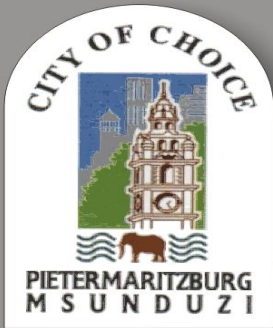


# MSUNDUZI MUNICIPALITY



<b>Policy Name:</b>	<b>IMPAIRMENT POLICY</b>
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# **The Msunduzi Municipality**

## ***IMPAIRMENT POLICY***

***2019/2020***

**TABLE OF CONTENTS**

<b>1. DEFINITIONS</b>	<b>1</b>
<b>2. PURPOSE OF THE POLICY</b>	<b>2</b>
<b>3. SCOPE OF POLICY</b>	<b>2</b>
<b>4. APPLICABLE ACCOUNTING STANDARDS</b>	<b>2</b>
<b>5. METHODOLOGY</b>	<b>4</b>
<b>5.1 Timing of Assessment</b>	<b>4</b>
<b>5.2 Evidence of Impairment</b>	<b>4</b>
<b>5.3 Calculation and Recognition of Impairment Loss</b>	<b>4</b>
<b>5.4 Individually Significant of Impairment Loss</b>	<b>4</b>
<b>5.5 Risk Categories</b>	<b>5</b>
<b>5.6 Consumer Receivables</b>	<b>5</b>
<b>6. REVIEW OF METHODOLOGY</b>	<b>6</b>

## 1. **DEFINITIONS**

In this policy, unless the context indicates otherwise, the word or expression has the following meaning:

- 1.1 **“Accounting Officer”** The Municipal Manager appointed in terms of Section 82(1)(a) or (b) of the Municipal Structures Act, 1998 (Act No. 117 of 1998);
- 1.2 **“Account Holder”** includes a customer/consumer and refers to any occupier of any premises to which Council has agreed to supply or is actually supplying services, or if there is no occupier, then the owner of the premises and includes any debtor of the municipality;
- 1.3 **“Chief Financial Officer”** refers to the person so designated in terms of Section 75(2)(a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) or any person duly authorised to act on behalf of such person.
- 1.4 **“Council”** refers to The Msunduzi Municipality and its successors in law and includes the Council of that municipality or its Executive Committee or any other body acting by virtue of any power delegated to it in terms of legislation, as well as any official to whom the Executive Committee has delegated any powers and duties with regard to this policy;
- 1.5 **“Financial year”** refers to the period starting from 1 July in a year to 30 June the next year;
- 1.6 **“Grap”** means Generally Recognized Accounting Practices;
- 1.7 **“Impaired”** means the carrying amount exceeds its recoverable amount;
- 1.8 **“MFMA”** means Municipal Finance Management Act 56 of 2003;
- 1.9 **“Municipality”** when referred to as:
  - (a) a corporate body, means a municipality as described in Section 2 of the Municipal Systems Act, 2000 (Act No. 32 of 2000);
  - (b) a geographic area means a municipal area determined in terms of the Local Government Municipal Demarcation Act, 1998 (Act No. 27 of 1998).
- 1.10 **“Municipal Manager”** means the person appointed as Municipal Manager in terms of Section 82 of the Local Government Municipal Structures Act, 1998, (Act No. 117 of 1998) and includes any person acting in that position or to whom authority has been delegated;
- 1.11 **“Receivable”** means any amount due, owing and payable by a customer in respect of a municipal account not paid on the due date;

## 2. PURPOSE OF THE POLICY

- 2.1 The purpose of this policy is to provide a framework for methodology for the impairment of receivables in line with the applicable accounting standards;
- 2.2 To ensure that sufficient allowance is made for the impairment of receivables in the financial statements;
- 2.3 To ensure that receivables disclosed in the financial statements are stated at amounts that are deemed collectable; and
- 2.4 To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt.

## 3. SCOPE OF POLICY

- 3.1 The methodology is applicable to all receivables subsequently measured at amortized cost.
- 3.2 This includes the following line items as disclosed on the statement of financial position:
  - 3.2.1 Consumer receivables;
  - 3.2.2 Receivables from exchange transactions; and
  - 3.2.2 Receivables from non-exchange transactions.

## 4. APPLICABLE ACCOUNTING STANDARDS

- 4.1 **GRAP 104** Financial Instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.
- 4.2 **GRAP 104.46** "All financial assets measured at amortised cost, or cost, are subject to an impairment review..."

- 4.3 **GRAP 104.57** “An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss. “
- 4.4 **GRAP 104.58** “A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.”
- 4.5 **GRAP 104.61** “If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.”
- 4.6 **GRAP 104.62** “An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.”

## **5 METHODOLOGY**

### **5.1 Timing of Assessment**

5.1.1 The Municipality will assess at the end of each financial year, whether there is objective evidence, that a receivable account or group of receivable accounts is impaired.

### **5.2 Evidence of Impairment**

5.2.1 The following accounts are specifically excluded from impairment testing:

5.2.1.1 Receivable accounts with a combined credit balance at reporting date;

5.2.2.2 Receivable accounts where the combined balance at reporting date is zero;

5.2.2.3 Receivable accounts where the Msunduzi Municipality is the account holder; and

5.2.2.4 Receivable accounts where the Government, State Owned Entities and Other Municipalities is the account holder

5.2.2.5 Receivable accounts that have no balance outstanding greater than 30 days at reporting date as these accounts are considered not to be past due.

### **5.3 Calculation and Recognition of Impairment Loss**

5.3.1 The impairment loss is calculated as the difference between the carrying value at reporting date less the recoverability ratio of each debtor.

5.3.2 The recoverability ratio of each debtor is calculated as, the total receipts collected from the debtor over the reporting period, divided by the total billed to the debtor over the reporting period, plus any balances brought forward from the reporting period immediately prior to the current reporting period.

### **5.4 Individually Significant Receivables**

5.4.1 Consumer receivables with a total balance outstanding at reporting date of more than **R 1 000 000,00** is considered material and will be assessed individually for evidence of impairment.

**5.5 Risk Categories**

5.5.1 All receivables are categorised into one of three risk categories. These categories are:

5.5.1.1 High risk category;

5.5.1.2 Medium risk category; and

5.5.1.3 Low risk category.

5.5.2 The allocation of receivables into the different risk categories are reviewed annually.

**5.6 Consumer receivables**

5.6.1 The following receivables are specifically identified as being **high risk** due to their nature:

5.6.1.1 Accounts with balances of 60 days and more;

5.6.2 The following receivables are specifically identified as being **low risk** receivables due to their nature and past payment history:

5.6.2.1 Accounts with only a current balance due

5.6.3 The following receivables are specifically identified as being **medium risk** receivables due to their nature and past payment history:

5.6.3.1 Accounts with balances of 30 days only

5.6.4 Summary of risk groups for consumer receivables

High risk	Medium risk	Low risk
Accounts with 60 days balances and above	Accounts with 30 day balances only	Accounts with current balances



5.6.5 The total income from consumers for the reporting period include:

- a) Property tax;
- b) Refuse;
- c) Sewerage;
- d) Water;
- e) Electricity;
- f) Interest; and
- g) Sundry Charges

## **6 REVIEW OF METHODOLOGY**

6.1 In terms of section 17(1)(e) of the MFMA polices must be reviewed on an annual basis and the reviewed policy tabled to Council for approval as part of the budget process.