



# BAD DEBTS AND WRITE-OFF POLICY

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## **BAD DEBT WRITE-OFF**

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## 1. INTRODUCTION

- 1.1.1 The Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay services.
- 1.1.2 The policy also seeks to bring relief to consumers who have huge outstanding debts and have no income or are registered as indigents and are currently unable to pay for the outstanding debts.
- 1.1.3 The policy seeks that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services.
- 1.1.4 The policy will enable Council to write off irrecoverable debt as recommended by the committee that will be established as in accordance to the provision of this policy, therefore lessening the costs of recovering the debt that is irrecoverable.
- 1.1.5 Despite strict enforcement of the Customer Care, Credit Control and Debt Collection By – Laws, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt.
- 1.1.6 The policy will enable Council to apply the principles of writing off of irrecoverable debt in circumstances and information submitted before Council wherein it is indicated that the debt will not be recovered.
- 1.1.7 The policy does not override the fact that “the Municipal Manager must ensure that all avenues are utilized to collect the municipality’s debt” as stipulated in the Municipal Systems Act.
- 1.1.8 The policy seeks to ensure that Council follows all principles and procedures for recovering outstanding debt prior to writing off of debt.
- 1.1.9 The policy seeks to ensure that Council appoints a committee in terms of section 79 of Municipal Structures Act 117 of 1998 to review and recommend to it the debt considered by the committee to be irrecoverable.

## **2. PURPOSE OF THE POLICY**

- 2.1.1 Section 96 of the Local Government Municipal Systems Act 32 of 2000 provides that a municipality must collect all money that is due and payable to it, subject to the provisions of that Act and other applicable legislation
- 2.1.2 The purpose of this policy is
- 2.1.3 To provide the principles and procedures for writing off irrecoverable debt.
- 2.1.4 To ensure that recovery would not cause undue hardship to the debtor or their dependants.
- 2.1.5 To determine circumstances leading to the write-off of debts
- 2.1.6 To provide framework for procedures for writing off of debts

## **3. RESPONSIBILITY / ACCOUNTABILITY**

- 3.1.1 The Council has the overall responsibility for adopting and approving the Bad debt and Write-Off policy.
- 3.1.2 Council has an oversight and monitoring role in the implementation and enforcement of the policy.
- 3.1.3 The Municipal Manager, as the implementing authority, must establish effective administrative mechanisms, procedures and processes to ensure the implementation of this draft policy.

## **4. PRINCIPLES**

- 4.1 The following should be the guiding principles in implementing the Bad debt and Write-off Policy:-
- 4.2 The policy is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000, as amended and other related legislation.
- 4.3 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off of debt are consistent and accurate, the following principles or a combination of some of them must be followed prior to any write off:

- 4.3.1 Where the tracing of the debtor is unsuccessful;
- 4.3.2 Where all debt collection procedures implemented to recover the debt were unsuccessful;
- 4.3.3 All reasonable steps were taken by the officials to recover the debt
- 4.3.4 Recovery would cause undue hardship to the debtor or his or her dependants;
- 4.3.5 The Council cannot legally prove the claim, provided that such a write-off must be followed by an investigation to circumstances which led to the failure to legally prove the claim.
- 4.3.6 The debtor has neither assets nor income;
- 4.3.7 The council's claim against an insolvent estate that is being administered as insolvent, had been properly proved and that the dividend of the creditors was insufficient to meet the debt;
- 4.3.8 It would be to the advantage of the municipality to effect a settlement of its claim or waive the claim;
- 4.3.9 Statutory requirements prevent debt from being claimed or recovered;
- 4.3.10 On account of a weak financial position of an estate, the danger exists that if the debt is proved, a contribution will have to be paid to the estate.
- 4.3.11 the debtor is deceased and there is no known estate.
- 4.3.12 The debtor is no longer a resident in the Republic of South Africa, and there are no apparent means of collecting the debt, and there is no evidence that the debtor has family or business concerns in South Africa that could lead to the debtor.
- 4.3.13 the assets of the debtor or of the estate of the debtor are indispensable to the debtor's dependants' or are of relatively little value.
- 4.3.14 when the debts have prescribed in terms of section 11 of the Prescription Act 68 of 1969.
- 4.3.15 Bad debt write offs must be considered in terms of cost – benefit analysis; meaning when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered
- 4.3.16 Debt can only be written off if the required provision exists in the Municipality's budget and/ or reserves.

