

NORTHERN  
CAPE  
EDUCATION  
DEPARTMENT

2007

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DEBT  
MANAGEMENT  
OFF POLICY

# NORTHERN CAPE DEPARTMENT OF EDUCATION

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### 1) **DECLARATION OF INTENT:**

Section 38(1)(c)(i) places the responsibility of collecting all money due to the Department in the hands of the Accounting Officer but section 45(b) and (c) brings to the fore the responsibility of each and every official with regards to recovering monies due to the Department. In terms of the Public Finance Management Act – the onus is placed on each employee within the Northern Cape Education Department for the effective, efficient, economical and transparent use of financial and other resources within that employee's area of responsibility.

### 2) **OBJECTIVE:**

The objective of this policy is to:

- To provide Departmental employees with a uniform approach on the management and control of debt owed to the Northern Cape education Department.
- prescribe procedures that will ensure that the following control objectives are achieved:
  - Existence – All the transactions relating to debtors are valid
  - Completeness - All transactions relating to debtors are recorded
  - Valuation - Debtors are at correct amounts
  - Rights & Obligations – The department has a legal right to the recovery of the debt amount
  - Presentation & Disclosure – Debtors are disclosed in the financial statements in accordance with generally recognized accounting practices (GRAP)

### 3) **SCOPE OF APPLICATION:**

This policy is applicable to all employees/officials of the Department for the proper exercise of their responsibilities in so far as debt redemption is concerned. It is specifically applicable to employees who have a formal, administrative duty to manage and control Departmental debts, including the recovery and write-off of debts, owed to the Department.

### 4) **GUIDING PRINCIPLES:**

The responsibility of the Accounting Officer of the Department for the management and control of debtors as assigned in terms of the PFMA, refer to section 38(1)(c)(i) and (d).

Treasury Regulations 11.2 and 11.3 states:

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11.2.1 – “The accounting Officer of an institution must 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, disclosing 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.”

11.3.1 – “Unless otherwise determined by law or agreement, debts owing to the state may, at the discretion of the Accounting Officer of the institution, be recovered in installments.”

## Maintenance of debts

- An updated debtors listing per category of debt should be maintained as well as a debtor’s age analysis.
- The debtors listing and age analysis should agree to the general ledger balance.
- Source documentation as proof of debtor transactions should be maintained and easily accessible.
- A reconciliation of debtor accounts should be done on a monthly basis.
- Review the reconciliation statement of the Northern Cape Education Department on a monthly basis.
- Debtors are to be disclosed in the balance sheet under recoverable

## Debtors’ listing

The debtor’s listing should maintain the following information:

Column Name	Description
Classification	This field describes the debtor type e.g. ex employee, bridge of contract, etc.
Debtor no.	This is the debtor number allocated by the debt administrator to each debtor
Debtor name	The field gives the details of the debtor
Opening balance	Balance brought forward
Detail	Transactions per date and amount
Closing balance	Balance taken forward

## Age analysis

The age analysis should maintain the following information:

Column name	Description
Classification	This field describes the debtor type e.g. ex employee, bridge of contract etc.
Debtor no.	This is the debtor number allocated by the debt administrator to each debtor
Debtor name	This field gives the details of the debtor
Balance	Balance outstanding
Aging	30 day, 60 day, etc outstanding since last payment

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## 5) TYPES OF DEBTS

The department as all other government departments operates on the cash basis of accounting and the majority of debtors are employee debts. The following are classes of debtors:

- Employee debt;
- Ex Employee debt

### 5.1 CATEGORIES OF DEBTS

Generically, the following types of debt may occur:

- (a) where the State has suffered a loss or damage through the act of an employee (whether that employee is still in the employ of the Department or not), or any other person – fraud or misconduct;
- (b) where a salary, wage or allowance was erroneously or inadvertently paid-out to an employee – Salary related Debt ;
- (c) where an individual, institution, entity, etc. and/or company breached a contract;
- (d) where an erroneous or overpayment was made to a creditor, institution or private body; and
- (e) where an advance is paid or expenditure incurred on behalf of an employee, and the employee defaults on payment(s).
- (f) State guarantee;

### 5.2 Classification:

In full compliance of Treasury Regulation 11.2.1(a), debt must be recorded in the general ledger of the Department as soon as it is discovered.

