

**STANDARD OPERATING PROCEDURE**

**PROCEDURE: PROVISION OR IMPAIRMENT OF FINANCIAL ASSETS AND ACCOUNTING FOR FRAUD AND FINANCIAL LOSS**

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# **OBJECTIVE**

This document provides the procedures to be applied for the recognition of an allowance for doubtful accounts, as well as the treatment of losses due to fraud and financial loss.

* The first section provides the process and procedure on determining an allowance or impairment of **financial assets** in the UNDP accounts.
* The second section depicts the accounting procedures relating to losses due to fraud and financial loss.

# **SCOPE**

The procedure will apply to the establishment of an allowance for doubtful debts (provision for write-offs) from contributions and other financial assets (accounts receivable) as follows:

|  |  |
| --- | --- |
| **Account** | **Description** |
| 13010 | Govt Letters of Credit |
| 14015 | Contributions Receivable |
| 14081 | Unbilled AR Contracts |
| 14020 | Staff Receivable – Salary Adv |
| 14021 | Staff Receivables – Salary Adv eServices |
| 14024 | Balances upon Separation |
| 14040 | Staff Receivable – Education Grant |
| 14057 | Petrol Advance |
| 14080 | Misc. Accounts Receivable |
| 14085 | Staff Recv – Telephone Charges |
| 14095 | Misc. Receivables – Non-Staff |

The section relating to losses from fraud and financial loss applies to any financial loss arising from fraud.

# **KEY DEFINITIONS**

* 1. ***Assets*** – resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity
  2. ***Revenue*** – comprises gross inflows of economic benefits or service potential received and receivables by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners.
  3. ***Allowance for doubtful accounts*** – Also known as a provision for write-off (referred to as impairment in UNDP's financial statements) is a reserve recognized in the financial statements after assessing that a collection of a receivable is in doubt. An allowance is established when there is objective evidence, based on a review of outstanding amounts at the reporting date, that UNDP will not be able to collect all amounts due according to the original terms of the receivable.

# **BACKGROUND:**

Measurement of accounts receivable is an important area in line with the International Public Sector Accounting Standards (IPSAS) whereby UNDP periodically reviews the amounts for collectability and records an impairment against its receivables where appropriate. .

Consistent with IPSAS, an allowance is required to be calculated to reflect expected losses (for credit and other) with respect to amounts recognized as receivables.

IPSAS 23 is focused on the initial recognition of revenue from non-exchange transactions. Example 20 of IPSAS 23 (IG 40 to 43) provides support for establishment of allowances for doubtful accounts from contributions. It illustrates that the nominal value receivables should be adjusted to provide a relevant and reliable measure of what will ultimately be recovered.

While IPSAS establishes that the nominal value of the contribution receivables must be adjusted and that the asset must be accurately and reliably reported, judgement is required to choose among alternative options to arrive at an accurate and reliable value.

* 1. Allowance method: Establishment of an allowance for doubtful debts based on the estimated amount of uncollectible assessments. This is an acceptable method under both IFRS and US GAAP. This method is generally accepted and used in the public sector entities such as NAO and WFP.
  2. Discounting approach: Fair value of receivables calculated as estimated discounted cash flows.

# **ALLOWANCE METHODS FOR THE IDENTIFIED OPTION**

UNDP will follow the allowance method above and apply this for financial reporting. This method is discussed more fully below:

Allowance method – calculation methods (a) through (d) below are applicable:

1. The allowance is calculated as a percentage of the nominal value of outstanding contributions or receivables based on historical data such as percentage (%) of consolidated arrears/not collectable assessments. This percentage may vary over time and average rates might be used to offset variations.
2. The allowance is calculated as a percentage of the nominal value of the outstanding contributions or receivables divided in classes based on the length of payment overdue time (i.e. ageing). Different percentages are applied to each class of outstanding receivables, i.e:

* Outstanding for over 36 months = 100% allowance
* Outstanding for 24 to 36 months = 50% allowance;
* Outstanding for 6 to 24 months = 0% allowance

1. The allowance (100%) is established for all receivables that have been outstanding for 36 months or more.
2. The allowance is established by identifying specific contributions receivable or long outstanding other receivables which have become doubtful. This involves the review of each donor/vendor and its ability to fulfill the commitment, provided written confirmation is provided to GSSU from the CO that amounts are not recoverable.

UNDP will apply the specific allowance method per option (d), because this method provides more accuracy in the calculation. However, for staff related receivables with aged balances more than 2 years as at year-end, a full provision is recognized – this is a consistent to past year’s practice. Staff receivable balances are not material to warrant a provision for individual outstanding balances even though an internal process is in place for the follow up and recovery of these outstanding balances. Furthermore, the IPSAS Conceptual Framework for GPFR by Public Sector Entities indicates that the benefit of financial reporting should justify the costs involved, (Chapter 3, paragraph 3.35 to 3.42). Therefore, the benefits of analyzing individual aged staff receivable balances on a case-by-case basis does not justify the additional time and costs incurred by UNDP as from past experience, staff receivables aged over 2 years follows the same pattern of recovery, or lack thereof.