## **5 CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITE-OFF**

### **5.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy**

- 5.1.1 Upon approval for registration as an indigent household consumer, the debtor's interest on the arrear amount will be written off and the outstanding balance on his/her municipal services account will be handed over to the appointed committee for review and possible write off.
- 5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality's Debt Collection and Credit Control Policy and Indigent Household Policy.

### **5.2 Balances too small to recover considering the cost for recovery**

- 5.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance of one hundred rand (R100) or less, such account must be forwarded once to the consumer for payment
- 5.2.2 Where such account is not paid by the respective consumer within a period of sixty (60) days such amounts will automatically be written off subject to the provisions of Section 4.1.3 above.

### **5.3 Insolvency of the Debtor and Insolvent Deceased Estates**

- 5.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to an insolvent estate must, after notification, be written off subject to the provisions of Section 4.13 above.
- 5.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to a deceased estate must, after notification, be written off subject to the provisions of Sections 4.1.3 above.

### **5.4 Untraceable Debtors**

- 5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be

handed over to a collection agent for recovery of the debt. The collection agent will be paid on an attorney client scale relating to matters of debt collection. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor. The municipality should be responsible to pay the tracing agent.

- 5.4.2 Any amount owed by a debtor that has become untraceable must, after notification, be written off or sold to a debt collection agency at a discount which will be determined by Council from time to time.
- 5.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

## **6 ESTABLISHMENT OF A COMMITTEE TO MONITOR ANY DEBT TO BE WRITTEN OFF**

- 6.1 Council will establish and appoint a “Debt Write off Committee” in terms of Section 79 of the Municipal Structures Act 117 of 1998, to monitor the implementation of this Policy.
- 6.2 The above Committee will meet at least quarterly to review the report from the Accounting Officer containing full details of any actions taken by officials with respect to this Policy, and to consider any circumstances not covered by this Policy.
- 6.3. The quorum for the Committee shall be 50% of the members plus one.
- 6.4. Formal minutes of Committee meetings must be prepared and submitted to Council.

## **7 DELEGATIONS OF WRITE – OFFS TO THE ACCOUNTING OFFICER**

- 7.1 .1 The Accounting Officer will, after thorough review of any applications in terms of this Policy, be delegated to write off any amounts to the maximum of:-
  - 7.1.2 In the case of a household consumer an amount of R100-00 (excluding interest and penalties) per submission; and
  - 7.1.3 in the case of a business consumer an amount of R200-00 (excluding interest and penalties) per submission.
- 7.2 Any amount in excess of the delegation provided for in paragraph 7.1.2 and 7.1.3 above must be submitted together with a recommendation from the Accounting Officer to the committee for consideration. The committee will, after thorough

review of any recommendation by the Accounting Officer and in terms of this Policy, make recommendations to Council to write off.

- 7.3 All amounts that has to be written off in terms of Section 7.1.2 and Section 7.1.3 above must be considered individually and each case must be judged on its own merits must be separately reported to the Committee.

**8 PROVISION FOR BAD DEBTS**

- 8.1 The system will consider the current consumer debtors after any payments received in the first month of the next financial year has been taken into account.
- 8.2. The total balance of accounts with a handed over portion is considered bad debts after any payment received in the first month of the new financial year has been deducted.
- 8.3. The municipality has to make provision for the debts that are identified as being irrecoverable. However, the municipality must ensure that all the means applicable to recover the debts as outlined in the Debt and Credit control policy are utilized.
- 8.4 Provision for bad debts on municipal accounts will therefore be calculated as per annexure A:

**9. IMPLEMENTATION AND REVIEW OF THIS POLICY**

- 9.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.
- 9.2 This policy may be reviewed on an annual basis and be tabled to Council for approval.