#### 5.2.1 Simple Debt (Non-interest Bearing Debt)

- a) A simple debt is raised whenever a debt is non-interest bearing – refer to Government Notice No. 1410 of 2002;
- b) Simple debts, in nature, are short-term debts and are normally settled within a relatively short period of time – usually within one year or as determined by the Accounting Officer of the Department;
- c) These debts are normally restricted to the recovery of money from departmental employees, and are prevalent in cases such as:
  - I. Salary and related overpayments;
  - II. Outstanding subsistence and travel (S & T) advances; and
  - III. Debts, which originate due to the actions of employees including, but not limited to, leave without pay, arrear contributions, damage to official vehicles.
- d) Debts are raised in the disallowance account of the Department and recovered from the debtors, provided that the debtors have been notified in writing of the debt recovery strategy of the Department.

#### 5.2.2 Complex Debt (Interest bearing)

Complex debt is when debt accumulates as interest bearing debt (refer to Government Notice No. 8189 of 2005).

Complex debt usually occurs in cases when there's:

- Breach of contract;
- Loan agreements;

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- Debts which originate and accumulates due to evil intentions (mala-fides actions) of employees, private bodies, institutions, other Departments, etc.
- a) With reference to Complex Debts – debtor statements must be produced and forwarded to the relevant debtors. The debtor must be given 30 days to settle the amount owing with interest, at a rate determined annually by the national Minister of Finance, must be levied on the outstanding amount.
- b) In the case of a contractual agreement, viz. Bursaries – breach of contract, loan agreement, then the interest rate stipulated in the contract agreement must be levied.

## 5.3 Interest payable on Debts to the State:

The national Minister of Finance – in terms of section 80 of the PFMA and Treasury Regulation 11.5.1 – may determine a uniform interest rate or may determine an interest rate for different categories of debt, unless otherwise stated in a contractual agreement. In terms of the Act and Treasury Regulations, the Minister of Finance must publish this by notice in the national Government Gazette through the national Parliament.

## 5.4 Writing-off of debts owing the State:

### 5.4.1 Legislation:

Chapter 11.4 of the national Treasury Regulations and sections 76(1)(e) and 76(4)(a) of the PFMA stipulates that the Accounting Officer of the Department may only write-off debts owed to the State if he or she is satisfied that –

- a) All reasonable steps have been taken to recover the debt and the debt is irrecoverable, OR
- b) He or she is convinced that-
  - recovery of the debt would be uneconomical;
  - recovery would cause undue hardship to the debtor or his or her dependants;
  - it would be to the advantage of the State to the effect a settlement of its claim or to waive the claim; OR
  - the age-analyses aspect has been satisfactorily and convincingly communicated to him or her in order to make a decision to write-off debt or not.
- (a) Disclosure must be made in the Annual Financial Statements, disclosing which debt was/is written-off and advised by the debt write-off policy.

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## 5.4.2 Conditions for Write-Off:

The Department will consider the write-off of debts only in the following circumstances, additional to the above- mentioned criteria.

- (a) Debts not recovered from a deceased employee, where their estate(s) have been finalized, and recovery of debts from the heirs is not possible;
- (b) Debts owed by debtors that cannot be traced, notwithstanding compliance with the provisions as mentioned in the policy.
- (c) Debts where no source documentation is available to substantiate or prove the claims, provided that the Accounting Officer has satisfied him/herself that all reasonable/material steps have been taken to locate the source documents;
- (d) Debts where the debtors have emigrated without paying the debts, leaving no assets available for execution, and the debtors' whereabouts are not known;
- (e) Debts owed by employees amounting to R3 000.00 or less where the debtors are no longer employed by the State, provided that the provisions in 6.4.1 have been met; and
- (f) Debts owing by any person or institution where the probability of recovery is remote and it is not in the Department's interest to chase after such debt(s), which includes, but is not limited to, circumstances where:
  - The deceased was the breadwinner of a rural family who continued to receive payment of the deceased's salary after his/her death, and who have no means of repaying the debt;
  - Payments were received by persons other than the deceased's immediate family, and the identification of the debtor is not known; and
  - No executor, administrator, liquidator or curator has been appointed.

