**Plant and Property: Acquisition and Maintenance**

# Plant

1. For the purpose of these guidelines, Plant comprises those assets that are grouped together; held in use for the production or supply of goods or services; used in the implementation of UNDP programmes and administrative operations; and are expected to be used during more than one financial reporting period. Examples of such assets are heavy machinery; furniture and fixtures. The combined cost of such group of assets together should be US$ 5,000 or more and should meet the capitalization criteria described in the POPP PP&E Section. Typically, these assets usually display some or all of the following characteristics:

* 1. They are part of a system or network;
  2. They are specialized in nature and do not usually have alternative uses;
  3. They are usually immovable, and
  4. They may be subject to constraints on disposal.

1. UNDP plant will normally be in projects as the nature of UNDP business rarely necessitates administrative activities requiring the need to construct a plant within its office premises. Examples of such assets may include factories; water and power supply systems; infrastructure to maintain a facility; etc.

Plant should not be confused with Composite Assets. A Composite Asset is an asset that has several components that must be used together but are of less complexity. For example, solar panels and inverters and some server equipment comprising 3 or more parts may be used as a Composite Asset but do not qualify as a plant.

# Property

1. Property is defined as class of assets that are:
   1. Either (a) Land or (b) Buildings that are owned and/or controlled by UNDP with a cost (or value if donated) of US$5,000 or more; and
   2. The cost of the Land or Building can be measured reliably.

1. UNDP currently owns or controls a small number of office and residential buildings as well as the land on which the building is located. It also may own land without buildings. Property will hereafter be referred to as Land and Buildings.

**Acquisition of Plant, Land and Buildings**

# Purchased plant, land and buildings

1. Given the significant capital outlays associated with plant and property, it is expected that most purchased Plant and Land and Buildings will be over the capitalization threshold of

US$5,000. Therefore, any purchased Plant, Land or Building that is to be used by UNDP for

more than 12 months for administrative purposes or in implementing its programmes will be recognized by UNDP as an asset.

1. Before purchasing Plant, Land and Buildings, UNDP procurement rules should be followed and relevant approvals sought from the Procurement Committees in line with the established approval thresholds for procurement. Once the relevant approval is received, the transaction must be processed in Quantum through the procurement catalogue. It is rare that UNDP will purchase a Plant except under nationally implemented projects. The Plant would be a deliverable to an implementing partner and, by expensing it , the item will not be capitalized by UNDP but expensed (recorded in UNDPs Asset Module and depreciation charged over its useful life).

# Constructed plant and buildings

1. In some instances, particularly in crisis countries where there is limited availability of premises to lease and experts to outsource the construction of a building, UNDP may construct its own offices and/or secure staff accommodation. Approval is required from the TTCP first and then the Chief Procurement Officer of UNDP for procurement through the relevant review committees (Regional ACPs for country offices and ACP for HQ units) before commencing construction. Once the approvals are received, the transaction can be processed through the procurement catalogue.

1. Construction of Property should not be confused with Leasehold Improvement. Where a premise is donated to UNDP by the government and the MOU or other agreement acts as the lease agreement, then such an improvement is treated as a Leasehold Improvement and recorded in line with the POPP Leasehold Improvements.

# Common premises property

1. The recognition of Common Premises Land or Buildings as a UNDP Property will depend on whether UNDP is the lead agency and has the exclusive ownership or control over the property or it has a joint arrangement with the other participating agencies. The determining factor is whether or not UNDP as the lead agency has assumed all the risks whilst the other participating agencies use the property or if as the lead agency, UNDP has acted as an agent on behalf of all the other participating agencies when leasing or renting the property in which case, all the participating agencies including the lead agency, bear the risks in proportion with their share of occupancy. UNDP could also be a participating agency whilst another UN agency acts as the lead agency.

