



PEACE, PROSPERITY AND  
REGIONAL INTEGRATION

# INTERGOVERNMENTAL AUTHORITY ON DEVELOPMENT

## DEBTOR PROVISIONING POLICY

TITLE	DEBTOR PROVISIONING POLICY
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## Abbreviations

<b>DAF</b>	:	Director of Administration and Finance
<b>DR</b>	:	Debit
<b>CR</b>	:	Credit
<b>I&amp;E</b>	:	Income and Expenditure
<b>IGAD</b>	:	Intergovernmental Authority on Development
<b>IPSAS</b>	:	International Public Sector Accounting Standards

## 1. Policy Statement

IGAD is committed to ensure that relevant balances are provisioned for in accordance with the accounting and reporting framework in place. Any monies due to IGAD either from member states, staff members or external parties need to be properly accounted and provisioned for. Accounting policies of IGAD are determined mainly by:

- a) IGAD Financial Rules and Regulations, and
- b) Adoption of the International Public-Sector Accounting Standards (IPSAS).

IGAD abides by the IPSAS framework for reporting and accounting purposes and will ensure that all provisions are made in accordance with this framework. The Administration and Finance Division will be the custodians of this policy and will ensure that it is implemented fully as per the laid-out guidelines.

IGAD's Debtor Provisioning Policy is intended to ensure efficient management of financial resources. IGAD needs to ensure the most effective cash collection procedures are in place and that income generated is reported at the correct levels.

Member states and staff do not always pay their dues or advances in time. If despite best efforts to collect the outstanding amounts, it is deemed to be irrecoverable it is referred to as a bad debt and would normally be written off to the Income and Expenditure Statement. To mitigate against the impact of writing off bad debts, IGAD will make an annual provision in the allowance accounts (referred to as the Allowance for Estimated Irrecoverable Amount).

## 2. Purpose

The purpose of this document is to outline the policy for the calculation of the provision for receivables and provide guidelines for the writing off of any bad debts. IGAD follows an accrual basis for accounting and cash basis for budgeting purposes. Project/Programme accounts are prepared in accordance with accrual basis, as described in the agreement with donors and agreed by the Secretariat's Director of Administration and Finance.

This Debtor Provisioning Policy manual;

- a) Lays down the reporting and provisioning procedures of the sources of funding, expenditure, controls, reporting and auditing;
- b) Explain the debtor provisioning procedures adopted by IGAD;
- c) Ensure uniformity in the application of debtor provisioning rules and procedures at the HQ (Secretariat) level and at Specialized Institutions level;
- d) Document both the Secretariat's and specialized units work ethics with respect to accounting for provisions and;
- e) Enhance transparency and accountability.

The Director of Administration and Finance (DAF) shall identify and raise the required provisions as appropriate.

- a) A detailed listing of all provisions raised shall be prepared together with the previous years 'comparatives, to ensure completeness, ease of analysis and reporting.
- b)
- c) Supporting documentation detailing why any provision was created, and how the provision was calculated, shall be prepared and retained on file.

The DAF shall identify and raise required provisions, including the following as appropriate:

- a) Member State contributions due;
- b) Staff Receivables/Debtors (Mission Imprest/Medical Advances/Salary Advances/Staff Insurance);
- c) Receivables (Inter Project/Office Borrowings/Grants Receivable);
- d) Receivables - Implementing Partners;
- e) Value Added Tax (VAT) Receivables from Member States;
- f) Receivables from Suppliers (occurs in rare cases but arise rarely from over payments)

In addition to this, the finance team shall prepare:

- 1) A schedule of receivables showing the age of the debts as at the statement of financial position date in respect of member contributions, staff advances etc. and submitted to the Director of Administration and Finance for review and approval.
- 2) Explanations of the steps being taken to recover debts and reasons for non-payment shall accompany the schedule of other receivables.
- 3) The Director of Administration and Finance shall review the report and endorse it as evidence of the review.

Policy Revision: The policy will be reviewed from time to time as need arises by the Executive Secretary.

### 3. Definitions

**Debtor:** A person or organisation that owes money to IGAD. This may include member organizations and staff members.

**Bad debt:** An outstanding sum of money owed to IGAD or its members which have not been paid despite repeated efforts to collect the debt (deemed irrecoverable) or it is uneconomic to pursue the debt further.

