DMS1726332

ANNEXURE M

METHODOLOGY FOR THE IMPAIRMENT OF RECEIVABLES POLICY

1 JULY 2025

CONTENTS

1. **DEFINITIONS & ABBREVIATIONS**

"CFO" means chief financial officer.

"financial year" means the period 1 July of one year to 30 June of the following year (both days included).

“GRAP” means generally recognised accounting practices.

“MFMA” means Municipal Finance Management Act, Act 56 of 2003.

“municipality” means The City of Umhlathuze Local Municipality.

“reporting date” means 30 June of each year.

2. **PURPOSE**

The purpose of this document is:

- To set out a methodology for the impairment of receivables in line with the applicable accounting standards;
- To ensure that sufficient allowance is made for the impairment of receivables in the financial statements;
- Ensure that receivables disclosed in the financial statements are stated at amounts that are deemed collectable; and
- To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt.

3. **SCOPE**

The methodology is applicable to all receivables subsequently measured at amortised cost.

This includes the following line items as disclosed on the statement of financial position:

- Consumer receivables;
- Receivables from exchange transactions; and
- Receivables from non-exchange transactions.

4. **APPLICABLE ACCOUNTING STANDARDS**

GRAP 104 financial instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.

GRAP 104.46 “a*ll financial assets measured at amortised cost, or cost, are subject to an impairment review…”*

GRAP 104.57 “a*n 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".*

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".*

GRAP 104.61 "i*f 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".*

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".*

GRAP 104.63 "If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognized in surplus or deficit".

5. METHODOLOGY

5.1 Timing of assessment

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**

The following accounts are specifically excluded from impairment testing:

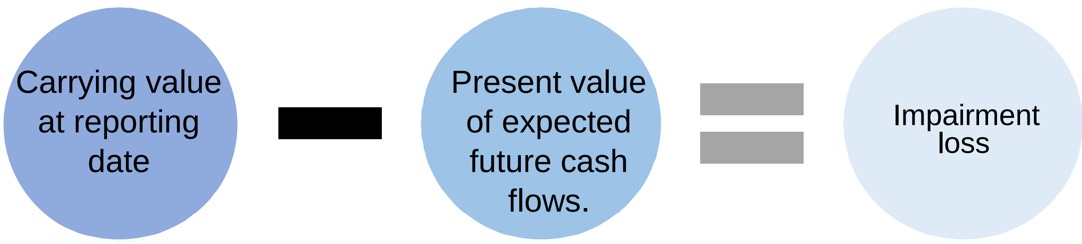
- Receivable accounts with a combined credit balance at reporting date;
- Receivable accounts where the combined balance at reporting date is zero;
- Receivable accounts where the City of uMhlathuze municipality is the owner; and
- Receivable accounts that have no balance outstanding longer than 30 days at reporting date as these accounts are considered not to be past due.

Any one of the following events is considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired.

- A receivable that have been placed under or applied for liquidation or sequestration;
- Accounts handed over to debt collectors and/or power of attorney;
- All accounts indicated as in-active accounts on the system;
- When a formal arrangement is made on arrears debt;
- When accounts have been formally presented to the CFO and adopted by the mayoral committee for write off; and
- All accounts with balances outstanding ninety (90) days and longer as these accounts are considered to be past due

5.3 **Calculation and recognition of impairment loss**

The impairment loss is calculated as the difference between the carrying value at reporting date less the present value of expected future cash flows.



The impairment loss is recognised in the statement of financial performance in the following accounts

Commitment Item	Commitment Item Description	Line item on the statement of financial position
1550000250	IA:Trad Serv and Cust Serv Debt-Waste Mangt-Impr	Impairment loss/reversal of impairment
1550000300	IA:Trad Serv & Cust Serv Debt-Waste Water Mngt-Imp	
1550000200	IA:Trad Serv and Cust Serv Debtors -Water - Impair	
1550000390	IA:Rates Debt-Residential-impairment	
1550000410	IA:Rates Debt-Industrial-impairment	
1550000430	IA:Rates Debt-Business-impairment	
1550000440	IA:Rates Debt-Agricultural-impairment	
1550000200	IA:Trad Serv and Cust Serv Debtors -Water - Impair	
1550000250	IA:Trad Serv and Cust Serv Debt-Waste Mangt-Impr	
1550000300	IA:Trad Serv & Cust Serv Debt-Waste Water Mngt-Imp	
1550000390	IA:Rates Debt-Residential-impairment	
1550000410	IA:Rates Debt-Industrial-impairment	
1550000430	IA:Rates Debt-Business-impairment	
1550000440	IA:Rates Debt-Agricultural-impairment	

The impairment is recognised in the statement of financial position in the allowance accounts:

Commitment Item	Commitment Item Description	Line item on the statement of financial position
2500050400	IZ:Reversal Impairment Loss Electricity Receivable	Consumer receivables, receivables from exchange transactions & receivables from non-exchange transaction
2500050500	IZ:Reversal Impairment Loss Electricity Receivable	
2500050600	IZ:Reversal Impairment Loss Waste Receivables	
2500050700	IZ:Reversal Impairment Loss Waste Water Receivable	
2500050800	IZ:Reversal Impairment Loss Water Receivables	
2500050900	IA:Rates Debt-Agricultural-impairment	

5.4 Individually significant receivables

Traffic fine debtors will not be assessed individually as the amounts are insignificant due to the nature of these debtors.

