section

STEP 8

DEBT WRITE-OFF Comply with the Department's policy on debtor management and financial delegations issued by the Accounting Officer. All write-off submissions and approval shall be kept on the debtor's file. Provide the loss control officer with copies of the write-off approval.	- Finance Section: Debtors Section

6.2. DETERMINATION OF INTEREST

Treasury regulations, section 11.5 stipulates the manner in which interest on government debt must be determined and is quoted herein verbatim as saying; "Interest must be charged on debts to the state at the interest rate determined by the Minister of Finance in terms of section 80 of the Public Finance Management Act (PFMA), 1 of 1999 as amended".

Section 80 of the PFMA states; (1) The Minister, by notice in the national *Government Gazette*, must determine—

(a) a uniform interest rate applicable to loans granted out of the Revenue Fund; and

(b) a uniform interest rate applicable to dl other debts which must be paid into the Revenue Fund

(2) An interest rate determined in terms of subsection (1)(b) may differentiate between different categories of debt.

6.3. PROVISION OF BAD DEBTS

Bad debts will be recognized in the annual financial statements of the Department; as accounts are deemed to be uncollectible. If the total rand volume of bad debts on sundry debtor bills is sufficiently high, a bad debt reserve should be established. Uncollectible accounts should be written off on a regular schedule in order to avoid large, infrequent charges against revenue

The following principles must be applied to provide for irrecoverability of the debt:

- Provision for irrecoverable debts will be calculated as per age analysis;
- Provision represents the maximum amount that can be written off as irrecoverable per annum;
- Provision shall not exceed the amount as provided for in the policy; and
- The percentage provision is subject to an annual review.

6.4. PROCEDURE RELATING TO THE MANAGEMENT OF DEBT

6.4.1. Types of Accounts Receivables

Accounts receivable/Departmental debtors could be classified under the following categories:

- Employee salary overpayments;
- Vendor / Supplier overpayment;
- Employee salaries / supplier paid erroneously;
- Outstanding state owned housing rentals; and
- Employee financial irregularities and fraud.

6.4.2. Procedure relating to the recovery of debt

6.4.2..1. Salary Overpayments

Units within the Department have a duty and obligation to recover any employee overpayment in accordance with the procedures set forth in this policy. The recovery of any payroll overpayment, whether the error is with gross or net salary, requires that advance written notice be provided to the employee and a written repayment agreement.

Recoupment should take place after the execution of the written agreement that includes a repayment schedule.

The payroll office should send notices to the employee concerned regarding their available options of redeeming the debt which specifies the options as outlined below, depending on employee affordability and written agreement between the employee and the Department:-

- Payment in full.
- Monthly debit / stop order payments as per arrangements.
- Monthly payroll deductions.

No salary deductions should be performed on employee's salary without prior approval of the employee concerned.

6.4.2..2. Procedure relating to the overpayment of suppliers.

The Demand and Acquisition Management Units within the Supply Chain Chief Directorate must be aware of any debts or impending debts relating to suppliers and take the following steps:

- Ensure that appropriate notations are made in the supplier's payment file of the debt amount due, to ensure that the debt is recovered from any subsequent payments to the supplier concerned.
- Request from the supplier in default, the settlement of the debt where no further payments are envisaged, failing which appropriate action is recommended to ensure the recovery of the amount owing.
- Notify Debtors Section within the Finance Section of the Department.
- Ensure that the debt route form is signed and forwarded to Finance Section of the Department for further completion.
- The delinquent supplier should be dealt according to the terms and conditions as stipulated in the contract.

- As a last resort; suppliers who failed to settle their debt should be removed from the Department's' database of preferred suppliers and no business may be entered into with them until the debt is settled.

6.4.2..3. Procedure relating to outstanding rental

- Rental is payable in advance by the due date.

- If payment is not received, a first contact letter requesting payment and offering the debtor an opportunity to make an arrangement within 30 (thirty) days, from the date of the letter, is sent to the defaulting debtor.