**10. POLICY ADOPTION**

This Policy has been considered and approved by the COUNCIL OF KZN237; INKOSI LANGALIBALELE LOCAL MUNICIPALITY as follows:

Resolution No:.....

Approval Date:.....



**ANNEXURE A****IMPAIRMENT CALCULATIONS – CONSUMER DEBTORS****Purpose of the Document**

The below is an explanation on how the impairment report uses the Type and Payment risk scoring to calculate the impairment amount regarding outstanding debt for consumer debtors.

Please refer to the Ageing Report on the Consumer Debtor module to implement and make the necessary adjustment as explained below.

The Provision factor is calculated by multiplying the total TYPE RISK with the total PAYMENT RISK and if the total is more than 10, then it impairs the full outstanding amount of the consumer.

When extracting the Ageing Report for the purpose of impairment please note there is two options to complete regarding the risk scoring for impairment calculation and scoring:

- Type Risk Scoring
- Payment Risk Scoring

Please note that the tables will be populated with default values which you can change by clicking on any of the 2 buttons. All the calculations and figures are only seen as examples and not be seen as final and correct.

*"Please refer to below image"*

**munsoft** Ageing Report ?

|               |  |  |                                     |
|---------------|--|--|-------------------------------------|
| Report Period | <input checked="" type="radio"/> Current Levy Period | <input type="radio"/> Back Dated               | 2012/11                             |
| Report Type   | <input type="radio"/> Detailed                       | <input type="radio"/> Grouped                  | <input type="radio"/> Summary       |
|               | <input type="radio"/> Detailed Excel                 | <input checked="" type="radio"/> Grouped Excel | <input type="radio"/> Summary Excel |
|               | <input type="radio"/> Section 71                     |  |                                     |

---

|        |   |                                |
|--------|---|--------------------------------|
| Output | <input checked="" type="radio"/> <b>Monthly</b> | <input type="radio"/> Annually |
|--------|---|--------------------------------|

|                   |   |   |
|-------------------|---|---|
| Accounts that are | <input checked="" type="radio"/> All Accounts | <input type="radio"/> 30 days outstanding |
|                   | <input type="radio"/> 60 days outstanding     | <input type="radio"/> 90 days outstanding |

|                  |   |  |                                    |
|------------------|---|--|------------------------------------|
| Sequence         | <input checked="" type="radio"/> Account Number | <input type="radio"/> Name                     | <input type="radio"/> Stand Number |
| Ward Code        | <input checked="" type="radio"/> All Wards      | <input type="radio"/> Specify Ward             |                                    |
| Town Code        | <input checked="" type="radio"/> All Towns      | <input type="radio"/> Specify Town             |                                    |
| Suburb Code      | <input checked="" type="radio"/> All Suburbs    | <input type="radio"/> Specify Suburb           |                                    |
| Account Type     | <input checked="" type="radio"/> All Accounts   | <input type="radio"/> Specify Account Type     |                                    |
| Sub Account Type | <input checked="" type="radio"/> All Accounts   | <input type="radio"/> Specify Sub Account Type |                                    |
| Owner Type       | <input checked="" type="radio"/> All Accounts   | <input type="radio"/> Specify Owner Type       |                                    |

|                        |                                     |                      |                          |                         |                          |
|------------------------|-------------------------------------|----------------------|--------------------------|-------------------------|--------------------------|
| Incl Impairment Detail | <input checked="" type="checkbox"/> | >> Type Risk Scoring | <input type="checkbox"/> | >> Payment Risk Scoring | <input type="checkbox"/> |
|------------------------|-------------------------------------|----------------------|--------------------------|-------------------------|--------------------------|

***The following approach and explanation was directly taken from the NT excel to understand what is needed to create the calculation and scoring for doubtful debt.***

**Suggested approach in calculating provision for doubtful debts:**

1. Advice on system changes on the Financial system to comply with GRAP with regard

*to provision for doubtful debts.*

A report from the system should supply suitable information regarding the following:

- Ageing of each debtor
- Active / inactive account
- Tenants' / owners' account
- Debtor type: Residential, Business, Indigent, Government, etc.

