

PROVINCE OF THE EASTERN CAPE



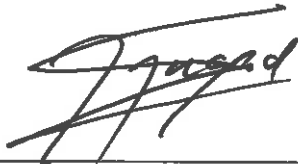
**DEPARTMENT OF RURAL DEVELOPMENT AND
AGRARIAN REFORM**

DEBT MANAGEMENT POLICY

FOREWORD

The policy provide a framework for managing departmental debts and implementing effective processes to recover outstanding debts in a manner as prescribed by the Public Finance Management Act (PFMA) and Treasury Regulations (TR).

All staff members should ensure that they are aware and apply the policy directives. Any breach of the policy directives may result in disciplinary action.



LL NGADA
HEAD OF RURAL DEVELOPMENT AND AGRARIAN REFORM
DATE: 26/03/2018

Table of Contents

FOREWORD.....	1
ACRONYMS.....	3
1. VISION & MISSION	4
1.1. Vision.....	4
2. DEFINITIONS	5
3. SCOPE OF APPLICATION	6
4. LEGISLATIVE FRAMEWORK.....	6
5. OBJECTIVES.....	6
6. SITUATION ANALYSIS.....	6
7. RECOGNITION AND MEASUREMENT.....	7
8. TYPES OF DEBTS	7
8.1. Tax debt	7
8.2. Salary overpayments/ disallowance	7
8.3. State guarantees	7
8.4. Private telephones and cell phone disallowance.....	8
8.5. Study bursary and/or study loans	8
8.6. Inter-departmental claims.....	8
9. MANAGING OF DEBT	9
9.1. General principles.....	9
9.2. Interest on debt.....	9
9.3. Debt recovery.....	10
9.4. DEBT PRESCRIPTION	11
9.5. IRRECOVERABLE DEBT	12
10. BREACH OF POLICY.....	12
11. POLICY REVIEW.....	12
12. MONITORING & EVALUATION	13

ACRONYMS

MEC	Member of the Executive Council
AO	Accounting Officer
CFO	Chief Financial Officer
MTERF	Medium Term Expenditure and Revenue Framework
FS	Financial System
PFMA	Public Finance Management Act
TR	Treasury Regulations
HR	Human Resource
GEPF	Government Employee's Pension Fund

1. VISION & MISSION

1.1. Vision

Vibrant, equitable, sustainable rural communities and food security for all

1.2. Mission

Promote, support and coordinate rural development and agrarian reforms to reduce poverty and under-development through integrated and participatory interventions.

1.3. Value

Innovation: Committed to keep abreast of new developments in relevant fields of expertise and be innovative in carrying out the mandate of the Department

Excellence: We are committed to exceed our customer's expectations for quality, responsiveness, efficiency and service excellence

Bambisanani: Believe that sum of our collective efforts will be greater than the total of our individual efforts

Mutual respect: We value each other's contribution as we seek to realise the vision and goals of the Department.

Honesty and integrity: Commitment to be transparent with all stakeholders

Inclusiveness: *"Bonke abantu esisebenza nabo, siya kusebenzisana nabo ngokufanelekileyo nangokulinganayo"*

2. DEFINITIONS

Debt is an amount owing to the department

Irrecoverable debt is debt that might not be recoverable

A financial asset is:

- (a) Cash;
- (b) A residual interest of another entity; or
- (c) A contractual right to:
 - (i) Receive cash or another financial asset from another entity; or
 - (ii) Exchange financial assets or financial liabilities with another entity under conditions that are favourable to the department.

Examples of financial assets are as follows:

- (a) Cash and cash equivalents
- (b) Receivables
- (c) Accrued departmental revenue

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Financial liability is a liability that is a contractual obligation to,

- (a) Deliver cash or another financial asset to another party; or
- (b) Exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the department.

Contract/Contractual right is an arrangement between two or more parties that have clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.

Transaction cost are incremental costs that are directly attributable to the issue or disposal of receivables. An incremental cost is one that would not have been incurred if the entity has not issued or disposed of the receivables

3. SCOPE OF APPLICATION

This policy is applicable to all departmental employees, debtors and policy implementers.

