





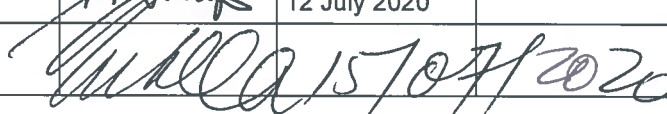
public works  
& infrastructure

Department:  
Public Works and Infrastructure  
REPUBLIC OF SOUTH AFRICA

# Route Form

TO: DIRECTOR GENERAL

SUBJECT: REVENUE AND RECEIVABLES POLICY

RANK	INITIALS AND SURNAME	SIGNATURE	DATE REFERRED	DATE RETURNED
Acting Chief Director: Revenue and Debt Management	Ms S Ngamlana		10/06/2020	
Acting Chief Director: Financial Accounting and Reporting	Mr L Toona	Signed electronically	09 July 2020	
Chief Financial Officer	Mr M Sithole		12 July 2020	
Director General	Adv S Vukela			



public works  
& infrastructure

Department:  
Public Works and Infrastructure  
**REPUBLIC OF SOUTH AFRICA**

## PROPERTY MANAGEMENT TRADING ENTITY

### REVENUE AND RECEIVABLES POLICY

Compiled by:	Ms Sipokazi Ngamlana
Designation:	Acting CD: Revenue and Debt Management
Signature:	
Date:	10 June 2020

Supported by:	Mr Lesetja Toona
Designation:	Acting CD: Financial Accounting and Reporting
Signature:	<i>Signed electronically</i>
Date:	09 July 2020

Supported by:	Mr Mandla Sithole
Designation:	Chief Financial Officer
Signature:	
Date:	12 July 2020

Approved by:	Adv Sam Vukela
Designation:	Director General
Signature:	
Date:	15/07/2020

Effective date:	1 April 2019
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# Revenue and Receivables

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# Revenue and Receivables

## 1. Purpose and objectives

1.1. The purpose of this policy is to:-

- 1.1.1. Define and provide for a policy and establish guidelines for the management of receivables in line with sections 38, 76 and 80 of the Public Finance Management Act, No 1 of 1999 (as amended) (PFMA) and chapter 11 of Treasury Regulations which are aimed at ensuring effective accountability and promoting good financial management practices;
- 1.1.2. Provide proper management controls that will ensure effective, efficient, economical and transparent revenue and debt collection;
- 1.1.3. Define principles designed to assist with the recognition and measurement of revenue and receivables in accordance with Standards of GRAP.

## 2. Scope

- 2.1. This policy document covers transactions relating to Revenue and Receivables management.
- 2.2. The policy applies to all divisions and functions within the PMTE, including all PMTE staff members in Head Office and Regions.
- 2.3. This policy supersedes all previous policies which were applicable to Revenue and Receivables management.

## 3. Definitions

- 3.1. The definitions outline the basic concepts and their meanings in terms of the policy document.
  - a) **Arrears** refer to any amount past due date for services rendered or otherwise.
  - b) **A financial asset** is cash; a residual interest of another entity; or 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 potentially favourable to the PMTE.
  - c) **Bad debts** refer to irrecoverable debts (amounts which cannot be recovered) or write-offs (irrecoverable amounts written off) from client departments.
  - d) **Claims Recoverable** comprise of amount due to the state as a result of the sales of goods or services or provision of services or recovery of expenditure incurred by the State.
  - e) **Conditions** on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
  - f) **Control of an asset** arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.
  - g) **Client departments** refer to any organ of state that does business with the PMTE, including Chapter 9 institutions.

## Revenue and Receivables

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- h) **Debt** refers to amount owing to the PMTE in respect of services rendered or amounts recoverable by the PMTE.
- i) **Debtor** refers to an entity or client department or individual owing money to the PMTE.
- j) **Default** refers to failure to pay debt on the due date.
- k) **Deposit** is an amount of money specified by the PMTE and payable by the tenant prior to occupation of the property
- l) **Devolution** refers to transfer of budget initially budgeted for in one department to another.
- m) **Discounting** is the process to determine fair value at initial recognition of a receivable taking into account the time value of money.
- n) **Disputes** refers to a disagreement between the client department and the PMTE on amount invoiced and or services rendered.
- o) **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
- p) **Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value is the transaction price unless circumstances exist that indicates that the transaction price is not indicative of the price that would be charged to other client department in the same circumstances.
- q) **Impairment of receivables** refers to the difference between the carrying amount of receivable less the present value of the expected future cash flow.
- r) **Interest** or interest revenue refers to interest charged on all arrear amounts due to the PMTE at the rate specified in the applicable legislative prescript from time to time.
- s) **In Mora** is a latin used in Roman law. It means 'in delay or in default'. A person is said to be in mora, when s/he defaults payment of debt due. Such a debtor is liable to suffer the consequences that may incur from debtor's delay. For example the loss caused to the creditor due to the delay.
- t) **In Duplum Rule** is from a latin word duplo, meaning double. It is a common law that provides that arrear interest ceases to accrue once the sum of the unpaid (accrued) interest equals the amount capital outstanding at the time. "*In duplum*" directly relates to "double the amount".
- u) **Lease agreement** refers to a written agreement between PMTE and the tenant through which the one party (lessor) conveys the right of use of an asset to the lessee (tenant).
- v) **Management fee** refers to revenue earned as a result of accounts paid for on behalf of client departments.
- w) **Market related rental** refers to amounts usually charged for the premises let out by the PMTE, and which is not strikingly disproportionate to the usual rental charged by the Lessors for the property in question.
- x) **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- y) **Official** refers to an employee within the PMTE.
- z) **Private lease** refers to accommodation that has been leased from private sector on behalf of client departments