**Bad debt provision:** This is a provision which is made in IGAD's accounts against outstanding income which may not be collectable. It ensures that future periods' results will not be adversely impacted if debts need to be written off.

**Write-off:** This is a procedure used in accounting when a debtor (or other asset) is determined to be uncollectable and is therefore considered to be a loss.

### 4. Scope of the Policy

This policy applies to all IGAD staff at HQ and all IGAD's specialised units in the respective member countries, including vendors, contractors and any other third party. The term 'IGAD staff' will be used throughout this policy to mean all the Secretariat's staff, project staff, staff at Specialised Offices, Interns, and consultants. To ensure effectiveness of the policy, the Administration and Finance Division is responsible for recommending any changes to this Policy.

### 5. Policy Governance

Leadership of this policy lies with IGAD's Senior Management Team. The Administration and Finance Director will be responsible for the management and administration of the policy. The policy will be reviewed from time to time as need arises to ensure it reflects current accounting practices and is reflective of the financial risks around income collection faced by IGAD. All staff involved in the raising of member state contribution invoices and staff advances are responsible for ensuring that the information contained is correct to reduce the risk of queries and subsequent late payments. They are also required to provide the relevant information and documentation for any debt collection process. All enquiries relating to this policy should be directed to the Administration and Finance Director in the first instance.

#### 5.1. Council of Ministers

The Council of Ministers has the overall oversight responsibility on ensuring adherence to this policy and all relating laws and regulations. The Council shall ensure, through the Audit and Risk Committee that, the Secretariat headed by the Executive Secretary, implements this policy. Member States balances (this level), write-off by council because they approve the contributions. Any member state receivable dealt here.

## 5.2. Executive Secretary

The IGAD Executive Secretary has the responsibility for ensuring implementation and compliance to this policy. The Executive Secretary will work through the executive management committee comprised of the four directors to ensure all employees and counterparties are aware of this Policy and adherence is maintained. However, overall responsibility to ensure the purpose of this policy is met rests with the Executive Secretary. Project receivables/VAT receivables – propose a threshold. A committee by ES and other Directors. Any Non-member receivable by Senior Management, Parameters – period, recoverability and amount.

## 5.3. Director in charge of Administration and Finance

The Director in charge of Administration and Finance has responsibility for ensuring that IGAD undertakes proper debt provisioning. He will ensure that proper bookkeeping and accounting as per IPSAS standards are adhered to.

## 6. Applicable IPSAS

The applicable IPSAS for this policy are IPSAS 28 – Financial Instruments: Presentation, IPSAS 29 – Financial Instruments: Recognition and Measurement and IPSAS 30 – Financial Instruments: Disclosures. The objective of IPSAS 28 is to prescribe principles for classifying and presenting financial instruments as liabilities or net assets/equity, and for offsetting financial assets and liabilities. IPSAS 28 thus aims to ensure that a financial asset and a financial liability are offset, and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts and intends either to settle on a net basis or simultaneously. IPSAS 29's objective is to establish principles for recognizing, derecognizing, and measuring financial assets and financial liabilities. As such all financial assets and liabilities (including provisions) are recognized in the statement of financial position. IPSAS 30 objective is to prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks. IPSAS 30 requires disclosure of information about the significance of financial instruments for an entity's financial position and financial performance. These include:

- Disclosures relating to the entity's performance in the period — including information about recognized revenue, expenses, gains, and losses; interest revenue and expense; fee revenue; and impairment losses
- Other disclosures — including information about accounting policies, hedge accounting, and the fair values of each class of financial asset and financial liability

IGAD shall undertake provisioning through use of allowance account as per IPSAS guidelines.

## 7. Debt Provisioning Procedure

### 7.1. Accounts Receivable

The following guidelines will be followed when accounting for receivables in preparing the necessary accounting entries for reserves and write-offs.

- Accounts receivable are amounts owed to the Authority by member countries, staff and other third parties.
- The Finance Unit shall record in the accounts of the Authority all funds receivable from Member States according to the Agreement and all funds confirmed to be receivable from other sources.