1. Where UNDP has exclusive ownership and control, then the property will be recorded as an asset in its books. The same treatment will apply where UNDP has joint ownership and control with the other participating agencies but the asset will be recorded in proportion to UNDP’s share of occupancy or ownership. In the table below are different scenarios, types of arrangements and corresponding accounting treatment. The key issue is to determine if UNDP is acting as a lead agency, exclusively bearing the risks or is acting as the lead agency on behalf of all the participating agencies

| **Scenarios** | **Type of Arrangement** | **Accounting Treatment** |
| --- | --- | --- |
| **1.  Purchased or Constructed Building** | 1a. Constructed or Purchased exclusively by Lead Agency | 1a.  Record building as a Fixed Asset in the books of the Lead Agency. If the participating Agencies pay rent, then each Agency should record the rent they pay as an expense. Where occupancy is rent free, each participating Agency should record rent  as an expense and the corresponding revenue as in kind contribution at the annual fair market value (FMV) |
| 1b. Joint Construction or Purchase by all UN Agencies | 1b. Record share of building as Fixed Asset in  each Agency's books |
| **2. Commercial Operating Lease** | 2a. The Lead Agency acts as Principal and bears all the risks of the Lease | 2a.  Record the full amount of rent as an expense and the portion of rent recovered from the participating Agencies should also be recorded as revenue in the books of the Lead Agency. All the participating Agencies should record their rent paid as an expense |
| 2b.  The Lead Agency acts as an Agent on behalf of all the UN Agencies | 2b. Record each participating Agency's share of the rent paid , including the Lead Agency,  as an expense in their books. |
| **3. Donated Right to Use Building** | 3a.  Building donated exclusively to the Lead Agency to use | 3a.  Record the expense and corresponding revenue as in kind contribution in the books of the Lead Agency using the  FMV of annual rent. The participating Agencies should record an expense and corresponding revenue as in kind contribution using the FMV of the annual rent paid in proportion to the space occupied |
| 3b.  Building donated to the UN System to use | 3b.  Both the Lead Agency and participating Agencies should record an expense and corresponding revenue as in kind contribution using the FMV of the annual rent paid in proportion to the space occupied |
| **4.  Donated Premises** | 4a.  Given exclusively to the Lead Agency | 4a.  Record building as a Fixed Asset in the books of the Lead Agency with a corresponding revenue as in kind contribution at the FMV of the building at the date of acquisition. If the participating Agencies pay rent, then each Agency should record the rent they pay as an expense. Where occupancy is rent free, each participating Agency should record rent  as an expense and the corresponding revenue as in kind contribution at the annual FMV |
| 4b.  Given to the UN System | 4b.  Record building as a Fixed Asset in each of the participating Agency's books, including the Lead Agency, based on the FMV at the time the building was donated |

# Reserve for Field Accommodation (RFA)

11. The Reserve for Field Accommodation (RFA) is the reserve established by UNDP to finance the construction of UN System Common Premises (UNSCP) on behalf of programme governments. The RFA has financed residential and office premises. For those premises where the transfer of ownership to government was not completed by 1 January 2012, the following procedures apply:

# a) Residential Properties

Under the RFA, UNDP is the landlord in a Finance Lease (on the part of the government) arrangement where ultimately the goal is for the government to take over ownership of the properties. Lease payments that are receivable or due under this type of arrangement will be recognized as an asset in a Lease Payment Receivable Account. The receivable amount will be equal to the net investment in the property. UNDP will recognise as an asset in its books any RFA Property for which it has title deeds. Any rent income received on behalf of the government (net of 10 percent administration support fees charged by General Operations/BMS, repairs and maintenance, and renovation expenses) shall be credited to the Lease Payment Receivable Account. To ensure clarity, two separate Lease Receivable Accounts should be maintained.

1. Lease Payments Receivable – Construction; and
2. Lease Payment Receivable – Renovation Costs.

Write-off provisions need to be made annually when and if the probability of NOT receiving Lease payments becomes certain. Such Write-Offs will be processed through a journal voucher after consultation with Accounts Division.

Where the land on which the Residential Buildings are located is owned by the government, it will not be recognized in UNDP books as an asset but the right to build on the land and use such Buildings will be valued and rental expense and corresponding revenue will be recognized in UNDP’s books.