## Revenue and Receivables

- aa) **Receivables** refer to amounts due to the PMTE as a result of services delivered to a client department or any claim the PMTE may have against the Department or any third party. Receivables have fixed or determinable repayment periods based on contractual or statutory arrangement between the PMTE and third parties. If there is still a condition to be met in order for the amount to become due to the PMTE, for example proof of non-performance, a receivable does not exist. Contractual receivables are classified as financial assets at amortised cost. Receivables that do not meet the definition of financial assets are classified as Statutory and other receivables.
- bb) **Recoverable Projects** refers to projects whereby the department of Public Works does not take custody of the budget and the budget was specially funded and resides within the client department and DPW manages the construction on a consultative basis
- cc) **Rental debtors** refer to all tenants who owe the PMTE rental for occupying and/or use of state owned property.
- dd) **Rental due date** refers to the date stipulated in the lease agreement as the date on which the amount owing is to be paid.
- ee) **Restrictions** on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.
- ff) **Revenue** refers to the gross inflow of economic benefits or service benefits during the period arising in the course of the ordinary activities of the PMTE when those inflows result in increases in net assets.
- gg) **Stipulations** on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.
- hh) **Services-in-kind** are services provided by individuals to entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognised to reflect the consumption of these services in-kind. For example, the PMTE receives internal audit services from the Department of Public Works.
- ii) **Standards of GRAP** refers to the directives, standards and interpretations issued by the Accounting Standards Board of South Africa that is applicable to the PMTE.
- jj) **State owned property** refers to state immovable property owned and/or under the custodianship of the PMTE.
- kk) **Tenant** refers to any department or government entity that occupies any immovable property or part thereof belonging to the PMTE
- ll) **Transfers** are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

## 4. Legislative framework

- 4.1. This document was developed in response to the legislative requirements of the PFMA section 38(1) (c) (i) and (d) read with Treasury Regulations, which states that the accounting officer:
  - 4.1.1. must take effective and appropriate steps to collect all money due to the department, trading entity or constitutional institution;

## Revenue and Receivables

- 4.1.2. is responsible for management, including the safeguarding and the maintenance of the assets, and for the management of the liabilities, of the department, trading entity or constitutional institution; and
- 4.1.3. Must deposit and account for all receipts, including monies not classified as revenue.
- 4.2. The Prescription Act No 68 of 1969 as amended
- 4.3. The Basic Conditions of Employment Act, Act 75 of 1997

## 5. Background

### 5.1. Main sources of revenue

- 5.1.1. The primary responsibility of the PMTE is to deliver accommodation services to client departments and maintain the immovable assets of National Government.
- 5.1.2. Government has stock of state owned properties which are leased to client departments for accommodation purposes.
- 5.1.3. Where government does not have suitable accommodation in stock, the PMTE leases in private property which they in turn let out to the client department.
- 5.1.4. To enable the PMTE to deliver on its mandate, the PMTE receives revenue from various sources:
  - a) An accommodation fee from client departments;
  - b) A 5% management fee on municipal service accounts paid for on behalf of client departments and entities; and
  - c) A 5% management fee is charged on private leases where the client is an entity not a department;
  - d) A transfer payment (annual appropriation) from the Department of Public Works to further meet its obligations.
- 5.1.5. The accommodation fee currently comprises of:
  - a) **Leased-in/Private accommodation charges** - the rental charge of the leased property payable to the Lessor as per the lease contract where the property is leased in from the private sector. The charge is a direct recovery of expense where the client is an entity the PMTE charges 5% management fee
  - b) **State Owned accommodation charges** – is the amount recovered from client departments for occupying state owned accommodation and an annual escalation determined by National Treasury for the purpose of accommodation.
- 5.1.6. Rental Income
  - a) This revenue source comprises of a market related fee charged where state owned property is leased out to the private sector.



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### 5.2. Other revenue

5.2.1. The PMTE may receive other revenues as a consequence of its activities. These include:

- a) Interest revenue earned on outstanding balances;
- b) Revenue from the sale of assets; and
- c) Revenue from incidental services delivered; e.g. sale of tender documents.

### 5.3. Services-in-kind

5.3.1. The PMTE may receive services-in-kind from third parties. These amounts are revenue to the extent that they can be measured reliably and result from a transaction or specific arrangement between the PMTE and the third party.

### 5.4. Recoveries and other receipts

5.4.1. The PMTE may receive monies for expenses paid for on behalf of client departments and other third parties. These amounts are not revenue. Where an expense has been paid for on behalf of another party, the receipt will be a deduction of expense.

### 5.5. Staff Debtors and other Debtors

5.5.1. Debts incurred by officials who are still in the employ of the Department and could arise from:

- a) Breach of Contract / Bursaries: Arises when an employee has not complied with the conditions of the bursary contract and the contract is withdrawn by the Department.
- b) State Guarantee debt: The employee defaults on the payment of his/her house and the Department must honour its obligation at the relevant financial institution
- c) Cell phone / Private telephone debt: These are unofficial calls made by the employee and must be repaid to the Department.
- d) Salary overpayment: This could arise from various sources, such as, an allowance or performance bonus that was incorrectly paid to an employee.
- e) Subsistence and Travel allowance: This type of debt normally arises when an employee takes subsistence and travel allowance and upon return to the office omits to submit the relevant claims to offset the allowance.

This list is not exhaustive.

5.5.2. Debts incurred by persons who are not in the employ of the department or by entities including other state Departments and could include:

- a) Breach of Contract / Bursaries: Arises when an employee resigns / retires / transfers from the Department and has not completed their studies.
- b) Former employees: These are employees that resign / retire / are transferred / or are deceased resulting in salary related debt (for example, salary overpayment, leave without pay, telephone debt, etc).
- c) Supplier overpayment: An error where a supplier or service provider has been overpaid.

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- d) Defaulting contractors: This would occur when a contractor defaults on the conditions of the contract, thus the contract has not been completed.
- e) Rental Debtors: Private individuals who rent a dwelling or state owned property from the Department.
- f) Claims recoverable (Damages and Losses): Relates to costs resulting from damages to the department's property other than damages by natural causes but rather from accidental or negligent damages.
- g) Prestige Debtors: Relates to monthly rental received from occupants of housing as provided by the department to Ministers and Members of Parliament.

This list is not exhaustive.