4. LEGISLATIVE FRAMEWORK

This policy is govern by the following Acts

- 4.1. Division of Revenue Act No. 10 of 2014; as amended annually
- 4.2. Public Finance Management Act, No. 1 of 1999 as amended by Act 29 of 1999;
- 4.3. Treasury Regulations
- 4.4. Modified Cash Standards
- 4.5. Treasury Circulars
- 4.6. Prescription Act no. 68 of 1969
- 4.7. Employees' Pension Law Amendment Act No. 19 of 2011;
- 4.8. Public Service Act, 1994 as amended by Act No. 30 of 2007

5. OBJECTIVES

The objective of this policy is to:

- 5.1. Provide guidelines on what constitute a debt.
- 5.2. To ensure that all debts are recognised and recorded on the accounting system
- 5.3. To ensure that all debts raised comply with the applicable legislation
- 5.4. To ensure that all debts due to the department are recovered timeously
- 5.5. To ensure that debtors are supported by valid documentation

6. SITUATION ANALYSIS

- 6.1.1. Debtors are not recovered timeously
- 6.1.2. Debts due to the department are not acknowledged by the debtors
- 6.1.3. Debts are not identified and recorded timeously on the debtors ledger
- 6.1.4. Outstanding debts are not followed up regularly
- 6.1.5. Debts originating from district offices are not reported and recorded timeously

- 6.1.6. Non-compliance with legislation pertaining to debts and debtors
- 6.1.7. Inter-departmental debts are not recovered for employees that have left the department
- 6.1.8. Non-release of housing state guarantees

7. RECOGNITION AND MEASUREMENT

- 7.1. A debt is only deemed to be due when the department has knowledge of the identity of the debtor and of the facts from which the debt has arisen.
- 7.2. Debtors are measured at its cost plus transaction cost that are directly attributable the debts raised.
- 7.3. All debtors must be recorded on the accounting system of the department
- 7.4. All debtors recognised must be supported by valid documentation
- 7.5. A separate debtor file with all valid documentation must be kept for each debt raised

8. TYPES OF DEBTS

8.1. Tax debt

- (a) Where debts arise from tax recalculations and obligations pertaining to employee's remuneration.

8.2. Salary overpayments

- (a) Where salaries, wages or allowances was erroneously or unintentionally paid to an employee

8.3. State guarantees

- (a) Where the Department has provided a guarantee to its employee who wants to acquire a house, in an event that the employee leaves the public service or his/her house is repossessed before the expiry date of the guarantee, any claim that may arise must be recovered.

8.4. Breach of contract

- (a) Where a department has suffered a loss due to a breach of contract by a service provider or an employee/ legal claims in favour of the department.

- (b) Department has won a legal case against a supplier or an employee who has laid a legal claim against the department.

8.5. Private telephones and cell phone disallowance

- (a) Where an employee has exceeded the monthly cellphone allowance as stated in the cellphone policy applicable to the Department.

8.6. Study bursary and/or study loans

- (a) Where an individual has breached a study bursary agreement entered into with the Department as per bursary policy.
- (b) Where the Department has entered into an agreement with an official by providing a loan for study purposes

8.7. Inter-departmental claims

- (a) Where the Department incurs an expenditure on behalf of an employee that has been transferred to another department
- (b) Where the Department has incurred an expenditure while providing a service on behalf of another department/public entity.

8.8. Thefts and losses.

- (c) Where an employee has lost or stolen an assets of the department.

9. MANAGING OF DEBT

9.1. General principles

- (a) All debts due to the department must be collected timeously
- (b) The Department must take appropriate and effective steps to ensure that all monies due are collected timeously.
- (c) The department must maintain proper accounts and records for all debtors.
- (d) All debtors accounts must be monitored and reported on a monthly basis
- (e) It is the responsibility of each employee of the department to ensure that any debt arising in his/her sphere of work is identified and reported to Debt Management (Financial Accounting Services) for recognition and collection.
- (f) Where debts arise due to negligence of the employee, appropriate disciplinary process must be undertaken.

9.2. Interest on debt

- 9.2.1. The interest rate charged by the Department shall be the prescribed rate as per National Treasury guidelines and/or circular.
- 9.2.2. All debts only start accruing interest after 30 days period. The notice to debtors must state that the interest will accrue after 30 days notification period.
- 9.2.3. All debts resulting from the service rendered between employee and employer relationship shall be recovered without interest
- 9.2.4. An exception shall apply to the following categories of debts, where interest shall be levied:
 - (a) Wrongly granted remuneration, where the person has left the employment of the State
 - (b) Wrongly granted remuneration, where the monetary advantage resulted from his or her own fraudulent actions
 - (c) Loss and/or damage which originates as a result of circumstances where there was an evil intentions or the official has left the employment of the State
 - (d) Breach of contract or delictual claim relating to the contractual relationship
 - (e) All debts resulting from the service rendered between employee and employer relationship shall be recovered without interest

9.2.5. All debts due to the Department by debtors not in the employment of the State are to be recovered with interest, with the exception of the following categories of debts:

(a) Overpayment of amounts to a debtor for social and unemployment benefits

9.3. **Debt recovery**

9.3.1. Prior to the debt being taken-on, a letter of demand must be sent to the debtor. The debtor must respond by either acknowledging or disputing the debt

9.3.2. The initial value of the debt should be equal to the value of the goods or services provided or in the case of a lost/damaged asset the value should be the cost to restore or replace the asset

9.3.3. Where no response is received after a period of 14 days, the letter of demand shall be followed up with a second reminder

9.3.4. Where a response is received the collection process, which specify the terms and conditions, shall be initiated.

9.3.5. Where the debtor is disputing the debt, the appropriate valid documentation must be submitted for the consideration of the Accounting Officer. The Accounting Officer may refer the dispute to Legal Services/ State Attorney for further investigation and recommendation.

9.3.6. The department may enter into a Service Level Agreement with the State Attorney for referral of debts for collection.

9.3.7. Where a debt is due to the Department on the date of retirement, death or discharge of a debtor, the amount must be recovered from the benefits payable by the Department and/or GEPF

9.3.8. The debt due to the Department will be recovered from GEPF, where the following is applicable

(a) The employee was not entitled to the amount paid to him

(b) The employer sustained a loss through theft, fraud, negligence or misconduct caused by the employee

(c) The employer furnished a guarantee in respect on the employee for a loan granted by some other person to the employee

(d) The employee received any salary or allowance which was paid to him/her within two months prior to his/her death or resignation

(e) The employee was on continuous debt obligation exceeding thirty six (36) months

9.3.9. The Accounting Officer may refer matters to the State Attorney, where economical.

9.3.10. The Accounting Officer or delegated official must approve all requests of recovering outstanding debts in instalments exceeding a period of 12 months.

9.3.11. The collection period of debtors must be realistic between twelve (12) and thirty-six (36) period taking into account the financial position of the debtor.

Debts amount(s)	Number(s) of instalments recovery
R0 - R500.00	Once off
R501.00 - R1,000.00	Two instalments
R1,001.00 - R3,000.00	Four instalments
R3,001.00 - R8,000.00	Six instalments
R8,001.00 and above	Twelve instalments

9.4. DEBT PRESCRIPTION

9.4.1. Debts prescribes after a certain period. The period of prescription varies depending on the type of debt

(a) Thirty (30) years - judgement debts, debts secured by a mortgage bond, taxation debts or levies imposed by law

(b) Fifteen (15) years - debts owed to the state and arising out of an advance

(c) Six (6) years – debts arising from bill of exchange or negotiable instrument

(d) Three(3) years – any other debt except where an Act of Parliament provides otherwise

9.5. IRRECOVERABLE DEBT

9.5.1. Debts may be considered irrecoverable when one or more of the following indicators are indicated

- (a) The debtor has no assets or income
- (b) The Department made all reasonable efforts to trace and inform the debtor of the outstanding debt without success
- (c) The amount received from an insolvent estate did not cover the debt or interest
- (d) The department determines that it would be uneconomical to recover the debt; and
- (e) The department determines that assets of debtors estate are of little value and cannot be used to recover the debt

9.5.2. Where the debt is irrecoverable;

- (a) A written approval must be obtained from the Accounting Officer authorising the write-off of debts
- (b) The submission to the Accounting Officer should confirm that the debt management policy was followed and applied. All reasonable steps were followed.
- (c) The details of valid reasons and supporting documentation for the write-off must be provided
- (d) The interest charged on the debt must continue to accumulate until the write-off is approved

10. BREACH OF POLICY

10.1. Failure to comply with this policy will result in disciplinary action including recovery of any loss of the Department from the implicated employee.

11. POLICY REVIEW

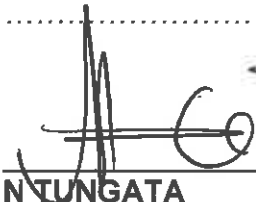
The Department will review the policy after three years from approval date or when a need arises resulting from service delivery requirements.

12. MONITORING & EVALUATION

- 12.1. The Department will monitor and evaluate the implementation of this policy on a monthly basis
- 12.2. The Department will prepare monthly reporting for submission to the Accounting Officer.

RECOMMENDED/ NOT RECOMMENDED

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N. TUNGATA
CHIEF FINANCIAL OFFICER
DATE: 26/03/2018

Approved / ~~Not Approved~~

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L. NGADA
HEAD: RURAL DEVELOPMENT AND AGRARIAN REFORM
DATE: 26/03/2018