In some cases, the Premises and Land on which the Residential Buildings are constructed has been given to or purchased by UNDP with title deeds to the Land. In such instances, UNDP will recognize the Land and Buildings as an asset in its books.

UNDP will recognize owned Residential Buildings as assets where it owns the title deeds. This means both Land and Buildings, or just the Buildings, will be recognized unless they are transferred to the Government.

# b) Office Premises

Offices purchased by or constructed using RFA funds are mostly owned by the Government. In some cases, the Buildings are constructed by UNDP. These constructions are often jointly funded by UNDP and other UN agencies.

UNDP shall capitalize, through the Basic Add “Manually” function, the office premises as a UNDP Building at its the fair market value. The fair market value is what a rational willing buyer will pay a rational willing seller in a competitive market. The recording of RFA property will be done as part of the opening balance process and will be a one-off exercise.

Contributions made by other UN agencies, e.g. UNFPA, UNICEF, and WFP, towards the construction of the Premises shall be treated as a Deferred Rental Deposit (liability account) against which the monthly depreciation expense portion of the agencies will be charged.

The rent received (net of 10 percent administration support fees charged by General Operations/BMS to cover repairs, maintenance and renovation expenses) shall be treated as Operational Revenue and shared pro-rata on a straight line basis between the agencies that contributed to the construction. This is done at the CO level by the Operations Manager.

Where UNDP has jointly funded the premises with other UN agencies and rents out its own share of the premises, the amounts received will be credited to Rent Received. However, where the jointly funded premises are rented out, the rent received will be pro-rated between UNDP and the other UN agencies.

In some instances, the Land on which the office premises are constructed is owned by the government and must be recorded as a Contribution–In-Kind at its fair market value. For example, when office premises are constructed on government-owned land, UNDP will recognize the cost of the constructed premises. The revenue for the use of the land should, however, be recognized; and the value of the land rental or usage assessed and debited to Leasing or Renting Expense.

In some cases the Premises and Land on which the property is constructed has been given to or purchased by UNDP. In such instances, UNDP will recognize the Land and Building as an asset in its books.

The request will be initiated by the CO or HQ unit asset focal point in UNall before being transacted in Quantum by GSSC. Copies of the transaction documentation (e.g. title deed to the land) will need to be uploaded to UNall and the originals filed in the respective offices

The table below illustrates some of the practical scenarios likely to occur and how they will be treated:

# Type of Real Property Activities that the RFA Supports

| **Land** | **Caveats in Agreements** | **UNDP**  **Asset**  **?** | **Buildings**  **(Residential**  **& Offices)** | **Caveats in Agreements** | **UNDP**  **Asset**  **?** |
| --- | --- | --- | --- | --- | --- |
| UNDP owns outright - purchased property at arm's length transaction | UNDP holds title deed. | YES | UNDP owns outright - purchased  at arm's length transaction | UNDP holds the title deed | YES |
| UNDP builds on the land provided by the government  but the  government  retains Land  title | Housing Agreement:   * UNDP owns the Property, * If it leaves the country, it can transfer ownership to any remaining agency or return to Government. The latter must compensate UNDP for the value it receives. | YES | UNDP builds by providing loan to  Government | Construction Loan Agreement:   * UNDP provides loan to construct. * When completed a Lease agreement between UNDP and government should be drawn up. (Lease terms apply to any UN Agency present in the Country.) * Key terms: government owns building. UNDP to apply rent otherwise payable to government towards amortization of loan. * If loan not repaid, government to take up shortfall. | NO |
| UNDP builds on land provided by the government  but the government  retains land  title | Construction Loan  Agreement:   * UNDP provides loan to construct. * When completed a Lease agreement between UNDP and government should be drawn up. (Lease terms apply to any UN Agency present in the Country.) * Key terms: government owns building. UNDP to apply rent otherwise payable to government towards amortization of loan. * If loan not repaid government to take up shortfall. * UNDP enters into MoU with said Agencies for sharing of space. | NO | UNDP provides  loan to government and builds on behalf of UNICEF, UNFPA & WFP. (UNDP is reimbursed by the  Agencies.) | Construction Loan Agreement:   * UNDP provides loan to construct. * When completed, a Lease agreement between UNDP and government should be drawn up. (Lease terms apply to any UN Agency present in the Country.) * Key terms: government owns the building. UNDP to apply rent otherwise payable to government towards amortization of loan. * If loan not repaid, government to take up shortfall. * UNDP enters into MoU with said Agencies for the sharing of space. | NO |
| Government provides residence for RR's use | Government owns land and buildings - to ask COs to locate agreements in force | NO | Government provides residence for RR's use | Government owns land and buildings - to ask COs to locate  agreements in force | NO |