### 6. Policy statement

#### 6.1. Billing

- 6.1.1. All clients' details shall be recorded in the business system. The business system shall be maintained and updated on a regular basis to ensure accuracy of information.
- 6.1.2. Sequentially numbered invoices must be generated for all transactions when the PMTE becomes entitled to revenue for all services rendered.
- 6.1.3. The provision of services shall be charged out to the clients at the agreed rates governed by the service level agreement with the client.
- 6.1.4. Where no service level agreement is in place, the billing is done according to the principles outlined in paragraph 5 above.
- 6.1.5. In terms of section 80(1)(a) and 80(1)(b) of the Public Finance Management Act, 1999 the PMTE will levy interest on overdue accounts at the prescribed interest rate, as published in the government gazette by the Minister of Finance from time to time.

#### 6.2. Revenue

- 6.2.1. The PMTE shall recognise revenue only to the extent the amounts can be measured reliably.
- 6.2.2. The PMTE shall recognise lease revenue, in accordance with the Standard of GRAP on *Leases* (GRAP 13), as follows:
  - a) Operating leases: on a straight line bases.
- 6.2.3. The PMTE shall recognise other revenue from exchange transactions, in accordance with the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9), as follows:
  - a) Rendering of services: stage of completion method (based on cost incurred);
  - b) Sale of goods: significant risks and rewards and control of the asset has been transferred;
  - c) Interest: effective interest method;

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- d) If applicable, Royalties: per the rights in the agreement;
- e) Other exchange revenue: when the right to receive the distribution has been established

6.2.4. The PMTE shall recognise revenue from non-exchange transactions when it received an asset and it controls that asset and no conditions exist that necessitates the recognition of a liability in accordance with the Standard of GRAP on *Revenue from Non-Exchange Transactions* (GRAP 23).

### 6.3. Receipts

6.3.1. All cash payments and/or monies received shall be deposited daily into the designated PMTE bank account(s) and allocated in accordance with the Bank and Cash Management Policy.

6.3.2. Any payments received from debtors are allocated to the debtor on the date of receipt to derecognise the receivable amounts.

### 6.4. Unallocated deposits

6.4.1. Unallocated deposits shall be classified as a liability until it is can be allocated.

6.4.2. Unallocated deposits must be followed-up and reconciled monthly by PMG with the assistance of Revenue and Debt Management.

6.4.3. Where unallocated deposits cannot be cleared within three (3) years from the date of deposit, or longer period as may be applicable in terms of the Prescription Act (Act No. 68 of 1969), the amount received shall be recognised as revenue, unless the reason for not clearing the account has been as a result of negligence. Negligence may arise due to the officials not acting on communication received from the relevant depositor.

### 6.5. Recoveries

6.5.1. To the extent that the PMTE will recover monies for expenses incurred on behalf of third parties, the PMTE shall recognise a receivable for those expenses incurred.

6.5.2. Where an expense has been recognised in prior periods, as the recoverability was uncertain at the time when the expense was incurred, the PMTE shall recognise the receivable and the revenue in the period when the amount becomes recoverable.

### 6.6. Receivables

6.6.1. The PMTE recognise receivables only when amounts are due to it and it can control the related asset (receivable) either by becoming party to the contract of a financial asset or through statutory arrangements.

6.6.2. The annual transfers to the PMTE and accommodation charges on all state owned property are due annually and paid quarterly. Accommodation charges due on rental property are in accordance with the agreement with the lessor.

6.6.3. All outstanding debts shall be payable by the customer within 30 days from the date of invoice except where an agreement between the client and the entity states otherwise. In such cases, the terms of the agreement will prevail.

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- 6.6.4. All receivables are classified as short-term (less than one year), unless the agreement with the third party predicts otherwise. The actual period that debt is outstanding does not determine the classification between current and non-current receivables.

### 6.7. Initial measurement of receivables

- 6.7.1. Receivables are initially measured at the transaction price unless there is an indication that the transaction was provided at terms that were longer than 30 days for all receivables.
- 6.7.2. In terms of section 80(1)(a) and 80(1)(b) of the Public Finance Management Act, 1999 the PMTE will levy interest on the outstanding debt owed by the User Department at the prescribed standard interest rate, as published in the government gazette by the Minister of Finance from time to time.
- 6.7.3. Receivables are not discounted where the initial credit period granted or received is 30 days for all debt and the approved interest rate applicable to debt owed to the state is charged on the outstanding receivable.
- 6.7.4. Where no interest is charged on receivables exceeding these terms or the interest is below the approved interest rate applicable to debt owed to the state, the initial receivable is discounted for the period between the date the receivable originated and the due date for payment. This is done to separate the interest revenue and the accommodation charge.
- 6.7.5. Where the PMTE is unable to determine the interest free period granted to the receivables mentioned above for initial measurement purposes, the transaction price is assumed to be the fair value.
- 6.7.6. Receivables are discounted at the approved interest rate applicable to debt owed to the state that is effective in the period in which the transaction originated.

### 6.8. Measuring receivables at amortised cost

- 6.8.1. Subsequent to initial recognition, receivables are measured at amortised cost less impairment; i.e. interest due is added to the debt in accordance with the effective interest rate method.

### 6.9. Impairment of receivables

- 6.9.1. The PMTE assesses the receivables when doing Financial Statements whether there is objective evidence that exists as a result of one or more events (a loss event), that occurred after the initial recognition, that impacts on the recoverability of the amounts due and calculates an impairment loss based on future expected cash flows.
- 6.9.2. Events that may trigger an impairment loss include:
- significant financial difficulty of debtor;
  - a breach of contract or default in payments including overdue amounts;
  - amounts not recognised as debt by client departments and an inability by clients to secure funds to settle the monies due;
  - Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial



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recognition of those assets, although the decrease cannot yet be identified with the individual debtor in the group. E.g. an increased number of delayed payments.