*2. Advise on system changes on Financial system to align all the debt collection indicators so that the history of an account can be used as basis for recommendations for writing off bad debts in future.*

A scoring system would be used by adding additional fields in the database for each debtor / group of debtors indicating the following:

- Number of times account appeared on the cut-off list
- Attorneys' total cost on account
- Number of final notices on account
- Number of summonses on account
- Judgements on account
- Tracing costs
- Etc.

## **Type Risk Scoring**

When completing the Type Risk Payment report please note that the report calculations and scoring are based on the following information:

- Accounts Ageing
- Accounts Status
- Account Type

**The Total Type Risk = Status Risk Score + Account Type Risk Score + Own/Occ Type Risk Score**

“Refer to image below”

The screenshot shows a software window titled "Impairment Type Risk" with the unsoft logo. It displays a table with the following data:

| Account Status | Type     | Consumer Type | Status | Scoring Type | Acc Type |
|----------------|----------|---------------|--------|--------------|----------|
| 0              | ACTIVE   | 1 OWNER       |        |              | 1.50     |
| 0              | ACTIVE   | 1 OWNER       | 010000 | GOVERNMENT   |          |
| 0              | ACTIVE   | 1 OWNER       | 020000 | BUSINESS     | .40      |
| 0              | ACTIVE   | 1 OWNER       | 030000 | INDUSTRIAL   | .25      |
| 0              | ACTIVE   | 1 OWNER       | 040000 | OTHER        | 1.50     |
| 0              | ACTIVE   | 2 OCCUPIER    |        | 2.00         | 1.50     |
| 0              | ACTIVE   | 2 OCCUPIER    | 000000 | HOUSEHOLD    | 2.00     |
| 0              | ACTIVE   | 2 OCCUPIER    | 010000 | GOVERNMENT   | 2.00     |
| 0              | ACTIVE   | 2 OCCUPIER    | 020000 | BUSINESS     | .40      |
| 0              | ACTIVE   | 2 OCCUPIER    | 030000 | INDUSTRIAL   | .25      |
| 0              | ACTIVE   | 2 OCCUPIER    | 040000 | OTHER        | 2.00     |
| 9              | INACTIVE | 1 OWNER       | 2.00   |              | 1.50     |
| 9              | INACTIVE | 1 OWNER       | 020000 | BUSINESS     | .40      |
| 9              | INACTIVE | 1 OWNER       | 040000 | OTHER        | 1.50     |
| 9              | INACTIVE | 2 OCCUPIER    | 2.00   | 2.00         | 1.50     |
| 9              | INACTIVE | 2 OCCUPIER    | 000000 | HOUSEHOLD    | 2.00     |
| 9              | INACTIVE | 2 OCCUPIER    | 010000 | GOVERNMENT   | 2.00     |
| 9              | INACTIVE | 2 OCCUPIER    | 020000 | BUSINESS     | .40      |
| 9              | INACTIVE | 2 OCCUPIER    | 030000 | INDUSTRIAL   | .25      |
| 9              | INACTIVE | 2 OCCUPIER    | 040000 | OTHER        | 2.00     |

At the bottom of the window, there are buttons for "+ Add", "Change", "Delete", "View", "Ok", and "Cancel".

- **Status**

If the account is inactive the score the consumer will get is a 2 and if the account is active the consumer will receive a 0 (as the chances of retrieving debt from the active account is higher than an inactive account).

- **Scoring Type**

If the account is an occupier it gets a high score of 2 and if it's an owner its gets a score of 0, the reason will be that when the owner wants to sell the property he will be in need of a clearance certificate regarding his debt on the property.

- **Account Type**

The last score is based on your Account Type Category – Government and Provincial accounts get a 0 score because you should be able to settle the government accounts debt. Then for your other accounts i.e. Household, Businesses and Industrial you will decide what score to allocate to each individually regarding financial history information.