- The DAF shall carry out periodic review and updates of the receivable ledger.
- At the end of each quarter and year a list of receivables of the Authority shall be produced by the Finance Unit showing for each debtor the age of the debt.
- The DAF shall review at least quarterly reports of funds due but not yet received into the bank accounts of the Authority, together with the aged receivables list (all receivables except member contributions).
- Outstanding Member contributions will be reported to the council meeting upon it's convening.
- Where member state receivables have outstanding balances aged more than a year, the Executive Secretary shall submit a report to the Council with a request for action.
- For staff receivables other than salary advance which is outstanding for more than 14 days after completion of mission, recovery shall be done through payroll.
- All accounting entries for uncollectible accounts, including any write-off of uncollectible accounts, will be initiated by the Finance and Administration Division. The provision as per the IPSAS standards will be made through an allowance account.
- These entries are made for receivable accounts recorded on IGAD's Financial Accounting System and respective specialized institutions will need to make entries on their internal accounts receivable records to show the reserves and write-offs.

## 7.2. Calculation of Debtor Provisions

Allowances for estimated irrecoverable amounts are recognized for receivables when there is objective evidence that the asset is impaired, whereby the impairment losses are recognized in the Statement of Financial Performance.

Provisioning will go through the specific identification of accounts receivable subject to allowance provisions, and then the general allowance based on ageing will be applied;

### a. Assessed contributions:

- i. For assessed contributions receivable that are past due in excess of two years for which Member States have specifically contested the amounts, these will be considered for full allowance. The contested balances outstanding for less than two years will be disclosed in the notes to the financial statements;
- ii. No allowance is established for outstanding assessed contributions receivable from Member States that agree to pay them off in accordance with an agreed-upon payment plan;
- iii. Receivables from Member States that are subject to the IGAD Establishing Charter voting rights restriction due to arrears equalling or exceeding the amount of the contributions due from it for the preceding two full years and that are past due in excess of two years: 100 per cent allowance;
- iv. Assessed contributions receivable that are past due in excess of two years specifically related to missions that have been closed over two years if any: 100 per cent allowance;

### b. Voluntary contributions receivable, trade receivables, mission advances, and other receivables:

- i. 25% for receivables outstanding longer than 1 year;
- ii. 60% for receivables outstanding longer than 2 years; and

- iii. 100% for receivables outstanding longer than 3 years.

These threshold amounts will be reviewed regularly to ensure they reflect the natural cycle of debt management processes and are relevant to IGAD.

### 7.3. Accounting Entries

The following accounting entries shall be passed to provision for bad debts:

**Dr. Allowance for Estimated Irrecoverable Amount account**

**Cr. Receivables**

Upon recovery, the following entries shall be made:

**Dr. Cash at hand/Cash in Bank**

**Cr. Other incomes**

### 8. Write-off Procedures

During the financial year once it is established that debts are likely to be irrecoverable or uneconomic to pursue further the debt will be recommended for write-off. Each proposed bad debt will be presented to the relevant body for approval.

- iv. Decision for writing-off of **assessed or voluntary** contribution (irrespective of amounts) – to be considered at Council of Ministers level;
- v. Decision for writing-off of **other receivables** (irrespective of amounts) – to be considered at management level (Executive Secretary)

The following procedure will apply for the writing off of bad debts.

- a) The Authority shall strive to have all outstanding debts recovered using all available administrative and legal means.
- b) In case of non-recoverability, the Authority shall document the basis and justification for write off and effect on Authority
- c) All outstanding balances relating to member contributions will be referred to the Council of Ministers for approval. All the other receivables will be presented to the Executive Secretary and other directors for approval.
- d) The write off shall not be allowed in case of negligence on part of IGAD staff.
- e) The write off shall be updated in the accounting records accordingly.

### 9. Management reporting

In order to enable the Administration and Finance Director to effectively monitor IGAD debtor levels, a quarterly aged debt report will be produced. This will identify movements of debtor balances and contain narrative commentary of key risks, issues, and updates on debt collection activities. The DAF and Executive Secretary will also update the council of ministers of balances written off by management and the rationale for write-off including all efforts that have been made to try recover the monies.