- 6.9.3. The PMTE uses the initial discount rate as determined by the Minister of Finance in terms of 80 of the PFMA, is used to calculate the present value of expected cash flows and subtract that from the carrying amount of the receivable to calculate the impairment loss.
- 6.9.4. Individual significant debtors are identified as debtors with an outstanding balance of more than 5% of the total debtors balance for private leases, municipal services, State owned, CA and PACE this category of debtors (excluding debtors with credit balance). As a result of engagement with clients the PMTE is able to determine a more accurate expected cash flow for individually significant debtors.
- 6.9.5. The current year balance and the recovery rate for previous financial year is considered for the determination of the expected payment for the current year as part of calculation of present value of expected cash flows.
- 6.9.6. The average payment days for previous financial year is considered for the determination of date of the expected future payment as part of calculation of present value of expected cash flows.
- 6.9.7. Significant and non-significant clients are assessed separately for impairment on receivables.
- 6.9.8. If any amount is outstanding for longer than 30 days, then it is considered an indication that impairment might exist on the basis of breach of payment terms. We inspect the previous payment history of the client to identify long outstanding invoices (Invoices past due).
- 6.9.9. Future events are not considered e.g. the debtor will become insolvent or will possibly die in the future irrespective of likelihood.
- 6.9.10. Debt older than 12 months is usually deemed to be impaired unless confirmation exist from clients that the amount will be paid or subsequent receipts specifically relates to debt in this category. Where a specific allocation could not be made for client confirmations, allocation was first made to current debt (less than 12 months) and then to debt older than 12 months. This is because it is assumed that the budget will not be available to pay the debt owed to PMTE since the budget year has expired or if the client surrendered the budget to National Treasury.
- 6.9.11. Once a debt or a group of debtors has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
- 6.9.12. The PMTE derecognise receivables only when the contractual rights to the cash flows from the financial asset expire, are settled or waived; or significant risk and rewards has been transferred; or control over the receivable has been transferred.

### 6.10. Write-offs and waiving of debt

- 6.10.1. The Accounting Officer may approve the write-off or waiving of outstanding amounts subject to the finance delegations.



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- 6.10.2. Debt shall only be written-off if satisfactory reasons have been provided after evaluation on an individual case basis and:
- a) all reasonable steps (the debt management process as stipulated in detailed procedures has been exhausted) have been taken to recover the debt and the debt is irrecoverable;
  - b) recovery of the debt would be uneconomical;
  - c) it would be to the advantage of the State to effect a settlement of its claim or to waive the claim; and
  - d) all other means were explored i.e The National Treasury to fund departmental debt; or
  - e) that the debt has prescribed (i.e. past the legal period during which it can be claimed and collected).

### 6.11. Correction of errors

- 6.11.1. Adjustment for incorrect invoicing shall be authorised in accordance with the relevant delegation and must be supported with adequate reasons and source document to justify the adjustments.
- 6.11.2. In instances where a client was incorrectly invoiced, amounts were allocated to the incorrect period, etc. a valid, properly authorised credit note shall be issued.
- 6.11.3. Retrospective adjustments to sub-ledger accounts shall be effected as far as practically possible.
- 6.11.4. Adjustments to the receivables carrying amount per the statement of financial position, will only be corrected retrospectively, in the prior year, if the total error(s) are material.
- 6.11.5. Refer to materiality framework

### 6.12. Reconciliations and client balance confirmations

- 6.12.1. Account reconciliations which compare general ledger balance and the sub-ledger should be prepared monthly. Where there are reconciling items and/or errors, adjustments shall be made to clear them from the reconciliation in a timely manner.
- 6.12.2. PMTE shall obtain client confirmations annually to ensure agreement on statements.
- 6.12.3. Differences between PMTE records and client department records will be identified and resolved with the client.
- 6.12.4. All disputes will be clearly documented giving details of each disagreement.
- 6.12.5. Disputes must be considered when impairment is considered.

### 6.13. Client queries

- 6.13.1. All client queries shall be recorded and acknowledged within 2 working days.
- 6.13.2. Progress on client queries must be recorded and reported on at the scheduled management meeting.

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### 6.14. Ageing of accounts receivables

- 6.14.1. Accounts receivable records shall be maintained in a manner that provides the ageing of the outstanding amounts per category of debtor.
- 6.14.2. The ageing of receivables shall be used as a basis for assessing recoverability of debt. For client departments, a period of one year shall be considered for impairment. For other types of debtors, a period exceeding 120 days is considered to be long outstanding.

### 6.15. Classification and Disclosure

- 6.15.1. The PMTE shall distinguish between revenue and receivables from exchange and non-exchange transaction for financial statement disclosure purposes and shall classify revenue and receivables into their major classes.
- 6.15.2. Receivables that meet the definition of financial instruments per the Standard of GRAP on *Financial Instruments (GRAP 104)* shall be identified and disclosed separately in a note on Financial Instruments.

## 7. Guidelines on Revenue and Receivables Policies

### 7.1. Invoices

- 7.1.1. Invoices shall be issued in numerical order and shall reflect the following details:
  - a) The name of the Department;
  - b) The name of the client;
  - c) The invoice number;
  - d) The date of the invoice;
  - e) Details of transactions and the period for which services were rendered and amounts per transaction; and
  - f) The total amount due;

### 7.2. Debtors statements

- 7.2.1. Debtors' statements shall reflect the following details:
  - a) The period of the statement;
  - b) Opening balance for the period;
  - c) Invoices issued during the period;
  - d) Interest charged during the period;
  - e) Payments received during the period;
  - f) Credit notes issued;
  - g) Closing balance for the period.

### 7.3. Payments from debtors

## Revenue and Receivables

- 7.3.1. Each payment received should be allocated to specific invoices for the purpose of a correct debtors ageing.
- 7.3.2. Finance must be notified when monies were received pertaining to prior years but the debt has not been recognised previously. Finance needs to consider whether the correction of this debt is a material adjustment and whether the financial statements needs to be restated relating to the error.
- 7.3.3. Debtors with credit balances, including advances, should be presented separately as a liability in the financial statements.

### 7.4. Recovery of Expenses

- 7.4.1. Where PMTE pays expenses on behalf of client departments the following illustrative entries shall be effected:

Dr Suspense e.g. municipal services account	100
Cr Bank	100

- 7.4.2. At the same time, the PMTE shall recognise the receivable and clear the suspense:

Dr Receivable (per debtor)	100
Cr Suspense e.g. municipal services account	100

- 7.4.3. If an agency fee (e.g. commission at 5%) is charged, the PMTE recognise the related revenue:

Dr Receivable (per debtor)	5
Cr Revenue e.g. commission	5

- 7.4.4. When PMTE receives the payment from the client department, the following journal is processed:

Dr Bank	105
Cr Receivable (per debtor)	105

- 7.4.5. Payment received from client department for municipal services charges recoveries).