# **PROCESS**

* 1. Allowance for Doubtful Debts
* The first step in creating an allowance for doubtful debts (provision for write-off) is to identify individual donors or receivable balances where there may be doubts as to whether all amounts will be recovered.
* This will then be used in identifying the individual amounts that will make up the allowance for doubtful debts.
* GSSU as part of its monitoring of donor and other receivables review the GL accounts as detailed in the “Scope” section above, including individual donor accounts and other long outstanding receivables. During this review GSSU identifies if accounts need to be selected for establishing an adjustment.
* In doing so, GSSU will follow up with the respective UNDP Office to vigorously follow-up with these donors on their commitments. Management will also use the ageing report as a benchmark to ensure the adequacy of the adjustment.
* GSSU will then communicate its view to CFRA who, in turn, will determine if a provision is warranted for certain receivable balances and will process such an entry before finalizing the annual accounts.
* CFRA will take into account the materiality of the amount estimated to be irrecoverable before determining if a provision for write-off is warranted. It is also a matter of professional judgement. The key consideration for raising a provision is if the individual amount is ≥ to $1 million.
* If amounts are not significant, then no provision will be raised and the items will be followed up to determine if a write-off is required.
* For staff related receivables with aged balances more than 2 years as at year-end, a full provision is recognized.

It is important to highlight that an allowance is not solely created on a function or ageing of the outstanding balances for receivables other than staff related receivables. It is a matter of judgment and the final assessment on the provision of accounts receivable is made by OFM/FPMR/CFRA. The key consideration for raising a provision is if the individual amount is ≥ to $1 million.

* 1. Monitoring of Accounts Receivables
* A donor point of contact system is maintained by all Operating Units (OUs), which will determine which party is responsible for the follow-up with the donors (CO OU or HQ OU).
* OUs correspond with each donor. The ultimate responsibility for the follow-up lies with the OUs as they own and maintain the relationships with each donor locally.
* A period of 2 weeks is given to come back on any resolutions to each case.
* In the event of a non-recovery, or the OU’s focal point deems the balance to be irrecoverable, the case would then be forwarded to the RR/Director of OU to decide on whether to discontinue recovery efforts.
* If the RR/Director of the OU recommends discontinuing recovery efforts, GSSU will decide whether to request for approval to proceed with an account adjustment or a write-off in consultation with CFRA.
  1. Roles & Responsibilities

|  |  |  |
| --- | --- | --- |
| **GSSU** | **OU** | **OFM** |
| Contribution receivables:  Analyze, investigate and prepare outstanding receivable balances as well as any pending/past due milestones on a monthly basis, and work with OUs to ensure timely collection of Funds. | Responsible to ensure collection of all outstanding receivables and to follow-up with donors where necessary.  To ensure point of donor contact is updated to determine the party (GSSU or OU) for donor follow up. | - |
| - | Follow-up with donors within OU’s  responsibility for the outstanding items. | - |
| Other receivables:  Analyze and investigate outstanding balances via monthly analysis and/or discussion with GSSU payroll/HR/AP (who will have posted the original entries on instructions of the CO).  Contact COs if further information is needed. | Responsible for the underlying business activity. Use available management authority to help recover outstanding balances. | - |
| Follow-up with GSSU Local Payroll or Local HR team for the outstanding items for both Active & Inactive staff.  Follow-up directly with COs on any non-staff Vendor-related outstanding balances. | Follow-up with any outstanding balances communicated by GSSU where no positive response has been received from the staff/former staff. | - |
| In the event the balances remain unresolved, the GSSU team will escalate to OFM/FPMR/CFRA for potential provisions/adjustments or write- off. | To decide on whether to initiate balance write-off based on the non-recovery of outstanding balances.  To provide the supporting documents for the write-off. | OFM/FPMR/CFRA will determine if a provision is warranted against the receivable based on professional judgement and on the materiality of the amount perceived to be irrecoverable. |