# Donated or Transferred Plant, Land and Buildings with Title

1. When a Plant, Land or Building is transferred or donated to UNDP with the corresponding transfer of title or ownership documents to UNDP, the Plant, Land or Building will be recorded as an asset at the fair market value. The fair market value is what a knowledgeable, willing and unpressured buyer will pay to a knowledgeable, willing and unpressured seller for the item in a competitive environment. The office will obtain a valuation of the donated Plant, Land or Building and then send a request to the GSSC.

1. The request will be initiated by the CO or HQ unit Asset Focal Point in UNall before being transacted in Quantum by the GSSC. Copies of the transaction documentation (e.g. the donation letter and valuation report) will need to be uploaded to UNall and the originals filed in the respective offices.

**Plant and Property Used and Occupied by UNDP for which UNDP has no Title**

# Donated right to use land and buildings

1. In many instances UNDP operates under an agreement with the government to use the land and buildings on which the office premises are located as long as UNDP has a presence in the country. Should UNDP choose to leave the country, the land and buildings revert to the government. Normally such an arrangement does not involve monthly rental payments from UNDP even if the Government may be paying rent for UNDP’s use of the land and buildings, nor does it involve the transfer of title and ownership. In such instances UNDP will not record an asset but instead record rental income at fair market value in UNDP’s accounts to reflect the value of the donation.

1. This transaction will be done by the country office Operations Manager in consultation with the HQ revenue team. Since the transaction does not necessitate recording of an account receivable amount in the contracts module, the transaction does not need to be recorded by the GSSC.

1. Where the title or ownership of a land and building is transferred to UNDP, this may classify as a Finance Lease depending on the substance of the transaction. The decision to determine whether transferred land or buildings is to be accounted for as a finance Lease or operating Lease lies with the GSSC, which will also perform the corresponding accounting entries on behalf of the country office.

1. This is determined on an on-going basis whenever a Lease agreement, MOU or other form of premises agreement is uploaded in UNall by the country office focal point in charge of premises.

# Common premises

1. Where UNDP is one of the UN agencies using common premises that are not owned or controlled by UNDP, such land and buildings should not be recorded as UNDP assets. For more information, please see the section above on Common Premises.
2. Any Leased building for which UNDP pays rent to a landlord for the use of the building with no expectation of transfer of risks or rewards incidental to ownership of the building will NOT be recognized as a UNDP asset and the rental payments will be expensed. Refer to the POPP Management of Leases for additional information on management of UNDP Leases.

# Plant

20. Any plant which is not used by UNDP and for which UNDP has no control or ownership should not be recorded as a UNDP asset.

The following corporate guidelines are applicable to the management of Plant & Property:

UNDP Financial Regulations & Rules

UNDP IPSAS Policy Paper on PP&E Capitalization, Depreciation and Impairment Policy

UNDP IPSAS Policy on Leases

Internal Control Framework

[POPP on project management](https://intranet.undp.org/global/popp/ppm/Pages/Project-Management.aspx)

# Flowchart

# [Asset Acquisition under IPSAS](https://popp.undp.org/node/3721)

# Measurement and Recognition

1. Typically, UNDP will capitalize the **Plant, Land and/or Buildings** if the asset(s):
   1. Provides future economic or service benefits to UNDP. This is PP&E that is held for use in the implementation of UNDP Programmes or for administrative purposes;
   2. Is expected to be used during more than one reporting period (which in UNDP is 12 months);
   3. Has a value of US$5,000 or more.
   4. Is used and controlled by UNDP
   5. Has a cost that can be reliably determined.