### 7.5. Accommodation charges

- 7.5.1. When rental is due for accommodation charges, the amounts due shall be recorded in a leased asset account. Revenue is recognised from the leased asset account. The illustrative journal entries is as follows:

Dr Receivable (per debtor)	60
Cr Lease liability (Deferred Income)	60

Initial recognition of first quarter invoice

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- 7.5.2. The amount to be recognised as revenue (e.g. R20 pm) shall be allocated monthly from the leased asset (deferred income) to the revenue account (see policy on leases). The illustrative journal entries is as follows:

Dr Lease asset	20	
		Cr Accommodation charges (lease revenue) 20

Recognition of accommodation charge (lease revenue) for first month

Dr Lease asset	20	
		Cr Accommodation charges (lease revenue) 20

Recognition accommodation charge (lease revenue) for second month

Dr Lease asset	20	
		Cr Accommodation charges (lease revenue) 20

Recognition of accommodation charge (lease revenue) for third month. The balance on the leased asset (deferred income) account will now be zero.

- 7.5.3. During the fourth month the second quarter invoice will be issued to clients in advance. The journal entries detailed above in 7.x.x will also be applicable for the second, third and fourth quarter invoices issued in advance.

- 7.5.4. All receipts shall be recorded against the actual debtor:

Dr Bank	60	
		Cr Receivable (per debtor) 60

### 7.6. Cash sales

- 7.6.1. When cash is collected on ad hoc sales or services, with no credit terms, the sale will result in a direct increase in revenue, e.g. sales of tender documents. The illustrative journal entries is as follows:

Dr Bank or Petty cash	100	
		Cr Revenue e.g. Sales of tender documents 100

### 7.7. Accounting for impairment losses and reversing of impairment

- 7.7.1. Provision for impairment losses shall be made against a provision account (per class of debtor). For disclosure purposes, the carrying amount of receivable is disclosed net off the provision. The illustrative journal entries is as follows:

Dr Impairment loss	100	
		Cr Provision for Impairment 100

- 7.7.2. When an actual write-off is made, it shall be made against the actual provision. The illustrative journal entries is as follows:

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Dr Provision for impairment	100
Cr Receivable	100

- 7.7.3. This is done irrespective of whether a provision was made previously
- 7.7.4. Where the provision was inadequate; an additional provision is recognised in the statement of financial performance to adjust the amount not provided for previously. The director of finance shall document the reasons for not previously recognising the impairment and assess the impact of the adjustment for prior periods.
- 7.7.5. An impairment loss shall only be reversed when an increase in the trade receivables amount can be related objectively to an event occurring after the impairment was recognised.
- 7.7.6. Any reversal of impairment shall not result in a higher value of the receivable if an impairment has not been recognised on the receivable.
- 7.7.7. Reversals of impairment losses shall be recognised as revenue from exchange transactions in the statement financial performance.

### 7.8. Interest on debt

- 7.8.1 Sec 80 of the PFMA states that the Minister of Finance must determine uniform interest rates applicable to all other debts (excluding loans granted out of Revenue Fund) which must be paid into the revenue fund. (Annexure D)
- 7.8.2 Debts to the State resulting from the service relationship between public servants and the State shall be recovered without interest, with the exception of the following categories of debt, which shall be levied with interest at a rate as determined by the Minister of Finance in terms of section 80(1)(b) of the Public Finance Management Act of 1999:
  - a) Wrongly granted remuneration, as defined in Section 38 of the Public Service Act, 1994 where the person concerned has left the employ of the State, or where the monetary advantage resulted from his or her own fraudulent action; or
  - b) Loss and/or damage which originates as a result of circumstances where *mala fides* (evil intention) or the intentional causing of losses or damage were present, or where the person concerned has left the employ of the State; or
  - c) Breach of contract or any dereliction claim relating to the contractual relation.
- 7.8.3 Debts to the State by debtors who are not in the employ of the State are to be recovered with interest at a rate as determined by the Minister in terms of Section 80(1)(b) of the Public Finance Management Act of 1999, with the exception of the following categories of debt, which are to be recovered without interest:
  - a) for Overpayments of amounts paid to a debtor social and unemployment benefits.



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- 7.8.4 Interest is calculated on the decreasing capital amount of the debt and may not be capitalised, nor may it exceed the original capital amount (in accordance "in duplum" principle, Annexure E)
- 7.8.5 Irrespective whether legal action has been initiated, interest stops accruing as soon as the interest equals the amount of capital debt. Once a portion of the interest is paid, the interest accrues again until it equals the amount of the capital. The full amount of the interest will only accrue until it equals the amount of the then outstanding capital debt.
- 7.8.6 All receipts of monies from a debtor will first be applied to the interest portion of the outstanding balance. Any amount remaining thereafter will be applied to the capital portion of the outstanding debt.

### 7.9. Settlement of intergovernmental disputes

- 7.9.1 In terms of section 41 of the Intergovernmental Relations Framework Act of 2005, the User Department may dispute certain transactions or amounts that have been charged to them.
- 7.9.2 The Chief Financial Officers (CFOs) of both parties must identify and delegate in writing officials that must handle disputes. Delegated officials must have authority to make decisions.
- 7.9.3 The disputing party must communicate the dispute(s) formally in writing within 7 days from receipt of the invoice or proof of payment or any information triggering the dispute.
- 7.9.4 The dispute(s) must be communicated by the delegated authority. The disputes must be consolidated and must include all unresolved disputes. All disputes must be communicated in line with this agreement.
- 7.9.5 The delegated officials must in good faith, make every reasonable effort to settle the dispute, including the initiation of direct negotiations with the other party. In the event that the dispute is resolved, a confirmation certificate with terms of settlement must be signed by both officials with clear timelines.
- 7.9.6 In the event that the delegated officials are unable to resolve the dispute within 14 days of the dispute having been raised or delegated officials have not resolved the matter, CFOs must communicate in writing or meet within 30 days to resolve the dispute.
- 7.9.7 CFOs must ensure the dispute is resolved within 30 days to avoid unnecessary waste of state resources and involvement of the Accounting Officers/Head.
- 7.9.10 In the event that the CFOs are unable to resolve the dispute within a reasonable time, or there are unreasonable delays and there is lack of commitment to settle the dispute, the matter must be escalated to Accounting Officers/Head in writing within 30 days after the CFOs have failed to resolve the matter.