- If no response to the first contact letter, a letter of demand is sent, allowing the defaulter 30 (thirty) days, from the date of the letter, a further opportunity to make an arrangement.

- If the debtor fails to respond to this letter of demand, within 30 (thirty) days, the debtor may, within the next 30 (thirty) days, receive a house visit.

- Failure to respond after the house visit will result in legal proceedings.

- The legal collection process will start with a letter demanding payment within a stipulated period, as specified in the rental agreement.

- If the debtor fails to respond within the allowed time, summons will be issued.

- No response to the summons will result in default judgment and the ultimate sanction of eviction.

6.4.2..4. Standard Collection Procedure for all other debts

- The Department must endeavor to recover all debt owed to the Department within the period of twelve months.

- Acknowledgement of debt and arrangement agreement forms must be completed fully and signed by the debtor himself/herself and all documents required must be submitted before the arrangement can be approved.

- If for any reason, the debtor is unable to settle his / her debt within the specified period; the Accounting Officer's approval shall be sought.

- Upon discovery of the debt; the Department must write a letter to the debtor informing him / her of the debt; giving advice regarding arrangements that could be made to assist the debtor to settle his / her debt within 30 days of notice. Failure by the debtor to respond in terms of the notice will result in the Department pursuing other means of recovery including legal action; where necessary.

- If the debtor happens to be the supplier who is still contracted to the Department; the matter may be disposed-off in terms of the contract / agreement.

- Legal Counsel of the Department may be approached to ensure compliance with prescribed legislation regarding debt collection.

6.4.2..5. Procedure for Collection Agencies

- Before an account or group of accounts is referred to a collection agency, a determination should be made first as to whether the expenditure for the collection services will amount to more than the price limit for quotations annually.

- If such determination shows an estimated expenditure of more than the set limit on quotes, a competitive bid should be conducted to determine the lowest responsible bidder, in accordance with Supply Chain Management Policies and Guidelines.

- Agreements between the Department and a collection agency should be entered into and terminated in writing, and should require that the collection agency report their collection progress at least quarterly.

- They could do this either by outsourcing the service to an outside party or employ people internally to perform this function.

- In order to maximize collection effectiveness, accounts should be referred to a collection agency as soon as the collection effort specified in Appendix I is completed.
- Unless there has been evidence of good faith intention to pay, an uncollected account should not be referred for collection before it has become 180 days old.
- Collection agencies should not retain accounts more than twelve months unless there is evidence that collection is imminent.

6.4.2..6. Procedure for Legal Action

- Approach the Department's legal Counsel to issue letters of reminder to the debtors.
- Agreements may be concluded with customers who respond only after being handed over to attorneys for collection. The costs resulting from the legal process are to be added to the amount owing and be borne by the debtor and an initial payment of at least one quarter to one third of the total outstanding amount is required to be paid.
- An acknowledgement of debt and arrangement agreement must be concluded with the Department's legal counsel.
- Failure of debtor to respond to letters of demand, start with Court proceedings. The legal collection process will start with a letter demanding payment within a stipulated period.
- If the debtor fails to respond within the allowed time, summons will be issued.
- No response to the summons will result in default judgement and the ultimate sanction of eviction.

6.4.2..7. Dishonoured cheques / rejected debit orders or EFT's

- If any payment is made to the Department by a negotiable instrument, and such negotiable instrument is dishonored, the Department may levy costs and administration fees against the account of the defaulting debtor at the rate prescribed by the Minister in terms of section 80 of the PFMA.

- The Department reserves the right not to accept any further negotiable instruments in such a case.

6.5. PROCEDURE RELATING TO DEBT WRITE-OFF

Uncollected accounts are to be considered as bad debts and written off, subject to appropriate approval authority (Accounting Officer, according to the Act), when they are determined to be uncollectible or when they are placed with a collection agency. Such write-offs should occur no less frequently than annually. If uncollectible accounts are written off annually, all write-offs must be recorded in the financial statements for purposes of year-end reporting.