1. The capitalization of **Plant** is based on whether the different classes of assets (e.g., heavy machinery & other equipment, furniture and fixtures, etc.) are combined or assembled together; and are used to implement UNDP programmes through the production or supply of goods or services.

1. It is recognized that UNDP operates under various implementation modalities. The implementation modalities are also a useful indicator of whether UNDP uses and controls an asset. All assets bought from the biennium support budget or institutional budget qualify for capitalization. In addition, assets acquired for projects implemented through Country Office Support to NIM and Direct Implementation may qualify for capitalization, provided that the assets are under the use and control of UNDP. For details on “use and control” concept, refer to the POPP PP&E section.

1. Consequently, for those implementation modalities under which UNDP does not typically use or control assets, such as full NIM projects, the Plant asset will be expensed and not capitalized.

# Component Costs

1. The cost of Plant, Property and/or Buildings comprises their purchase price and any directly attributable costs of bringing those assets to the location and working condition necessary for intended use. Examples of directly attributable costs are: a) The cost of site preparation;
   1. Construction costs including materials and labour;
   2. Installation costs; and
   3. Professional fees, such as for architects and engineers.

1. Administration and other general overhead costs for maintaining the asset are not component costs and should be expensed.

1. A unique component of a Land and/or Building cost is the stamp duty for the transaction. The cost of stamp duty (if payment for such was applicable) also has to be capitalized, i.e. recorded in the Quantum Asset Module for Depreciation.

# Subsequent Costs

28. Subsequent costs should be added to the carrying amount of the asset when it is probable that future economic benefits will be added to the asset. These are normally treated as additional costs that should be capitalized together with the original cost of the property. They cannot be treated as Leasehold Improvements as these are UNDP-owned Plant and Property. The request will be initiated by the country office or HQ unit Asset Focal Point in UNall using the adjustment category before being transacted in Quantum by the GSSC. Copies of the transaction documentation (e.g. copies of original Invoices of adjusted costs) will need to be uploaded in UNall and the originals filed in the respective offices.

Costs related to routine repairs or maintenance is not to be capitalized and should be expensed.

# Recording of Construction Costs

# Recording Of Plant, Land and Buildings

1. UNDP is responsible and accountable for all Plant, Land and Buildings under its usage, ownership and control. For Common Premises, please refer to the Common Premises Policy

1. For recording the purchase of Land and Buildings, select the appropriate category from the catalogue. Once the requisition and purchase order are processed and the item is received, the goods received note (GRN) should be prepared; and the receipt function performed in Quantum. This will ensure that the accounts payable voucher can be processed. The purchase price will be recorded as the cost of the Land or Building in the Quantum Asset Module once the accounts payable voucher is processed. All the cost details etc., of the asset will be recorded and the asset capitalized. The AM will subsequently update the appropriate general ledger account.

1. If the Land or Building is donated for free and the title documents transferred to UNDP, then the fair market value will need to be determined (e.g. using valuation experts) and the Land or Building will subsequently need to be recorded in Quantum through Basic Add by the GSSC. The request will be initiated by the CO or HQ unit Asset Focal Point in UNall before being transacted in Quantum by the GSSC. Copies of the transaction documentation (e.g. independent valuation expert’s fee) will need to be uploaded in UNall and the originals filed in the respective offices.

# Tagging of Plant, Land and Buildings

34. The plot number, Land Registration number for the Land or the Building name or the physical address will be used as the TAG reference in the AM.

# Records Maintenance

1. The Quantum Asset Management records for Plant, Land and Buildings must be updated **on a timely basis,** to ensure that the Quantum Assets Module and the general ledger accounts are up-to-date for all acquisitions requiring manual addition, adjustments, transfers and disposals.

For transfers and disposals, please follow the procedures in the POPP Furniture and Equipment section.