Unpaid Government accounts in dispute are considered material and will be assessed individually for evidence of impairment.

For sundry receivables management will assess on an annual basis which accounts are considered to be individually material. These accounts will be assessed individually for evidence of impairment.

5.5 Risk categories

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

- High risk category;
- Medium risk category; and
- Low risk category.

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

5.5.1 Consumer receivables

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

- Accounts with balance of 90 days and more
  Debtors accounts handed over-at 90 days

The following receivables are specifically identified as being low risk receivables and are not part of the impairment calculation due to their nature and past payment history:

- Accounts with current and 30 days outstanding balance

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

- Accounts with balance of 31 to 90 days only

5.5.3 **Traffic fines receivables**

The following receivables from traffic fines are specifically identified as being high risk due to their nature and past payment history:

- SECTION (341)– traffic fines issued in the absence of the offender.

- Speed tickets - outstanding for less than (18-24) months after the date of issue of the traffic fine.
- General offences - outstanding for less than (18-24) months after the date of issue of the traffic fine.

The following receivables from traffic fines are specifically identified as being medium risk receivables due to their nature and past payment history:

- SECTION 56 – speed tickets – outstanding for more than twelve (12) months after the date of issue of the traffic fine.
- general offences - outstanding for more than twelve (12) months after the date of issue of the traffic fine.

The following receivables from traffic fines are specifically identified as being low risk receivables due to their nature and past payment history:

- Speed tickets - outstanding for less than twelve (12) months after the date of issue of the traffic fine.
- General offences - outstanding for less than twelve (12) months after the date of issue of the traffic fine.

Summary of risk groups for consumer receivables:

High risk	Medium risk	Low risk
▪ Traffic fines issued in the absence of the offender and all traffic fines outstanding for more than (18-24) months after the date of issue of the traffic fine	▪ All traffic fines outstanding for more than twelve (12) months after the date of issue of the traffic fine	▪ All traffic fines outstanding for less than twelve (12) months after the date of issue of the traffic fine

ANNEXURE C - WORK PROCEDURES – TRAFFIC FINES RECEIVABLES

1. Obtain the traffic fines report from the Iforce system at each reporting date.

Step 2 - Exclude accounts not being assessed for impairment

1. Identify the following traffic fines from the Iforce report:

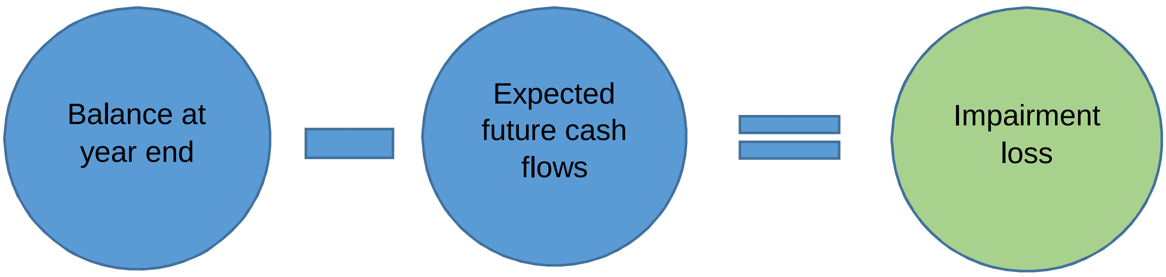
   1.1 All traffic fines that have not been outstanding for over thirty (30) days.
   1.2 All traffic fines that have their status indicated as “paid”.
   1.3 All traffic fines that have their status indicated as “withdrawn”.
   1.4 All traffic fines that have their status indicated as “cancelled”.

Step 3 - Calculate the expected future cash flows

1.1 For all other traffic fines, a collection rate is calculated taking into account payments made in the previous financial periods and current period to determine the expected future cash flows.

Step 4 - Calculate and recognize impairment loss

1. Calculate the impairment loss as the difference between the total outstanding balance at reporting date and the present value of expected future cash flows as calculated above:



2. Calculate the movement in the provision for impairment by comparing the provision for the current year as calculated with the provision made in the prior year.

Description	Amount
Current year calculation	(XXX)
Prior year provision	(XX)
Difference	(X)

3. Prepare a journal to account for the movement as calculated above:

3.1 If the current year provision is higher than prior year provision the journal required is:

Debit Impairment loss - (statement of financial performance)
Credit Provision for doubtful debts - (statement of financial position)

3.2 If the current year provision is lower than prior year provision the journal required is:

Debit Provision for doubtful debts - (statement of financial position)
Credit Impairment reversal - (statement of financial performance)

3.3 **Discount rate**

The discount rate is set as the prime lending rate as determined by the South African Reserve Bank as at the reporting date.
The discounted debtors are reviewed annually by management.

4. REVIEW OF METHODOLOGY

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.

Section	Chief Financial Officer
Current review date	
Previous review date	

5. APPROVAL & IMPLEMENTATION OF METHODOLOGY

This methodology shall be implemented once approved by council.

Section	Chief Financial Officer
Approval date by Council	

6. **SOURCE**

- GRAP 104 financial instruments issued April 2021
- GRAP 104 application guide issued April 2024
- National Treasury Accounting Guidelines GRAP 104 financial instruments