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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-second Meeting
Montreal, 29 November - 3 December 2010

RECONCILIATION OF THE ACCOUNTS

(DECISION 59/50)

1. This document contains four sections: Section I: Background; Section II: Reconciliation of the Income as recorded in the 2009 Accounts with the Implementing Agencies' Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects. Section III: Expenditures Reported in the 2009 Accounts and in the Progress Report; and Section IV: Recommendations.

Section I: Background

2. Following the 38th Meeting and the submission of the 2001 accounts of the Fund, the Executive Committee requested that a full reconciliation of the accounts with the progress and financial reports should be prepared for the last meeting of each year (decision 38/9 (d)). The Secretariat in collaboration with the implementing agencies and the Treasurer has conducted this exercise every year and reported the results annually to the last meeting of the year with outstanding reconciling items not resolved in the course of a given year being carried over to the following year.

Section II: Reconciliation of the Income as recorded in the 2009 Accounts with the Implementing Agencies' Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects

3. Adjustments are proposed to be effected in UNEP's 2010 accounts in consultation with the implementing agencies and the Treasurer subject to the decision of the Executive Committee as recommended in the present report.

Progress Report Financial Data and the Inventory of Approved Projects

4. As shown in Table 1 the Progress Report Financial Data of the implementing agencies reflects minor discrepancies for all the agencies compared to the Secretariat's Inventory of Approved Projects, with the exception of UNDP with a US \$19 difference. Since the ultimate source of the implementing agencies' approvals is the inventory maintained by the Secretariat, it is suggested that the 2009 approved amount of US \$2,335,959,173 as per the inventory be used for the purpose of the 2009 reconciliation of the accounts exercise.

Table 1

COMPARISON BETWEEN PROGRESS REPORTS AND INVENTORY OF APPROVED PROJECTS (US \$)

| Agency | 2009 Progress Report – Total funds approved including support costs | Inventory – Total funds approved including support costs | Difference |
|--------------|---|--|------------|
| UNDP | 580,967,692 | 580,967,673 | -19 |
| UNEP | 176,036,370 | 176,036,377 | 7 |
| UNIDO | 556,103,919 | 556,103,919 | 0 |
| World Bank | 1,022,851,200 | 1,022,851,204 | 4 |
| Total | 2,335,959,181 | 2,335,959,173 | -8 |

5. During the 2008 reconciliation of the accounts exercise an additional amount of US \$11 in UNDP's records of approved projects needed to be aligned to the 2008 approved projects as per the Secretariat's Inventory. Table 1 now shows a US \$(19) difference between the Secretariat's Inventory and the 2009 approvals reported in the UNDP's progress report. UNDP advised that the discrepancy is due to an error in the Programme Support Cost rounded incorrectly in its Progress Report. UNDP advised the Secretariat that this amount will be adjusted in its 2010 progress reports.

6. In the case of UNEP, the shortfall of US \$176,401 that had been noted during the 2008 reconciliation of the accounts against project GLO/SEV/50/TAS/276 has been adjusted in UNEP's progress report. The discrepancy of US \$7 between UNEP's records and the Secretariat's inventory reflected in table 1 is due to differences resulting from rounding between the UNEP's Progress Report and the Secretariat's inventory of approved projects. Where the difference is higher than US \$5 it is suggested that the agencies align their figures to the inventory maintained by the Secretariat or justify the discrepancy. It is therefore recommended that UNEP align its records of approved amounts as reported in its progress report to the Secretariat's Inventory before the next reconciliation of the accounts exercise.

Net Approvals in Progress Reports and 2009 Income Accounts of the Implementing Agencies

7. The net approved funds in the agencies' progress reports and the income in the 2009 accounts of the Fund cover the same period. However, as shown in Table 2, there are differences between the two reports.