## **Impairment Payment Risk**

The impairment payment risk report is based on the ageing of the consumers account. The longer outstanding the higher the risk factor. For example, if the consumers account is outstanding for 30 days the factor will be significantly lower than a consumers account which is 120 days outstanding.

Please note that the factors should be determined by the municipality for the total days outstanding. The fields will be populated with default values that can be adjusted and changed when selecting the report.



**Total Payment Risk = the payment risk scoring added together**

The Provision factor is then the 2 risks multiplied together to get the % which is applied to the outstanding balance.

| AY | AZ     | BA         | BB   | BC         | BD  | BE     | BF         | BG    | BH   | BI   | BJ     | BK  | BL     | BM     | BN           | BO     |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|----|--------|------------|------|------------|-----|--------|------------|-------|------|------|--------|-----|--------|--------|--------------|--------|--------|--------|--------|--------|---------|--------|---------|--------|---------|--------|-------|---------|------|-----------|--------|----------|-----------|--------|--|--|
|    | STATUS | RISK SCORE | TYPE | RISK SCORE | ACC | TYPE   | RISK SCORE | TOTAL | TYPE | RISK | IMPAIR | YN  | IMPAIR | TOTAL  | Up to 30 Day | Factor | 60 Day | Factor | 90 Day | Factor | 120 Day | Factor | 150 Day | Factor | 180 Day | Factor | TOTAL | PAYMENT | RISK | PROVISION | FACTOR | BAD_DEBT | PROVISION | FACTOR |  |  |
|    | 2      | 2          | 1.25 | 3.25       | 1   | 56.97  | 0.5        | 0.5   | 0.5  | 0.75 | 0.75   | 3.7 | 6.7    | 35.175 |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 0   | 0      | 0          | 0     | 0    | 0    | 0      | 0   | 0      | 0      |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 1   | 504.94 | 0.5        | 0.5   | 0.5  | 0.75 | 0.75   | 0   | 3      | 9.75   |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 1   | 125.23 | 0          | 0.5   | 0    | 0    | 0      | 0   | 0.5    | 1.625  |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 1   | 124.73 | 0          | 0.5   | 0    | 0    | 0      | 0   | 0.5    | 1.625  |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 1   | 379.53 | 0.5        | 0.5   | 0.5  | 0.75 | 0      | 0   | 2.25   | 7.3125 |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 0   | 0      | 0          | 0     | 0    | 0    | 0      | 0   | 0      | 0      |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 1.25 | 3.25       | 0   | 0      | 0          | 0     | 0    | 0    | 0      | 0   | 0      | 0      |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 0.4  | 2.4        | 0   | 0      | 0          | 0     | 0    | 0    | 0      | 0   | 0      | 0      |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |
|    | 0      | 2          | 0.4  | 2.4        | 1   | 125.23 | 0          | 0.5   | 0    | 0    | 0      | 0   | 0.5    | 1.2    |              |        |        |        |        |        |         |        |         |        |         |        |       |         |      |           |        |          |           |        |  |  |

**Explanation of how the calculation works:**

Let us assume the consumer scored the following for each report:

- A) Type risk = (Status Risk + Type Risk + Acc Type Risk)  
 Type Risk = (2 + 2 + 1.25)  
 Type Risk = 5.25
  
- B) Payment Risk = (30days + 60days + 90days + 120days + 150days + 180days)  
 Payment Risk = (0.5 + 0.5 + 0.5 + 0.75 + 0.75 + 3.7)  
 Payment Risk = 6.7
  
- C) Provision Factor = Type Risk x Payment Risk  
 Provision Factor = 5.25 x 6.7  
 Provision Factor = 35.175

**D) Provision for Bad Debt**

The provision is based on the calculation performed in (C) and the limitation set by the municipality.

If the decision was made that all accounts above 10 gets impaired 100% then in the calculation shown above the consumers account will be impaired on the full amount outstanding. If the calculation in (C) was less than 10, then the outstanding amount will be calculated on a percentage basis. For example, if the provision factor was 3.75 than only will 37.50% of the outstanding balance be seen as bad debt.

