



KAMUZU UNIVERSITY
OF HEALTH SCIENCES

BAD AND DOUBTFUL DEBTS POLICY

AUGUST 2023

Policy Name	Bad and Doubtful Debts Policy
Policy No.	PL/C.2A.2
Effective Date	As determined by the Council of KUHeS
Last Review	
Next Review	
Council Approval Date	31 August 2023
Scope of the Policy	Staff, students, consultants, vendors, contractors and/or any other parties with a business relationship with the University
Related Policies	Financial Regulations and Procedures, Admissions Policy, Credit Control Policy
Responsible Officer(s)	Director of Finance and Investments, Registrar, Chief Internal Auditor & Director of Student Affairs
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5. FOREWORD

Kamuzu University of Health Sciences (KUHeS) is the leading university for health sciences in Malawi, which aspires to be among the top 20 Universities in Africa. The University is significantly contributing towards sustainable and equitable, social, economic, and technological development envisaged both in the Malawi Vision 2063 and Malawi Growth and Development Strategy III (MGDS III) through the implementation of a number of policies, including the implementation of the Bad and Doubtful Debts Policy.

The University shall strive to keep bad and doubtful debts at a minimal level to avoid tying up more funds with its customers, thereby depriving the University of those funds for its operations. When Financial Statements are prepared with high levels of bad and doubtful debt, the University shall show an unhealthy financial condition.

I firmly believe that this Policy shall enhance the management of bad and doubtful debts in the University. To this end, the Policy clearly outlines, the procedures and mechanisms for dealing with bad and doubtful debts in the University.



Professor Francis Moto

Chairman of Council

6. PREFACE

KUHeS is a public university established by the Government of Malawi to provide higher education in the country through teaching, research, consultancies, and public outreach. The University was formed by a merger of the College of Medicine and Kamuzu College of Nursing which were both under the University of Malawi. The mandate for the development of the KUHeS Policy on Bad and Doubtful Debts was derived from the KUHeS Act. The Policy has been necessitated by the need to provide fair measurements and recognition of receivables.

This Policy shall therefore be a tool to guide the University in the management of receivables, which directly affects cash flow management. This Policy shall ensure that uncollectable debts are written off, consistent with the guidelines of existing policies and applicable legislation.

Therefore, I urge all stakeholders to support the implementation of this Policy and ensure that it achieves its purpose and objectives for the benefit of the University and the nation.



Professor MacPherson Mallewa
Vice Chancellor

7. ACKNOWLEDGEMENTS

The University acknowledges the task force set up to develop this Policy, which comprised the following: Mrs. Lydia Mbewe, Mr. Masauko Kachigamba, Mr. Genezio Mugawa, Mr. Samson Kalulu, and Mr. Henry Chiwaya. The University would also like to acknowledge the valuable input of the Finance and Investment Committee of Council for their contribution to the Policy. Finally, the University would like to acknowledge the valuable input of management and Council for their contribution to the policy.

8. LIST OF ABBREVIATIONS AND ACRONYMS

DFI	:	Director of Finance and Investments
IFRS	:	International Financial Reporting Standards
KUHeS	:	Kamuzu University of Health Sciences

9. DEFINITIONS

Bad Debt	An outstanding amount of money owed to the University and has not been collected/recovered, despite repeated efforts to collect the debt, and is considered to be irrecoverable.
Bad Debt provision	A provision on a debt that is deemed irrecoverable.
Debt	A financial obligation owed to the University by students, staff members, or third-party organisations.
Debtor	An individual or entity who/which owes the University some money.
Doubtful debt	An outstanding amount of money owed to the University whose collection or repayment in full is highly questionable and improbable.
Doubtful Debt Provision	A provision created in the University's balance sheet is equal to the sum of all debts, the recovery of which is considered to be doubtful, while efforts continue to be made to seek payment from the debtor. Normally, this is provided in terms of the University's accounting policies.
General Provision	A provision held against the future, unidentified losses on total debtors that are considered doubtful.
Provision	A liability of uncertain timing or amount

Specific provision

A provision raised based on evidence of deterioration in the quality of a particular debt.

Write-off

A procedure used in accounting when a debtor (or other asset) is deemed to be uncollectable and is, therefore, considered to be a loss and is taken off the financial records.

10. BACKGROUND AND SCOPE

KUHeS prepares its financial statements in accordance with the International Accounting Standards, Public Finance Management Act (2022), and KUHeS Financial Regulations. Its accounts receivables comprise students, staff members, and third-party organisations. The development and implementation of this Policy became necessary to show a fair view of receivables.

This Policy is KUHeS blueprint on bad debts, which allows the institution to determine the amount of potential bad debt provision and make provisions for these debts rather than opting for notional percentages. This is only a provision for accounting purposes, as debt shall continue to be pursued.

The Policy covers all KUHeS income streams, including staff, students, and other parties with business relationships with the University.

11. RATIONALE FOR THE POLICY

The Policy was developed to mitigate KUHeS's challenges in the management of bad and doubtful debts, enhance the credibility of financial statements, and ensure compliance with International Financial Reporting Standards (IFRS) and appropriate legislative frameworks.

12. KUHES VISION

A world-class University and centre of excellence in health education, research, and innovation.

13. KUHES MISSION

To advance knowledge, professional competencies, skills, and innovations in health sciences through high-quality student-centred and innovative education and research that responds to and influences national and global policies, health, and development needs in an efficient, sustainable, and result-oriented manner.

14. AIM OF THE POLICY

The main purpose of this Policy is to guide the University on fair measurement, recognition, and presentation of bad and doubtful debts.