**Adjustments, Revaluations and Impairments**

1. Adjustments to Plant, Land and Building records may be necessary as follows:

# Impairment

37. Impairment is an example of downward adjustments. **Impairment** is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation. An example of Impairment is the adjustment in the value of a plant after a major breakdown in one of its machines, which reduces its ability to perform its functions. Impairment adjustments must be handled on a timely basis, and will be processed centrally by the GSSC upon the request of the respective CO or respective HQ unit. The request will be initiated by the country office or HQ unit Asset Focal Point in UNall before being transacted in Quantum by the GSSC. Copies of the transaction documentation (e.g. expert valuation of the asset impairment or insurance assessment) will need to be uploaded in UNall and the originals filed in the respective offices.

# Safeguarding and Control

38. UNDP is responsible and accountable for all Plant, Land and Buildings under its usage and control. In addition to the procedures mentioned in the preceding chapters, following are a list of mandatory controls over the management of property, land and buildings.

1. A physical verification of Plant, Land and Buildings is completed bi-annually/or annually by the operations management team of each CO and HQ Unit and their projects. The results are reconciled with the property records in AM by the finance/accounts units of each CO and HQ Unit.
2. The Head of Office, through the Operations Manager and project managers, is responsible for certifying the results of the bi-annual/or annual Physical verification of all Plant, Land and Buildings in their offices/programme areas; and for submitting such results to the General Operations/BMS by the stipulated deadline.
3. No Plant, Land and Buildings shall be acquired by UNDP, whether purchased, donated or loaned, without the prior approval of the project manager or the designated head of office where the project is being implemented (in line with the approved table of authority for UNDP)–) and the relevant procurement committees in line with the prescribed approval thresholds.
4. All UNDP Plant, Land and Buildings must be used for official purposes only. For all other usage, approval must be obtained from the regional bureau heads.
5. The physical safeguarding of Plant, Land and Buildings is the responsibility of the project manager (for development project Plant, Land and Buildings) and the Operations Manager (for management Plant, Land and Buildings). They shall ensure that proper physical controls, e.g. gates and fences; fire safety equipment; etc., are in place to protect the Plant, Land and Buildings against damages.
6. UNDP Plant, Land and Buildings must be adequately insured to minimize the impact of total or partial loss in the event of fire, damage or other insurable risks. Such Insurable costs should be incorporated in the project budget at the planning stage. Please refer to the Insurance Policy for further details on UNDPs insurance requirements.

**Roles and Responsibilities**

# Authority to Acquire Plant and Property

39. The Assistant Administrator/Chief Procurement Officer (CPO) of the Bureau for Management Services (BMS) is responsible for all property; plant and equipment (PP&E) acquired, controlled and managed by UNDP. The CPO delegates his authority to acquire, control and manage PP&E to each Resident Representative, Head of Out-Posted Headquarters’ Unit and to the Chief of the General Operations/BMS.

# Responsibility of Business Units (HQ, Out-Posted HQ Units and COs)

1. Acquiring via E-requisition/PO/receipt/AP voucher, using the correct catalogue
2. Updating the tag number in AM module
3. Verifying the Plant, Land and Buildings in accordance with the physical location; and comparing to the Quantum reports.
4. Requesting the GSSC to re-adjust Plant, Land and Buildings (cost and quantity)
5. Requesting the GSSC to re-categorize Plant, Land and Buildings
6. Changing the in-service date status of the Plant, Land and Buildings where necessary
7. Requesting the GSSC to impairment Plant, Land and Buildings
8. Requesting the GSSC to transfer Plant, Land and Buildings (in and out of the Business

Unit)

1. Requesting the GSSC to modify COA and subsequent adjusting GL entries
2. Requesting the GSSC to add PP&E manually
3. Addressing corrective action for errors and irregularities identified by GSSC
4. Consulting with General Operations/BMS on any issues requiring policy clarification or changes
5. The Asset Manager’s approving, in UNall, all Plant, Land and Buildings transactions originating from the Asset Focal Point