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- 7.9.11 In the event that the Accounting Officers/Head are unable to resolve the dispute, the other party reserves the right to stop the service (concerning the specific dispute) until such time that the parties resolve the dispute and agree on the terms of settlement.
- 7.9.12 The aggrieved party must communicate in writing the notice to stop the service 14 days and request the other party to respond in writing within fourteen (14) days from date of notice given / or refer the matter to the Minister to engage the other Minister for arbitration.
- 7.9.13 Should the User Department fail to settle the disputed amount(s) or fail to respond in writing to the aggrieved party within fourteen (14) days from date of notice given, or the response received does not express willingness from the User Department to resolve the dispute, the aggrieved party shall be entitled to stop the service.
- 7.9.14 If 7.9.12 and 7.9.13 do not yield results, alternate processes will be considered by the aggrieved party in terms of utilising the Intergovernmental Relations Framework Act to resolve the dispute/stalemate.
- 7.9.15 No party may terminate the service without prior notification of the other party. There will be no disruption of services by either party pending the resolution of the matter.
- 7.9.16 The User Department will continue to pay for all the services until the resolution of the dispute.
- 7.9.17 Should User departments fail to adhere to clause 7.9.16 above, the PMTE will have no alternative but to stop the service and charge interest on all outstanding claims until the dispute is resolved. If the dispute is finally resolved in favour of the User Department, interest charged in relation to the disputed invoice will be reversed.

### **7.10. Recovery of debts (Staff Debtors)**

- 7.10.1 The originating office cannot enter into negotiation or agreement with the debtor in terms of recovery of debts by means of instalment payment. All requests from the debtors to settle accounts by means of instalments must be referred to delegated officials.
- 7.10.2 Where recovery of debts by instalments for periods longer than six months is requested, the debtor's financial position shall be duly taken into consideration. Where a debtors is not an organ of state, a sworn income and expenditure statement with supporting documents must be submitted as proof of the debtor's financial position. Instalments exceeding six months must be authorized in accordance to the financial delegations.
- 7.10.3 The Department reserves the right to review the repayment period at the Department's discretion, when the need arises.

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- 7.10.4 The monthly instalment must be more than the monthly interest accrual, unless otherwise directed by the relevant official in accordance to the financial delegations or in consultation with Legal Services or the State Attorney according to each individual debt case.
- 7.10.5 Debt may be deducted from any monies (salary, benefits, allowances, leave gratuity, payment for services, etc.) owed to the debtor by the Department with the debtor's written consent to deduct the outstanding debt amount.
- 7.10.6 In the case where the debtor is deceased, Conditions of Service (HR) must file a claim against the Estate of the Deceased.
- 7.10.7 In the case of bursary debt, the debtors' consent is not required to recover the outstanding debt except directly from the debtors' salary, as this recovery is covered in the bursary contract. The circumstances which result in the obligation to repay are detailed in the Bursary Contract clauses 8, 10 and 11 and these include resignation and withdrawal of the bursary contract. Interest should be charged according to clause 9 of the Bursary Contract.
- 7.10.8 Deductions from pension benefits cannot be effected unless made in terms of the Government Employees Pension Law, Sections 21(3) (a) and (c) as well as Section 33 of the Constitution and Section 3 of the Promotion of Administrative Justice Act, 2000. (Annexure F)
- 7.10.9 Where a debt is realized due to an overpayment to a supplier, the debt will be recovered from any monies owed to that supplier.
- 7.10.10 Where the overpayment was a result of negligence on the part of the Department, and the amount outstanding cannot be recovered within the stipulated period, the debtor's financial position shall be duly taken into account. A certified income and expenditure statement must be submitted with supporting documentation.
- 7.10.11 Where a debt was taken on by error or where there are compelling reasons for a debt to be cancelled or nullified by any other means except recovery of money or write-off, the originating office must request approval in the form of a formal submission, substantiated by verifiable documents. Head Office submissions must be directed to delegated officials for approval.
- 7.10.12 Defaulting debtors, other than organ of state are to be referred to debt collectors (where cost effective) or handed over for legal action to be instituted against them.
- 7.10.13 Defaulting debtors, other than organ of state will be listed with credit bureau after all the attempts to recover outstanding debts have failed. Finance must obtain Legal opinion before the debtor is listed. The listing of defaulting debtors is applicable to both internal and external debtors.
- 7.10.14 Losses or damages suffered by an institution because of an act committed or omitted by an official, must be recovered from such an official if that official is liable in law. The accounting officer must determine the amount of the loss or damage and, in writing, request that official to pay the amount within 30 days or in reasonable instalments. If the official fails to comply with the request, the matter must be handed to the State Attorney for the recovery of the loss or damage.

### 7.11. Internal debtors

- 7.11.1 Telephone debts below R200 – these debts should be forwarded to the Salary section to be deducted as once off deductions from the employee's salary, with the concurrence of the employee and no debt account should be necessary. The Department also reserves the right to limit calls or disconnect telephones of employees who perpetually abuse the telephone facility.