The departmental unit shall consider an asset non-recoverable and recommend write-off actions based on the following criteria:

6.5.1..1. Assets that cannot be substantiated by evidence

- The department does not have or is unable to produce the evidence of outstanding receivables due to the Department (e.g., accounting records, witnesses necessary to confirm the existence of the asset) or has not been able to obtain a voluntary repayment of the amount due to the Department. A confirmation of an asset's existence and/or value may include documents such as, employee salary records, inspections, appraisals, deeds, contracts (i.e. rental and leasing), or other objective written evidence.

- Other situations may occur in which accounting ledgers are incorrect and/or there is insufficient documentation to support routine adjustments. Write-offs (or, in certain cases, reclassifications) may be appropriate to correct accounting records in the following situations:

- General ledger or subsidiary records that are not supported by documents (i.e., vouchers, contracts, obligations); and

- The Office of the Auditor General, Provincial Treasury, the Provincial Internal Auditor, or other external auditors have identified the need to adjust the value of an established asset (e.g., open audit findings).

- Lack of documentation may be insufficient grounds to initiate a write-off action. The cause of missing evidence should be considered as a factor when evaluating whether an asset should be written off.

6.5.1..2. Recovery costs are estimated to exceed recovery amounts

When making this determination, factors to be considered include:

- o Costs associated with the asset recovery tools that an organization is considering using;
- o Costs to the Government associated with resources needed to pursue recovery, including internal agency costs, and additional recovery services (e.g., collection agencies, Department of Justice actions);
- o Likelihood of recovering administrative costs from third parties;
- o Ability to compromise the amount of debt and to report the unrecovered portion of the debt to Treasury (Revenue Fund) as income; and
- o Need to pursue collection, regardless of costs, in those cases where it is in the best interest of the Department.

6.5.1..3. Inability of the Department to locate the debtor

- An asset may be deemed non-recoverable when the debtor cannot be located, and
  - there is no security to be liquidated, or
  - statutory limitation period for collection has expired.

- Before establishing that it cannot locate a debtor, the department should contact or utilize available and appropriate sources of information such as: credit reporting bureaus, tax records, business references, utility companies, telephone directories, or places of employment.

6.5.1..4. Recovery of the debt would be un-economical due to irrecoverability of the significant portion of debt owed to the Department.

- The determination of what constitutes a substantial amount of the asset is a matter of judgement made by an organization based on the following criteria:
  - Historical recovery rates for particular type of asset; and
  - Significance of rand amount to remaining portfolio of assets.

- If no historical asset recovery rate is available, use industry sources or other government sources (e.g., reserve bank agency information).

- Justification for what amounts are considered to be substantial should be included in the documentation for write-off.

- When evaluating its ability to recover an asset, the department should consider:
  - Results of asset recovery actions already undertaken.
  - In cases of consumer receivables, the present and future financial condition of the debtor. The types of things that may be evaluated vary depending upon circumstances. Some examples include:
    - assets and liabilities;
    - potential for future earnings;
    - receipt of public assistance payments;
    - bankruptcy;
    - age and health of the debtor;
    - availability of the debtor's assets for liquidation; and
    - any restrictions to collection actions within a state's borders.

  - In cases of corporate receivables, the present and future financial condition of the entity should be considered. The types of things that may be evaluated vary depending upon circumstances. Some examples include:

- new or unproven aspects of the entity, such as programs or management;
- economic conditions;
- technological obsolescence;
- managerial ability;
- provincial or national government regulations; and
- social change.

6.5.1..5. Authorization for the debt write-off.

- In respect of all debt owing to the Department, schedules indicating the debtor account number, the debtor's name, type of debt (salary or supplier overpayment; (rental and leases) the physical address in respect of which the debt was raised, address, erf number, if applicable), amount per account category as well as a reason to write-off the amount must be compiled.

- Notwithstanding the above, the Accounting Officer or his/her authorised officials as per the delegations are under no obligation to write-off any particular debt and will always retain sole discretion to do so.

