



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

TO ALL : ACCOUNTING OFFICERS OF DEPARTMENTS
: HEAD OFFICIALS OF PROVINCIAL TREASURIES
: PROVINCIAL ACCOUNTANTS-GENERAL

NATIONAL TREASURY INSTRUCTION 02A OF 2013/2014:

WRITING OFF OF IRRECOVERABLE DEBT

1. PURPOSE

1.1 The purpose of this *National Treasury Instruction* is to prescribe the funding requirements for the writing-off of irrecoverable debt by departments. It represents an update to *National Treasury Instruction 02* of 2013/2014, wherein the financial year in paragraph 4.2 has been amended from 2014/2015 to 2013/2014. This is the only change.

2. BACKGROUND

2.1 Parliament and provincial legislatures allocate funds annually to departments to enable them to deliver on strategic priorities, as contained in their strategic and annual performance plans. Section 38(1)(b) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) makes accounting officers of departments responsible for the effective, efficient, economical and transparent use of their department's resources. It is therefore imperative that accounting officers utilize appropriated funds prudently in the pursuance of social and economic objectives and to ensure that such are applied consistently with the legislative prescripts and any policies and frameworks issued thereunder.

2.2 To fulfil its mandate, a department purchases goods, services and capital assets. These goods and capital assets are occasionally lost or damaged resulting in the department suffering a financial loss. If the monetary value of the good or capital asset that has been lost or damaged is not recovered from a responsible employee or it is not covered by an insurance company, the department must:

- (a) identify savings in its annual allocation to replace the item;
- (b) submit a request to the relevant treasury for additional funds to be appropriated to the fund the replacement of the good or capital asset; or
- (c) continue to operate without replacing the good or capital asset whilst not compromising service delivery.

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3. WRITING OFF OF IRRECOVERABLE DEBT

- 3.1 The principle in paragraph 2.2 of this *Treasury Instruction* must also be applied for the treatment of all irrecoverable debt. In this instance, a department that has lost resources must either re-allocate funds, obtain additional funds to remedy its cash position or continue to operate as intended whilst absorbing the loss.
- 3.2 The treatment of irrecoverable debt is based on the premise that all expenditure incurred by a department must be funded from its approved budget. Any expenditure incurred in contravention of this principle shall be regarded as unauthorized expenditure.
- 3.3 Without departing from the principle contained in paragraph 3.2 of this *Treasury Instruction*, the following must be adhered to regarding the writing off of irrecoverable debt:
- (a) All money owing to the relevant revenue fund that is deemed irrecoverable should be written-off.
 - (b) Irrecoverable debts may only be written off against available funds and in the main division where the debt originated.
 - (c) If the main division that the debt originated from no longer exists, the irrecoverable debt must be written off against the main division that replaced the original main division.
 - (d) If there are insufficient funds in the main division where the irrecoverable debt originated to cover its write off, the department may transfer savings from other main divisions to the main division in question to fund the debt write off. This transfer of savings must be performed in accordance with section 43 of the PFMA, whilst taking cognisance of the virement limitations contained in this section and in any relevant Treasury Regulation.
 - (e) The department may also transfer funds to the main division that requires the funds to write off the irrecoverable debt through the adjustments budget process, in terms of sections 30 or 31 of the PFMA, whichever applicable.
 - (f) Notwithstanding paragraphs (d) and (e) above, departments may not utilize conditional grants or savings in amounts earmarked by the relevant treasury for a specific purpose to fund the write-off of irrecoverable debt.
 - (g) All debts written off must be disclosed in the department's annual financial statements, indicating the policy in terms of which the debt was written off.

4. TRANSITIONAL ARRANGEMENT

- 4.1 As a **once off** dispensation, the National Treasury hereby permits departments to write off irrecoverable debt against departmental revenue **only if** the debt was:
- (a) initially recognised in a closed period and thus resulted in the creation of recoverable revenue; and

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- (b) determined as irrecoverable at 31 March 2014 after all the relevant provisions in the Treasury Regulations were applied and the debt was reflected as such in the department's financial system (such as BAS).
- 4.2 The transitional arrangement referred to in paragraph 4.1 of this *Treasury Instruction* may only be applied in the 2013/2014 financial year.
- 4.3 The accounting entries that must be applied for the transitional arrangements referred to in paragraph 4.1 are contained in Annexure A to this *Treasury Instruction*.
- 5. APPLICABILITY**
- 5.1 This *Treasury Instruction* is applicable to all departments.
- 6. EFFECTIVE DATE**
- 6.1 This *Treasury Instruction* takes effect from 1 April 2014.
- 7. DISSEMINATION OF INFORMATION CONTAINED IN THIS TREASURY INSTRUCTION**
- 7.1 Heads officials of provincial treasuries are requested to bring the contents of this *Treasury Instruction* to the attention of all accounting officers of their respective provincial departments.
- 8. NOTIFICATION TO THE AUDITOR-GENERAL**
- 8.1 This *Treasury Instruction* will be made available to the Auditor-General.
- 9. AUTHORITY FOR THIS TREASURY INSTRUCTION**
- 9.1 This Treasury Instruction is issued in terms of section 76(4)(b) of the PFMA which empowers the National Treasury to issue instructions applicable to all institutions to which this Act applies concerning financial management and internal control.



BEERSON BABOOJEE
ACTING ACCOUNTANT-GENERAL
DATE: 06/12/13

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ANNEXURE A

ACCOUNTING ENTRIES FOR THE TRANSITIONAL ARRANGEMENTS

Entries automated in BAS when an irrecoverable debt is written off:

Dr Thefts and losses
Cr Debt account

Writing off of the balance (interest and capital)

Dr Debt receivable income
Dr Debt receivable interest
Cr Departmental revenue –transactions in financial assets & liabilities

Writing off of the balance (interest and capital)

Manual journal entry to clear the write-off against revenue:

Dr Departmental revenue –transactions in financial assets & liabilities
Cr Thefts and losses

This Journal must be passed to “offset” the expenditure and departmental revenue.