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- 7.11.2 Cell phone debts – any deviation from the stipulated usage limits per month shall be settled through automatic PERSAL deductions in terms of the user's authorization on the cellular telephone application form. (Annexure G)
- 7.11.3 PERSAL deductions shall be made one (1) month following the receipt and distribution of accounts from the service providers allowing the user time to query any inconsistencies with the billings.
- 7.11.4 Subsistence and Travel advances should be recovered within a period of thirty (30) days after the acknowledgement of debt. This account should be followed up meticulously to ensure that officials who make use of subsistence and travel advances follow the correct procedures and are aware of the fact that claims need to be submitted to ensure no debts occur. A letter of acknowledgement of the debt to the debtor must be forwarded to the debt section as well as all other relevant documentation when requesting the opening of a debt account.
- 7.11.5 Debt should be recovered within one (1) month after establishing the liable party, depending on the amount involved and whether the debtor is able to repay the amount over a period of one (1) month. If payment is not made in the stipulated one (1) month, a request for payment must be made according to the financial delegations
- 7.11.5 Bursary debt – where a student resigns, retires, is discharged, or fails to complete the qualification for any reasons, the student shall be obligated to immediately repay all monies paid by the Department plus interest as determined by the Minister of Finance in terms of Section 80 of the PFMA, provided that the amount so due shall be reduced in the same proportion as the number of calendar month's full time uninterrupted service rendered in terms of the Bursary contract bears to the Contract period.
- 7.11.6 Should the student fail to pay the amount due, the Department shall be entitled to deduct the amount due from the student's salary in instalments to be determined by the sole discretion of the Department, in conjunction with point 9.5 above.
- 7.11.7 Interest should be calculated from the date on which the obligation to pay arose to the date of payment which is detailed in the Bursary Contract. Interest should therefore be charged from the date the debtor was placed in mora. A letter from Human Resources Development should clearly state that date in order for Finance to accurately and timeously capture the interest calculation data into the system.
- 7.11.8 Where bursary debt cannot be recovered in one lump sum, it should be recovered in installments.

### 7.12. Other debtors

#### 7.12.1 Debt accounts pertaining to external debtors

- a) All requests from the debtors to settle accounts by means of instalments must be referred to the delegated officials Rental debtors must be recovered as per signed contract between DPW and a debtor.
- b) Debt originating from overpayment of external parties should be recovered within 30 days of discovery depending on the type of debt and the amount outstanding.
- c) When an official resigns, retires or passes away and the debt section becomes aware of the debt after the official has left the Department, every effort must be made to recover the debt from the debtor's pension fund. Monthly follow-ups must be made by Human Resources Management to enquire how far the pension payout is.
- d) When a debtor who has been awarded a bursary is transferred to another Department, the debtor must make every effort to arrange with the receiving



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Department whether the bursary can be taken over by the receiving Department prior to the transfer.

- e) Tracing agents must be made use of when debtors cannot be traced. The costs of using tracing agents must be weighed against the outstanding debt amount.
- f) Where it is deemed necessary the services of debt collectors may be utilized.

### 7.12.2 Letters of Demand and Reminders

- a) All debtors must be notified in writing of the departmental recovery actions.
- b) A letter informing the debtor of the outstanding debt should be issued within 4 days after opening of the debt account. This letter informs the debtor of how and why the debt originated as well as the various methods of repayment available. This letter also requests the debtor to make payments against the outstanding debt amount and stipulates a time frame within which the first payment must be made. With bursary debt, a copy of the letter of demand to the debtor indicating breach of contract should be issued by Human Resources Development and copy of this letter together with the bursary contract should be provided to the debt management section with the necessary instruction to open the debt account.
- c) The first letter of demand should be issued when the debtor defaults in the first month of payment or does not respond to the letter informing him/her about the debt.
- d) Should no response be received on the first reminder letter, a second letter of demand should be issued 21 days after the first letter of demand. While waiting for response on this letter, various methods could be utilized to trace the debtor to establish the debtors' whereabouts and determine whether the Department has the correct address for the debtor.
- e) The third letter of demand should be issued 10 days after the second letter of demand when the Department has established the correctness of the debtors' address. This letter should state the Department's intention to hand over the account to the State Attorney/Legal Services/Debt Collectors within 10 days of no response as well as the fact that the debtor will be responsible for all legal costs pertaining to the recovery of the debt.
- f) Where making use of debt collectors, all rental debtor accounts over 60 days should be handed over to the debt collectors. If not making use of debt collectors, accounts over 90 days should be handed over to the State Attorney/Legal Services for further legal action to be instituted against the debtors. This stipulation is with regard to all debt no matter the nature thereof and where the debtor is defaulting in the repayment of the debt.
- g) Where Debt collectors are being used, they may be given a period of 3 months to recover the debts.

### 7.12.3 Handing over of Debts to Legal Services and/or State Attorneys'

- a) Debts need not be handed over to Legal Services before being handed over to the State Attorney.
- b) A debtor will be handed over to the Directorate: Legal Services in the following instances:
  - i) Where liability needs to be determined. This step is normally done by the originating section to determine whether a debt has originated. Once a debt account has to be opened, liability has already been established and



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the originating section informs the debt management section to open the debt account.

- ii) When all the debt recovery methods have failed and insufficient information regarding the debtor is available.
- iii) Where an immediate legal opinion is needed.
- c) In the event that Directorate: Legal Services cannot recover the debt, the debt will be handed over to the Office of the State Attorney when:
  - i) The debt is above R5, 000-00; and
  - ii) The debtor's physical address or work address is available, and
  - iii) Problems have been encountered with the recovery of the debt and legal action is required.

### 8. Implementation

- 8.1 This policy shall be implemented through formal training of key users and on-going support by the process owner.
- 8.2 The Chief Financial Officer is responsible for ensuring that users understand the policy and comply with its requirements.

### 9. Non-compliance

- 9.1 The Chief Financial Officer is responsible for ensuring that users understand the policy and comply with the requirements.
- 9.2 Any deviation from this policy will be identified, reported immediately to the Chief Financial Officer and the necessary corrective measures shall be taken.
- 9.3 Any serious or persistent material non-compliance with this policy constitutes misconduct.
- 9.4 If an Accounting Officer is alleged to have committed financial misconduct, the matter must be reported to the Executive Authority for investigation and action. Disciplinary processes must be in accordance with the prescripts applicable in the public service.