6.6. MANAGEMENT REPORTING

A. Periodic Management Reporting Responsibility

i. The relevant Program Manager, where applicable, shall provide regular (annual) reports on the status of the process for control over departmental losses, as prescribed by National Treasury.

B. Annual Management Reporting Responsibility

i. In preparation of the annual report of the Department, the Chief Financial Officer shall include information on internal controls for the entire financial year, as well as a report on compliance with Sections 38 and 40 of the PFMA; and

ii. Particular disclosure of debt written off should be disclosed in the Annual Financial Statements and Annual Report as prescribed by National Treasury.

7. ROLES AND RESPONSIBILITIES

7.1. Head of Department is responsible for:-

The ultimate accountability for the management of debtors, debt recovery and write-off of irrecoverable debt resides with the Accounting Officer, although the Accounting Officer is allowed to delegate duties to capable officials.

- All the officials of the department share in the responsibility for managing debtors, debt recovery and write-off of irrecoverable debt to the extent of their access to the decision making process

7.2. The Chief Financial Officer

The Accounting Officer delegates the responsibility for the management of debtors, debt recovery and write-offs to the Chief Financial Officer. The Chief Financial Officer (CFO) is therefore responsible for Departmental oversight of this policy's implementation. The CFO is also responsible for the review of assumptions used in developing write-off estimates proposed by organizations for consistency with the Policy and monitoring actual vs. estimated write-offs. On an annual basis, the CFO will review procedures developed, or revised, by each departmental unit for consistency with the Policy. This includes:-

- Issue guidelines relating to record keeping;
- Monitor that all overdue debt is recovered on a timely basis;
- Monitor and review the report on irrecoverable debt on a regular base;
- Authorize the write-off of irrecoverable debt to the limits as delegated by the Accounting Officer; and

7.3. Ensure that debt written-off is correctly recorded in the accounting systems and records.

7.4. Debt Section / Programme Managers and Other officials

- Program and Unit managers are responsible for the implementation of the policy.
- Ensure that the reconciliation process of the BAS Debt Account and actual interest, accumulated interest and capital amounts received is done by the officials concerned. This report must be submitted to the Chief Financial Officer for the preparation of the Annual Financial Statements;
- Ensure that all overdue debt is recovered on a timely base by monitoring that the officials implement policies and procedures as prescribed; and
- Report the irrecoverable debt that has been identified to the Chief Financial Officer on a regular base and proposing the write off of debt.

7.5. Accounting Section

Accounting section responsibilities for write-offs include establishing appropriate controls for prompt identification of other assets which no longer are recoverable by an organization. Actions to be taken by accounting section' employees consist of:

- Reviewing, on a quarterly basis, outstanding reconciling items or items held in suspense, as to their recoverability;
- Ensuring that adequate actions have been taken to resolve unreconciled items;
- Establishing adequate documentation in Departmental records for due diligence performed and rationale for write-off decisions within their organization;
- Journalizing all entries authorized for write-offs; and
- Reporting, on a quarterly basis, amounts written off by the organization.

8. MONITORING AND EVALUATION

8.1. The Directorate Strategic Planning Management will monitor and evaluate compliance with, and the impact of, these guidelines by all programmes and sub-programmes in the Department.

8.2. The Financial Inspectorate will perform investigations with regard to compliance, regulations, policies and procedures.

8.3. The Finance Debt Section will submit monthly reports to the Chief Financial Officer for consideration and to assess the performance of the department with regards to debt management in terms of this policy.

9. POLICY ADOPTION AND REVIEW

9.1. This policy will be effective as from date of approval by the accounting officer..

9.2. This policy shall be reviewed in two (2) years from its effective date to determine its effectiveness and appropriateness. This policy may be reviewed before that time, as necessary, to reflect substantial organisational or other changes at the Department, or any change required by law.

9.3. Deviations from this policy must be approved by the Accounting Officer.

10. APPROVAL

This policy is Approved / Not Approved

Comments:

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HEAD OF DEPARTMENT

16/04/2015
DATE