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Departement van Vervoer Veiligheid en Skakeling

DEBT MANAGEMENT POLICY

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1. INTRODUCTION

The responsibility of management of debtors is assigned in terms of S38 (1)(c)(i) and (d) of the PFMA as amended.

- Treasury Regulation 11.2.1 states: The Accounting Officer of an institution must take effective and appropriate steps to timeously collect all money due to the institution and that all debts must be recorded in the General Ledger of the Department as soon as it is discovered.
- The Department should maintain proper accounts and records for all debtors , including amounts received in part payments.
- The Department should refer matters to the Department Legal section to consider a legal demand and possible legal proceedings in a court of law.

Section 45 (b) and (c) of the PFMA places the onus on each official within a Department to be responsible for the effective, efficient, economical and transparent use of the financial and other resources within that official's area of responsibility.

1.1. OBJECTIVE

The purpose of the policy is to:

1. Provide uniform policy on the management and control of debts owed to the Department.
2. To maximize revenue collection.
3. To ensure that all the departmental debts are managed fairly, efficiently and effectively.
4. Promote a culture of good payment habits amongst debtors and instil a sense of responsibility towards the payment of accounts and reducing of departmental debts.
5. To minimize the risk of loss of revenue through irrecoverable debts.

1.2. POLICY STATEMENT

It is the department's policy:

1. To manage Departmental receivables (debts) as an important asset that need effective and efficient management.
2. To avoid where possible, the creation of debts.
3. To ensure maximum recovery of debts.

1.3. FRAMEWORK

1. Public Finance Management Act No. 1/1999 as amended.
2. Treasury Regulations issued in terms of the PFMA.
3. Prescription Act 68 of 1969.
4. Public Service Act of 1994.
5. National Credit Act of 2007.
6. National Road Traffic Act No 93 of 1996.

1.4. DEFINITION OF TERMS

1. "PMFA" means Public Finance Management Act No 1 of 1999 as amended.
2. "Department" means Northern Cape Department of Transport , Safety and Liaison.
3. "Debt" means money owed to the Department by employee or any other institution or person and expected to be recovered by the Department.
4. "CFO" means Chief Financial Officer.
5. "Finance Directorate" means the Northern Cape Department of Transport Finance Directorate.
6. "Internal Debt" means debt owed by the Northern Cape Department of Transport, Safety and Liaison employees
7. "External Debt" means any person or institution that owes the Northern Cape Department of Transport, Safety and Liaison.

1.5. RESPONSIBILITY

1. In terms of the PFMA , responsibilities for the implementation of this policy rest with the Accounting Officer, however the Accounting Officer may delegate responsibilities to relevant officials within the Department.
2. The Accounting Officer's delegate in the Department must take effective and appropriate steps to timeously collect all monies due to the institution by maintaining a proper accounts and records of all the debtors, including amounts received in part payment and referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.
3. Officers with the responsibility for the recovery of debts must pursue all debts for which the Accounting Officer is responsible, except for debts which are uneconomical to pursue, or are waived.
4. This policy applies to all officials within the Department who are entrusted with responsibilities of managing and controlling the Departmental Debts.

1.6. ORIGIN OF DEBT

Debt can be defined as an amount due to the Department and expected to be recovered by that particular Department. Types of debts are as follows:

1. **Internal Debt** – These are debts owed by department's employees.
e.g. Overpayments of salary and allowances, Tax Debts, State Guarantees, GG vehicles accidents, outstanding travel and subsistence (advance), breach of contract (bursary debt), leave without pay, damage to government property etc.
2. **External Debt** – These debts emanating from other department, suppliers' overpayments and third parties. It also includes debt emanating from E-Natis System relating to motor vehicle licensing, etc.

1.7. IDENTIFICATION OF DEBTS

The debts arise from services offered by the department such as:

- i. Traffic fines debtors (Road Traffic and Safety)
 - ii. Vehicle licensing debtors (Road Traffic and Safety)
 - iii. Debts arising from money owed to the department by employees.
 - iv. Any other debtors
1. Each directorate within the Department should advise finance, revenue sub directorate, of a debt that is accruing in the Department.
 2. Sub directorate for revenue should keep an updated debtors age analysis at all times.
 3. Sub directorate for revenue should maintain a debtors file which will be updated with all relevant information at all times.
 4. Debtors should be created in the Financial System that is in place
 5. All communication to the debtors should be kept.

Debts should be recognised where:

- a) The State has suffered a loss or damage through an act of an official, where the person is still employed by the State.
- b) A salary wage or allowance was erroneously paid to an employee.
- c) An individual or company breached a contract.
- d) An overpayment has been made to a creditor, institution etc.
- e) An advance is paid or expenditure incurred on behalf of an employee and the employee defaults on the repayments.
- f) A fruitless and wasteful expenditure has been disclosed in the annual financial statements and findings have been done to recover the money.

- g) E-Natis Debt (individual and municipal accounts) .
- h) Traffic fines, permits and licenses which are not paid on due dates.