### 10. Responsibility

- 10.1 The overall responsibility for enforcement of adherence and compliance to this policy lies with the Accounting Officer.
- 10.2 The originating office where the debt is discovered must:
  - 10.2.1 Inform the debtor of the outstanding debt and providing the debtor with the opportunity to settle the outstanding amount within thirty (30) calendar days. This period lasts for thirty (30) calendar days after which if the debt has not been settled in full interest starts accruing from the date of the original transaction
  - 10.2.2 The originating office cannot enter into negotiation or agreement with the debtor in terms of recovery of debts by means of instalment payment. All requests from the debtors to settle accounts by means of instalments must be referred to D. Financial Accounting (Head Office debts) and Heads of Finance and SCM for debts originated from regional offices

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- 10.2.3 Refer new debts, within thirty (30) calendar days to the Chief Directorate: Revenue and Debt Management / Head of Finance (Regions). All relevant documentation pertaining to the debt and which is in favour of the Department must be supplied to the Chief Directorate: Revenue and Debt Management / Heads of Finance (Regions). The relevant documentation required to open a new debt account is set out in the "Checklist for a request to open a debt account" which can be obtained from the Chief Directorate: Revenue and Debt Management / Heads of Finance in the regions. (Annexure C)
- 10.2.4 Not keep identified debt transaction in suspense accounts. These amounts must be submitted within 30 calendar days for debt accounts to be opened and proper recovery of the debt should be done
- 10.3 Appropriate action must be taken against officials who fail to adhere to the clauses under 10.2.1 above.
- 10.4 **Chief Directorate: Revenue and Debt Management / Head of Finance & SCM (Regions) must:**
  - 10.4.1 Where possible, take new debt accounts onto the relevant financial system within a month of becoming aware of the new debt. Should this not be possible, the problem must be followed up to determine the cause of the delay. Possible delays could be caused by incorrect / insufficient documentation from the originating office. It is thus imperative that all debts be supported by the proper documentation to alleviate unnecessary delays.
  - 10.4.2 Ensure the correct options are chosen and that the debt is correctly opened when capturing the debt onto the relevant financial system. Ensure the correct allocations are utilized as this has a direct influence on the Annual Financial Statements.

Keep proper records and related correspondence for each debtor on their respective debt files. It is very important to ensure that all supporting documents for each debt is correct and support the claim that a debt account has originated and must be recovered from the debtor.
  - 10.4.3 Manage debts effectively and efficiently through monthly monitoring, making monthly follow ups, reporting and ensuring that debts are settled timeously.
  - 10.4.4 Refer the matter to legal section in the event that there is a breach of contract between the Department and the Debtor and a dispute arises from this breach of contract where the debtor refuses to pay the outstanding debt amount. Should no dispute arise, the debt management section can recover the debt amount without legal intervention where the debtor is willing to repay said amount. In this case referral will only be done when the need arises.
  - 10.4.5 Take on debt, according to the contract terms and conditions. Where there is no contract, the originating office must specifically stipulate the date upon which the Department became aware of the debt. With a contract debt, the date of transaction is used as the date of debt origin, and other debt (for example, salary overpayment) the date of debt origin is the date the Department became aware of the debt. Ensure that the debt amount requested on the covering letter corresponds with amounts in the supporting documents.
  - 10.4.6 Evaluate each debt account on its own merit according to each debtor's income and expenditure. Should payments be made for a period longer than 30 days, the correct approval and authorization according to the Departmental delegations must be followed. Should debtors need to make payments longer than 30 days, certified income and expenditure statements must be received from the debtor to support

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the claim that repayment cannot be done in a shorter period. If the debtor has been handed over to the State Attorney and payments do not cover interest as well as capital, higher instalments may also be requested via the State Attorney.

- 10.4.7 Appoint and manage debt collectors where deemed necessary and is cost effective.
- 10.4.8 Handover of defaulting debtors for further legal action should be done timeously before prescription of the debt can take place.
- 10.4.9 Must recover any cost incurred from the debtor.
- 10.4.10 Ensure that all debts and write offs are properly disclosed in the Annual Financial Statements.
- 10.4.11 Identify such training courses that are relevant to the duties of all officials responsible for Debtors and Revenue Management and shall ensure that officials are trained properly.
- 10.4.12 Ensure that all staff members are aware of the Debtors and Revenue Management policies and shall conduct or arrange such training as and when necessary for the officials to equip them of their duties.

### 10.5 Legal Services / State Attorney shall

- 10.5.1 Assist the Debt Management Section in the recovery of debt where necessary and when requested to do so.
- 10.5.2 Provide legal advice on debt matters when requested.
- 10.5.3 Obtain summons or warrant of execution in favour of the Department.
- 10.5.4 Ensure legal action is taken against defaulting debtors within 3 months.

### 10.6 Human Resources Management shall

- 10.6.1 Provide the Debt Management Section with the personal details of the employee who has now become a debtor.
- 10.6.2 Provide a copy of the Z102 (Pension form) to the Debt Management Section as soon as this form has been processed and sent to GEPP to indicate whether the debt has been claimed from the pension fund.
- 10.6.3 Assist in answering any queries regarding salary or such debt when debtors query these debts.
- 10.6.4 Ensure all terminations are implemented as per the termination date from officials, to avoid debt due to salary overpayment after termination of service.
- 10.6.5 File a claim against the Estate of the Deceased in the case where the debtor is deceased.
- 10.6.6 report monthly to Finance all terminations in a format prescribed Finance

- 10.7 Failure to comply with the above could result in disciplinary steps being taken against the employee including the recovery of any loss the department may have suffered [TR 12.7].

## 11. Approval of Policy

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11.1 This policy shall be approved in terms of the delegation of authority by the Accounting officer.

### 12. Review of policy

12.1 The Accounting Officer, with the support of the Financial Planning and Reporting Directorate of the PMTE, shall review the Revenue and Receivables policy, at least, once annually to ensure that it enables the achievement of the PMTE's strategic priorities as well as complies with legislation and regulations.

12.2 Any request to amend this policy shall be approved by the Chief Financial Officer and the Accounting Officer

### 13. Acronyms

GRAP	Generally Recognised Accounting Practice
PFMA	Public Finance Management Act, Act No. 1 of 1999, as amended
PMTE	Property Management Trading Entity
TR	Treasury Regulations issued by National Treasury, 2005