15. OBJECTIVES OF THE POLICY

The specific Policy objectives are:

- a. To ensure that only bonafide bad debts to be written off are authorised for write-offs at appropriate levels.
- b. To enhance efficient and effective debt collection;
- c. To provide the estimated loss resulting from debt in each period that income is earned.
- d. To ensure that debts in the financial statements are disclosed at net realizable value.

16. POLICY PRIORITY AREA

The Policy's priority is to ensure fair measurement, recognition, and presentation of bad and doubtful debts.

a. Policy Priority Area 1: Bad and Doubtful Debts

Bad and doubtful debts may originate from the following circumstances:

- a. A student has finished studying and has not paid school fees but has not collected his/her certificate;
- b. A postgraduate student has completed his/her course work without paying full fees.
- c. Students with outstanding debts but who graduated or withdrew for different reasons could not be traced.
- d. Debts are not recovered from a deceased student.
- e. Student debt is arising from differentials due to changes in currency exchange rates (losses).
- f. Staff member left employment without settling debt and cannot be traced;

- g. Debts are not recovered from a deceased staff, where his/her estate has been distributed, and recovery of the debts from him/her is not possible.
- h. Debts owed by staff who have left the service and are now bankrupt, provided that the Director of Finance and Investments (DFI) must have satisfied him/herself that the debtors are declared bankrupt.
- i. Debts where the debtors have emigrated without paying the debts, leaving no assets available to claim from, and the debtors' whereabouts are unknown.
- j. Debtor who is declared to be insolvent or bankrupt;
- k. Debts not recovered from institutions or service providers that have been liquidated, and claims against the assets finalised.
- l. Debts owed by third party organisations and individuals that cannot be traced, and
- m. Where no source documentation is available to substantiate or prove the claims, provided that the DFI must have satisfied him/herself that all reasonable steps had been taken to locate the source documents.

b. Policy Priority Area 2: Bad and Doubtful Debts Management

- a. The DFI shall submit a list of bad and doubtful debts to the management for review.
- b. The DFI shall classify debts into 'students', 'staff' and 'other'
- c. The DFI shall conduct an aged debtors' analysis of debts so that debts that have not been settled for one year and above should be considered as doubtful debts.
- d. The DFI shall further classify aged debtors as falling under two provisions of doubtful debts:

- i. General provision for doubtful debts, and
 - ii. Specific provision for doubtful debts
- e. The DFI shall also separately classify debts into 'Students', 'Staff' and 'Other' debtors and 'aged debtors' analysis of which debts have not been settled for one year or above to be considered as Bad debts.
- f. The DFI shall, according to the classifications above, indicate against each debtor the reasons justifying the proposed consideration as bad or doubtful debts.
- g. The DFI shall present the proposed bad debt lists to management for discussion with evidence that all efforts were exhausted towards the recovery of the debts.
- h. Before presenting to the Finance and Investments Committee of KUHES Council, management shall refer all uncollected bad and doubtful debts to the Legal Counsel for assistance with the recovery of the debts.
- i. Having received feedback from the Legal Counsel, the Management shall present to the Finance and Investments Committee lists of bad debtors for discussion before the lists are presented to the Council.
- j. The Chairperson of the Finance and Investments Committee of Council shall present the report on bad debts to KUHES Council for discussion and its approval for writing off.
- k. The Council shall seek government clearance for the write-off of bad debts in accordance with the Public Finance Management Act and other relevant legislation, including the Public Procurement and Disposal of Public Assets Act.

c. Policy Priority Area 3: Credit Bureau Listing

Debtors whose debts are written off for any of the following reasons must be listed with the Credit Bureau:

- a. Untraceable
- b. Insolvent
- c. Emigration

d. Policy Priority Area 4: Valuation

- a. For the provision of doubtful debts, the DFI shall establish the total amount of provision comprising the following:
 - i. A list of debtors and their specific amounts to be provided for, and
 - ii. A list of debtors upon which 15% shall be applied for those over one year, as referred to in the Implementation procedures sub-item (iv).
- b. A list of bad debts and respective amounts categorized as 'Students,' 'Staff' and 'Other' of which debts have been outstanding for at least one or more years.
- c. In the subsequent year, the amount to be provided for shall only be either an increase or decrease in the provision.

e. Policy Priority Principle 5: Treatment of Doubtful and Bad Debts in the Books of Accounts

i. Provision for Doubtful Debts

The following shall be the treatment of provision for doubtful debts in the books of accounts.

- a. Debit - Provision for Bad Debt Expense Account
- b. Credit - Accumulated Provision for Doubtful Debts Account

ii. Bad Debts Written Off

The following shall be the treatment of bad debts in the books of accounts:

i. Outright Bad Debts Written Off

- a. Debit - Bad debts written off expense account;
- b. Credit - Debtors' accounts.

ii. Bad Debts Written Off Against Specific Provision

- a. Debit - Specific Provision for Bad debts
- b. Credit - Debtors' accounts

iii. Bad Debts Recovered

The approval of KUHeS Council for the write-off of any debt does not mean that actions to recover the money shall be terminated. However, further actions shall be instituted depending on the costs involved, and if debt is recovered, it shall be recorded in the financial records of the Council.

17. MONITORING AND EVALUATION

The Office of the DFI shall be responsible for monitoring and evaluating the implementation of this Policy. The Policy shall be reviewed initially after three years of approval and subsequently every four years.

18. FINANCIAL IMPLICATIONS

The successful implementation of this Policy requires the commitment of resources towards its structure, procedure, and interventions. Specifically, the University shall budget for and allocate resources towards the following:

- a. Training of responsible officers
- b. Awareness activities including purchase and/or production of publication material.