1.8. TYPES OF DEBTS

1.8.1. Simple debts (Non-interest bearing)

A simple debt is raised whenever a debt is non-interest bearing (Government Notice 1410 of 2002). Simple debts are usually settled within relatively short period (one year as determined by the Public Finance Management Act). The debts are restricted to the recovery of money from departmental officials and occur in cases such as:

i. Salary and related overpayments

Debts which originated due to the action of officials, including and not limited to arrear contributions and damage to government assets.

This includes wrongly granted remuneration as defined in *S38 of the Public Service Act of 1994*, where a person concerned has left employment of the state or monetary advantage resulted from his or her own fraudulent actions.

ii. Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure that have been disclosed in the financial statement and findings have been done to recover the money.

1.8.2. Complex debts (Penalty and Interest bearing debts)

A complex debt is raised whenever a debt is interest bearing (refer to Government Notice 1410 of 2002). Interest will be charged according to the latest rates gazetted as determined by the Minister of Finance. Complex debts usually occur in cases such as:

- (a) Breach of contract or loan agreements; and
- (b) Debts which originate due to *mala fides* ("with evil intentions") actions of officials, staff members, private bodies etc.

In the case of 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 and interest, at a rate determined by the Minister of Finance, must be levied on the outstanding amount, should the debtor fail to comply. In the case of a contractual agreement, the interest rate stipulated in the contract must be levied.



2. DEBT RECOVERY PROCEDURES

2.1. RECOGNITION OF DEBTS

1. Relevant directorates/ sub directorates within the departments shall advise finance (revenue sections) about a debt that has accrued in the department.
2. The responsible officer will then open a debtors file in order to create debt with relevant information pertaining to the referred debt.

2.2. CREATION OF DEBT IN THE FINANCIAL SYSTEM

1. The debt, which has been recognised, should immediately be created into the relevant financial system within a day after opening a debtor's file.
2. The process of creating a debt in the financial system should involve at least two officials , the capturer and the supervisor.
3. The responsible officer should ensure that a Debtors Diary is in place. All calls made to the debtor should be recorded into the debtor's diary.

2.3. RECOVERY OF DEBT BY INSTALMENT

Unless otherwise determined by law or agreement , debts owing to the state may, at the discretion of the Accounting Officer of the Department be recovered in instalments.

2.4. COLLECTION PROCESS

The collection process will involve the following key stages:

1. Notice letters
2. Phone Calls (Call Centres)
3. Reminders
4. Follow up of debts
5. Demand Debts
6. Handing over to Debt Collector.

2.4.1. Letters of Notice

1. The debt management unit will within 30(thirty) working days , send a standard notice letter, on a departmental letterhead after identifying the debt.
2. The notice must inform the debtor that he/she has an opportunity to get clarity about the debt and also an opportunity to enter into a written repayment agreement.

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2.4.2. Phone Calls

1. The debt management unit will make phone calls , within 7(seven) working days after the date of notice letter.
2. The calls made must be recorded in the debtor's diary of phone calls.

2.4.3. Reminders

Notice letters, to remind the debtor about his/her debt will be sent out and the debtor will be given 14 working days to respond after the phone call is made.

2.4.4. Follow- up of Debt

1. The officials entrusted with the responsibility of managing the departmental debts shall ensure that debts owing to the department are collected within 12 months.
2. Officials are only given 12 months from date of recognising the debt to make follow- ups and reasonable efforts to collect these debts after which the debtor will be labelled a defaulter. For a defaulter the following action is undertaken:
 - i. After the issuing of reminders to debtors , officials responsible must then ensure that they contact debtors by phone and try to negotiate with them the payments plan of money owing to the department.
 - ii. Evidence of follow-up(debtors diary note e.t.c) is filed. The official must ensure that he/she maintains this audit trail for future reference.
 - iii. The officials must ensure that where possible , they visit the prospective debtors in the their work place or residential areas for payment negotiations.

2.4.5. Demand Letters/ Final Letters

After reasonable steps / efforts have been taken to collect money from the debtor, but without positive response from the debtor in question , the officer in charge must write a standard letter of demand which must cover the following.

1. The debtor has become delinquent.
2. In the absence of any response, the officer will be give 14 working days to the debtor to contact the office for the last negotiations.

Failure to contact the office by him/her the following steps will be taken:

- i. In case of internal debtors , a decision of stop order payment will be effected by the Head of Department whereby the payment will be deducted from their salaries either once off or for a period not more than twelve months depending on the amount.
- ii. This will be done in consultation with the human resources department.

For external debtors refer to **2.4.6** below

2.4.6. Handing over to Debt Collectors

In terms of paragraph 11.2.1.(b) of the Treasury Regulation, in case where it is necessary and economical to enforce the recovery of the debt by means of legal steps after consultation with legal services , the following process should be followed:

1. After writing a final letter, the officials are no longer expected to make any contact whatsoever with the debtor in question.
2. The official must ensure that a period of 30 working days is allowed to lapse before handing over the debtor's file to the state attorneys.
3. If there is no positive response after 30 working days , the debt will be referred to the state attorneys.
4. This should be done through the Accounting Officer of the department.