* 1. Steps
* Contribution/Donor receivables

|  |  |  |  |
| --- | --- | --- | --- |
| **Details** | **GSSU** | **OU** | **OFM** |
| 1. Prepare and review Accounts Receivable every 1st of the month | X |  |  |
| * Analyse elements in the report (account 14015) and pending/past due (account 14081) based on pre-determined criteria (length/ageing). * Follow up on outstanding balances, open ID transactions with OUs focal point when necessary. |
| 2. Follow up with the donor in case of exceptions under Contribution  Receivable (14015) and Unbilled AR Contract (14081). |  | X |  |
| 3. If resolution is reached, record of the transaction in the bank account. | X |  |  |
| 4. In case of no resolution   * OU’s focal point deems balance not recoverable. * Bureau Director/RR to decide whether there should be account adjustment or write-off. |  | X |  |
| 5. In case of revenue adjustment more than $1M, OFM/CFRA approval is required . |  |  | X |
| 6. GSSU performs the revenue adjustment after OFM/CFRA s approval. | X |  |  |
| 7. OFM/FPMR determine if a provision/allowance for doubtful debt is required prior to write-off. |  |  | X |

* Other receivables

|  |  |  |  |
| --- | --- | --- | --- |
| **Details** | **GSSU** | **OU** | **OFM** |
| 1. To analyse balances in the latest monthly data on outstanding receivables, based on pre- determined criteria such as long outstanding balances (> 30 days) or balances related to separated staff advances. | X |  |  |
| 2. To correspond with the external parties or staff on the outstanding balances identified by the GSSU team for recovery. | X |  |  |
| 3. To correspond with external parties or staff for those without any response after 3 reminder emails. |  | X |  |
| 4. To decide on whether to initiate balance write-off based on the non-recovery of outstanding balances and provide COA to charge the write-off. |  | X |  |
| 5. For staff related receivables with aged balance more than 2 years as at year-end, a full provision is recognized. |  |  | X |
| 6. OFM/FPMR to determine if a provision/allowance for doubtful debt is required prior to write-off. |  |  | X |

* 1. Write-off of accounts receivable
* The final step is identifying if any balances provided for should be written-off.
* Write-offs will only take place after all reasonable steps have been taken to recover the amounts outstanding and there is no chance of recovery.
* Refer to the separate procedure for write-off requests for more information.
  1. Flowchart

Diagram

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Diagram

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# **FINANCIAL LOSSES DUE TO FRAUD AND RECOVERIES**

* 1. Overview
* The Office of Audit and Investigations (OAI) is tasked with investigating cases of presumed fraud in UNDP to determine the underlying causes, quantify the amount and propose actions including strengthening of controls and recovery of losses.
* Any losses of assets need to be reported to the Assistant Administrator, Bureau for Management Services (BMS) pursuant to Rule 126.17 of UNDP’s Financial Regulations and Rules (FRR). Losses exceeding $100,000 require the approval of the Administrator.
* Once investigations are completed and a fraud or loss is confirmed, an accounting entry may be considered to be recorded in UNDP’s financial records to record a receivable in the amount of the confirmed fraud or loss, and if the amount is deemed irrecoverable, approval should be obtained to write off the amount in accordance with UNDP’s FRRs.
* Fraud cases in UNDP may involve misappropriation of cash or assets and the recoveries will fall into one of the following categories depending on how the fraud was perpetrated:
* Recoveries from Staff and Service Contractors
* Recoveries from Vendors and Individual Contracts (ICs)
* Recoveries from Implementing Partners (IPs)
* Losses arising from gross negligence (e.g. loss of a laptop) may not be classified as fraud but should be brought to the attention of OAI for investigation if they meet the threshold in Rule 126.17 of UNDP's FRR. Amounts below the threshold should be handled by each UNDP Office in accordance with existing procedures. The responsibility for recovery of asset losses rests with the Head of Office/Unit including determining the liability of staff members in cases of negligence.
* A receivable should be recorded if the Head of Office/Unit has determined that a staff member should be held liable.
  1. UNDP Financial Regulations and Rules
* Rule 126.17: Loss of cash, receivables and property, plant equipment and other assets, states:

*a) Any loss of assets shall be reported to the Assistant Administrator, Bureau for Management Services, who may, after full investigation, authorize the writing off of assets deemed to be irrecoverable, except that proposals to write off amounts in excess of $100,000 shall be submitted to the Administrator for approval.*

*b) An investigation shall determine the cause of the loss of assets, including the responsibility of the staff members or others. Such staff members or others may be required to reimburse the loss either partially or in full. The final determination as to all recoveries to be made against staff members or others as the result of losses will be made by the Assistant Administrator, Bureau for Management Services.*

*c) The amount authorized for waiver of investigation, reporting and write-off is $1,000.*

* 1. Asset Recovery Business Accounting Process
* UNDP Offices should promptly report a loss of assets or cases of suspected fraud to OAI irrespective of whether internal investigations have been completed. Engaging OAI at an earlier stage of suspected irregularity will help speed-up the recovery of misappropriated assets.
* Once a reported case is substantiated and amounts have been quantified or can be estimated with reasonable certainty, the respective Bureau should contact OFM/FPMR to ensure that any losses are immediately tracked and, where appropriate, a receivable is established in UNDP’s financial records, using the following steps:

**Step 1: For** proven fraud or confirmed Loss, areceivable (Account14xxx) is recorded and the credit side posted against the original GL Expense or Asset account using the original Chart of Account (COA) of the transaction. See example below:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Debit/ Credit** | **Account** | **OU** | **Fund** | **Department** | **Business**  **Unit** | **Project** | **Activity** | **Implementing Agent** | **Donor** |
| Debit | 14xxx | H17 | 00001 | 14401 | UNDP1 | 00039902 | ACTIVITY1 | 001981 | 00012 |
| Credit | 7xxxx | BLR | 30000 | 54001 | BLR10 | 00072010 | ACTIVITY1 | 001981 | 10954 |

**Step 2:** OFM will assesses the receivable for impairment in consultation with GSSU, and other parties and book an impairment allowance using GL Account 74401 (Provision for Write-Off) and GL Account 17xxx (Allowance against asset accounts):

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Debit/ Credit** | **Account** | **OU** | **Fund** | **Department** | **Business**  **Unit** | **Project** | **Activity** | **Implementing Agent** | **Donor** |
| Debit | 74401 | BLR | 30000 | 54001 | BLR10 | 00072010 | ACTIVITY1 | 001981 | 10954 |
| Credit | 17xxx | H17 | 00001 | 14401 | UNDP1 | 00039902 | ACTIVITY1 | 001981 | 00012 |

The Allowance Account (17xxx) is a contra account the receivable recorded in account and reduces the receivable balance to zero if the receivable is deemed to be fully impaired.

**Step 3:** Any amount that is subsequently recovered is applied to the receivable (GL Account 14xxx) and a corresponding amount reversed from the impairment account 17xxx.

**Step 4:** Any amount that is NOT recovered should be written-off after due diligence has been exercised as per the FRRs Rule 126.17. Upon approval of write-off, the balance in the receivable account (GL Account 14xxx) and the impairment (GL Account 17xxx} should be reversed and a write-off processed.

***NOTE: The accounting entry recognising a receivable will only be recorded if it is deemed that the amount may be recoverable and the amount is material. As a practical expedient, if it is deemed that the amount is not recoverable and not material, OFM/FPMR may follow a direct write-off along the approved write-off procedure without first recording a receivable and related impairment.***

GL expense account 74401 (Provision for Write-Off) is used to record expenses related to provisions and GL expense account 74405 (Charge for Doubtful Accounts) is used to record write-offs subsequent to approvals obtained in line with UNDP’s FRR.

# **DOCUMENTATION**

The following documentation is expected to be kept to substantiate provision for write-offs:

* Q4 GL reconciliation of accounts mentioned in “Scope” Section.
* Correspondence from GSSU with OUs detailing reasons as to why certain accounts are not collectable.
* Annual detailed listing of provisions created and the reason for each provision.
* Log tracking write-offs made against existing provisions.
* No documentation is expected if provisions are not made, due to the judgment required as to when an allowance for doubtful account is to be established.
* Asset recovery tracker and monitoring report – A quarterly report will be made available that tracks the corporate recoveries receivable.

# **EXCLUSIONS**

Amendments to donor agreements are treated as an adjustment to revenue (not a write-off). Hence no provision is required in cases when a donor has indicated that further unbilled contributions will not be forthcoming.

* A revenue reduction is recognized when mutual understanding is reached between UNDP and a donor, subsequent to signing a binding agreement, to reduce previously recognized earmarked contribution revenue.

No justification is required to support the decision for not making a provision for write-off.

# **LINKS/RESOURCES**

[Internal Control Framework](https://popp.undp.org/node/10966)

[Operational Guide of the Internal Control Framework for UNDP](https://popp.undp.org/node/266)

[SOP-Donor Receivable (AR) Reporting](https://undp.sharepoint.com/:b:/r/teams/GSSU/Contact_Centre/Contact%20Centre%20Document%20Library/01_SOPs/SOP_Donor%20Receivables%20(AR)%20Reporting/SOP-Donor%20Receivable%20(AR)%20Reporting%20v.2021.1.26.pdf?csf=1&web=1&e=cbgupa)

[SOP-Other Receivables (Local Staff)](https://undp.sharepoint.com/:b:/r/teams/GSSU/Contact_Centre/Contact%20Centre%20Document%20Library/01_SOPs/SOP_Other%20Receivables/SOP%20-%20Other%20Receivables%20(Local%20Staff)%20v.2021.1.14.pdf?csf=1&web=1&e=1O0H8p)

[UNDP Financial Regulations and Rules](https://popp.undp.org/node/18916#search=UNDP%20Financial%20Regulations%20and%20Rules)