***The following tables are examples of how the municipalities can calculate the scores:***

***These are table example from NT and therefore can be seen as a good guideline in assisting with the calculations and scoring factors.***

|  |             |
|--|-------------|
|  | Debtor type |
|--|-------------|

| Indicators                               | Residential               | Business                  | Indigent                  | Government                |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Aging between 0 – 30 days outstanding    | 4                         | 4                         | 0                         | 4                         |
| Aging between 30 – 90 days outstanding   | 3                         | 4                         | 0                         | 4                         |
| Aging between 90 – 120 days outstanding  | 2                         | 3                         | 0                         | 4                         |
| Aging between 120 – 180 days outstanding | 1                         | 2                         | 0                         | 4                         |
| Aging more than 180 days outstanding     | 0                         | 1                         | 0                         | 4                         |
| Active account                           | 2                         | 2                         | 0                         | 2                         |
| Inactive account                         | 0                         | 0                         | 0                         | 1                         |
| Owners' account                          | 2                         | 2                         | 0                         | 2                         |
| Tenants' account                         | 1                         | 1                         | 0                         | 2                         |
| List of other examples                   |                           |                           |                           |                           |
| Extended terms for a debtor agreed upon  | As per agreement discount | As per agreement discount | As per agreement discount | As per agreement discount |
| Council approved write-off               | 0                         | 0                         | 0                         | 0                         |



| Scoring | Residential   | Business  | Indigent  | Government  |
|---------|---|---|---|---|
| 0 – 4   | Most probably impaired                                | Most probably impaired                                | Most probably impaired                                | Most probably impaired                                |
| 0       | 100% of debtor amount                                 | 100% of debtor amount                                 | 100% of debtor amount                                 | 100 % of debtor amount                                |
| 1       | Increase expected number of days outstanding with 80% | Increase expected number of days outstanding with 80% | Increase expected number of days outstanding with 80% | Increase expected number of days outstanding with 80% |
| 2       | Increase expected number of days outstanding with 60% | Increase expected number of days outstanding with 60% | Increase expected number of days outstanding with 60% | Increase expected number of days outstanding with 60% |
| 3       | Increase expected number of days outstanding with 40% | Increase expected number of days outstanding with 40% | Increase expected number of days outstanding with 40% | Increase expected number of days outstanding with 40% |
| 4       | Increase expected number of days outstanding with 20% | Increase expected number of days outstanding with 20% | Increase expected number of days outstanding with 20% | Increase expected number of days outstanding with 20% |
| 5 – 8   | Probably not impaired                                 | Probably not impaired                                 | Probably not impaired                                 | Probably not impaired                                 |

*5. The report indicating the debtors in 0 – 4 scoring must be examined by a senior official and the specific debtors must be flagged for impairment and the amount of impairment must be double-checked and agreed to be consistent with any agreements*

*to repay or knowledge that no repayments will take place.*

In certain cases, there may be other criteria that should be considered over and above the general matrix above. Therefore, it is necessary to include an exception matrix that override the above general matrix when a specific condition as listed below applies:

| Indicator  | Impair  |
|--|---|
| More than 2 entries on cut-off list  | Increase days outstanding with 50%                      |
| Attorneys total cost on the account exceed 10% of total outstanding balance                        | Increase days outstanding with 80%                      |
| More than 2 final notices issued   | Increase days outstanding with 60%                      |
| More than 2 summonses on account issued  | Increase days outstanding with 80%                      |
| Judgement on account that x % of outstanding balance will be received                              | Impair by the % of balance that will not be received    |
| Tracing costs is more than 20% of outstanding balance  | Increase days outstanding with 80%                      |
| An agreement with the debtor to determine an amount payable and a certain period to pay the amount | Impair using the agreed upon payment amount and period. |

*6. For each of the items impaired at year-end the following must be determined:*

- Amount to be received (determined by report or direct input from senior official of agreed upon amount)

- Estimated / actual date of amount to be received (total days after year-end until payment is received)
- Discount rate applicable to the group of debtors.
- Calculation of present value using above inputs