2.5. DEBT ADMINISTRATION

1. In cases whereby the debtors have responded positively, the debtors files must be maintained properly and effectively.
2. The debtors must be issued with statements of their accounts which will reflect the original debt , amount paid to date, the total amount due which is either 30,60 or 90 days old and the outstanding balance.
3. The statements to debtors must be issued within 15 days after the end of every month.

2.6. INTEREST ON DEBTS

Interests must be charged on debts to the state at the interest rate determined by the Minister of Finance in terms of Section 80 of the PFMA.

Interest is calculated on the decreasing balance of the debt and may not be capitalized, nor may it exceed the original amount (refer to the "in duplum" principle).

2.7. METHOD OF PAYMENT

1. Cash payments
2. Bank payments
3. Electronic payments

How to handle payments and paying off accounts

Where:

- At the participating municipalities
- Preferred nominated banks.
- Any other place as may be nominated by the Department from time to time.

2.8. WRITING OFF BAD DEBTS

In terms of Section 11.4 of the Treasury Regulations of March 2005 and Section 76 (1) (e) and 76 (4) (a) of the Public Finance Management Act any debt written off by the Accounting Officer may only be written off after the Accounting Officer is satisfied that:

1. All reasonable steps have been taken to recover the debt and the debt is irrecoverable.
2. Recovery of the debt would be uneconomical.
3. Recovery of the debt would cause undue hardship to the debtor or his or her dependants.
4. It would be to the advantage of the department to effect a settlement of the claim or to waive it.
5. The debtor has neither attachable assets nor income, or has no reasonable expectation of future income.
6. Debts are legally without merit.
7. It has been proven that the debt has been prescribed.
8. The debtor is untraceable or cannot be identified so as to proceed with further action.

9. A court has ruled that the claim is not recoverable.
 10. The outstanding amounts is;
 - i. Due to an irreconcilable administrative error by the state;
 - ii. As a result of an administration error.
- The amount written off must be disclosed in the Interim Financial Statements and the Annual Financial Statements, indicating the debt which was written off in terms of this policy.

Write -off procedure action:

1. After the likelihood of the collection of the debt is considered
 2. The department will consider debts less than R300.00 as uneconomical to collect through debt collectors (external debts only) , but will still submit such files to the state attorneys.
 3. A submission is prepared by the respective manager for revenue requesting the debt to be written off.
 4. The submission is reviewed by the Senior Manager: Finance and the Chief Financial Officer.
 5. The submission after review by the above will then be submitted to the Head of Department for approval.
 6. If approval is granted then debt is written off.
- The Accounting Officer may delegate authority, in writing, to write off debt as contained in the Delegation of Powers: Financial Administration of the Department.

2.9. REPORTING

The Officer responsible for the recovery of debts should report progress against performance (status of debts) to the Chief Financial Officer and Accounting Officer on a quarterly basis.

The report must cover the following.

- i. The total number and global amount of debts in the department
- ii. The types of debts , which constituted the amount
- iii. The age analysis
- iv. A report on delinquent debts
- v. A report on debts which are irrecoverable or which may become bad debts which may have been written off.

The revenue management section shall monitor the implementation of the policy and shall report any deviations to the Head of the Department in writing.

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2.10. REVIEW OF THIS POLICY

This policy shall be reviewed annually as part of the budget process or whenever a review is required.

2.11. CONCLUSION

The Finance Directorate and the Department as a whole is confident that the Officials responsible for Debt Management and all employees will find the Debt Policy useful in their on-going efforts to enhance the effective and efficient collection of debts within the Department.

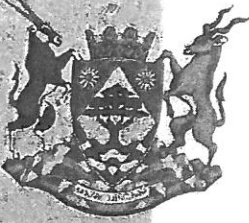
2.12. Approval

The policy has been approved by:

The Accounting Officer

Signed *A. H. H. H. H. H.*

Date 2013/12/13



DEPARTMENT OF TRANSPORT, SAFETY AND LIAISON
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Dipatlisiso :
Imibuzo :
Navrae :

Date : Tuesday, 10 December 2013
Letiha :
Umhla :
Datum :

Reference : Acting Head of Department
Tshupelo :
Isalathiso :
Verwysing :

Mr. Thabo R. Holele
Department for Transport, Safety & Liaison
Private Bag X 1385
KIMBERLEY
8300

RE: Acting Head of Department: Transport Safety and Liaison

Dear Mr. Holele

This communique serves to notify you that as from Tuesday, 10 December 2013 you have been appointed as the acting Head of Department until Friday, 13 December 2013.

All aspects relating to this function should be guided and carried out within the parameters of the Public Management Finance Act and the Public Service Act and Regulations.

It will be appreciated that when Head of Department resume his duty in office, you will provide a full report.

Hope you find this in order.

Regards

.....
Mr. S Jonkers
Head of Department:
Transport, Safety & Liaison

.....
Accept/Do not accept

.....
Mr. Thabo R. Holele
Chief Financial Officer