**Unless affordable arrangements can be made with tracing agents, the costs associated with the tracing of a debtor and subsequent legal costs, could exceed the amount in question to be claimed. It would therefore not be in the Department's best interest to attempt recovery of debts where the prospects of recovery are remote, and where the possibility exists that the costs associated with the recovery may very well exceed the debt.**

## 5.5 Tracing of Debtors:

In the event that a debtor's address is not known, the Department must take all reasonable steps to trace the debtor. A reasonable effort to trace a debtor would include, but is not limited to, the following:

- Utilizing all the information available in Department's files (such as personnel information, housing, leave, salary, etc.) to locate the debtor;
- utilizing the telephone directory for the last town or city in which the debtor live to locate the debtor and/ or his/her relatives; and
- contacting the following institutions or persons in order to locate the debtor:
  - the Department of Home Affairs;
  - the South African Revenue Services;
  - the South African Police Services;
  - national Treasury, through the Pension Administration section; and
  - Colleagues at the debtor's last place of employment.

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The Accounting Officer shall consider all other economically viable avenues for debt recovery, including the use of tracing agents, factoring of debts, recourse against sureties or guarantors, etc.

Should all the above efforts prove to be unsuccessful and the debtor cannot be traced, only then must a submission be made to the Accounting Officer of the Department, or a duly delegated senior officer, requesting the write-off of the debt. The abovementioned submission must detail all steps taken to trace the debtor and must show that it would be uneconomical to take the matter any further.

In terms of treasury regulation 11.2.1, in cases where it is necessary and economical to enforce the recovery debt by means of legal action/steps, and after consultation with the Head: Legal Services of the Department, the services of the State Attorney may be utilized.

The physical address of a debtor must be available when matters involving the recovery of debt are referred to the State Attorney's office for collection/recovery of debt.

## **5.6 Management Reporting:**

- a) Management information must be provided to the Chief Financial Officer on a monthly basis concerning the status of all debtors of the Department.
- b) Any approval granted to write-off debt owed to the Department, in terms of paragraphs 5.5 and 5.6 above, shall be reported to the Accounting Officer on a monthly basis.

## **6. WRITE OFF PROCEDURES**

Write-offs occur when the department removes a non-collectable irreconcilable or unsubstantiated debt from the general ledger and debit the said amount against the appropriate objective/special function programme.

### **6.1 Delegation of authority to write-off debts**

The accounting officer (HOD) holds the authority to write-off debts and this may be delegated in terms of section 44 of the PFMA to another official within the department.

### **6.2 Guidelines for debt write-offs**

The following should be determined before debts are written off:

- Debts are older than three years
- Debts untraceable and it will not be economically viable to employ tracing agents
- Debt could not be traced to supporting documentation
- Debts are legally without merit
- Debts could not be substantiated by evidence
- Cost of recovery actions will exceed anticipated recovery amounts
- The debtor cannot be located it is not possible to collect any substantial amount
- Statutory requirement(s) exists to terminate debt recovery actions
- Recovery would cause undue hardship to the debtor or his or her dependants

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- It is to the advantage of the department to effect settlement of its claim or waive the claim

Write off recommendations are made to the accounting officer when:

- General ledger and/or subsidiary record account balances are insupportable
- The Auditor-General or other auditors/inspectors have identified the need to adjust the records and management agreed with the aforementioned
- To communicate with the provincial treasury to determine the amount (capital) to be written off by them, if not recoverable
- Or the reasons stated apply

## APPROVAL



**HEAD OF DEPARTMENT**