Table 2

DIFFERENCES BETWEEN THE PROGRESS REPORTS AND 2009 ACCOUNTS OF THE FUND – FUNDS APPROVED AND INCOME (US\$)

| (1) | (2) | (3) | (4) | (5) = (3)-(2) | (6) = (4)-(2) |
|---------------|--|--|--|--|--|
| Agency | 2009 Progress Report – Total funds approved including support costs | Aggregate Income for 2009 Accounts of the Fund (Provisional as reported by the Treasurer) | Aggregate Income for 2009 Accounts of the Fund (per Final statements) | Difference between Provisional Accounts and Progress Report | Difference between Final Accounts and Progress Report |
| UNDP | 580,967,692 | 580,967,683 | 581,002,526 | -9 | 34,834 |
| UNEP | 176,036,370 | 176,259,023 | 176,259,023 | 222,653 | 222,653 |
| UNIDO | 556,103,919 | 556,045,700 | 556,045,700 | -58,219 | -58,219 |
| World Bank | 1,022,851,200 | 1,035,014,999 | 1,035,014,999 | 12,163,799 | 12,163,799 |
| Total | 2,335,959,181 | 2,348,287,405 | 2,348,322,248 | 12,328,224 | 12,363,067 |

Note: A positive number in the last column means more income was reported in the agency's accounts than indicated in the progress report. A negative number means less income was reported in the agency's accounts than indicated in the progress report.

8. Table 3 explains the differences between the progress reports and the agencies' aggregate income in the 2009 final accounts.

Table 3

RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS REPORTS AND INCOME IN THE 2009 FINAL ACCOUNTS OF THE FUND (US\$)

| Row | Comments | UNDP | UNEP | UNIDO | World Bank |
|-----|--|--------|---------|---------|------------|
| 1 | Difference between Agency Audited Accounts and Progress Report | 34,834 | 222,653 | -58,219 | 12,163,799 |
| 2 | 2009 final quarter interest earnings accounted for in the 60 th Meeting approvals | 34,843 | | | 53,359 |
| 3 | Error due to rounding of support costs in UNDP progress report | -9 | | | |
| 4 | Interest accrued in 2009 not reflected in the progress report | | 222,749 | | |
| 5 | Difference between actual and estimated 2009 interest already adjusted at the 60 th Meeting | | | -58,219 | |
| 6 | Difference between approved amounts at ExCom 55 and 56 and income | | -81 | | |
| 7 | Rounding difference in the inventory | | -7 | | |
| 8 | Rounding difference in income | | -8 | | |
| 9 | Thailand Chiller Project | | | | 1,198,946 |

| Row | Comments | UNDP | UNEP | UNIDO | World Bank |
|-----------|--|----------|----------|----------|------------|
| | (THA/REF/26/INV/104) | | | | |
| 10 | Chile Halon Transfer (CHI/HAL/42/TAS/156) | | | | -64,500 |
| 11 | Standing reconciling item of an investment income – Adjustments * | | | | 8 |
| 12 | Standing reconciling item of Sweden bilateral (THA/HAL/29/TAS/120)* | | | | 225,985 |
| 13 | Standing reconciling item US bilateral (CPR/PRO/44/INV/425)* | | | | 5,375,000 |
| 14 | Standing reconciling item US bilateral (CPR/PRO/47/INV/439)* | | | | 5,375,000 |
| 15 | Total (Rows 2 to 14) | 34,834 | 222,653 | -58,219 | 12,163,798 |
| 16 | Difference | 0 | 0 | 0 | 1 |

*Standing reconciling items to be closed on completion of the Bank's MP activities.

9. Table 3 shows that all agencies were able to identify the reasons for differences between their 2009 income and the approved amounts as per the Inventory.

UNDP

10. UNDP explained that the difference of US \$34,834 between the 2009 progress report and the 2009 financial statement represents the difference in interest income between the 2009 provisional and UNDP final financial statements. This amount had been deducted by the Treasurer from the 57th Meeting approvals in April/May 2009 and is reflected in UNDP's 2009 Progress Report but not in UNDP's Financial Statement. UNDP reported a reconciling item of US \$(9) due to rounding of support cost in its progress report, to be corrected by UNDP in its 2010 Progress Report.

UNEP

11. Row 1 of Table 3 shows that UNEP's 2009 final accounts reflect US \$222,653 more income in its 2009 financial statement than in its 2009 progress report. UNEP explained that the amount of US \$222,749 (row 4 of Table 3) in interest income had been reflected in its 2009 accounts and not in the progress report. It shall be adjusted by UNEP in its 2010 Progress Report.

12. The amount of US \$(81) is due to the difference between the amounts approved at the Executive Committee 55th and 56th Meetings and the actual amounts received for these approvals. The Treasurer confirmed that this amount was not transferred to UNEP and corrective action will be taken by the Treasurer. The amount of US \$(7) corresponds to the rounding difference at the approval level mentioned in para 9 and should be adjusted by UNEP in its Progress Report.

13. With respect to the US \$8 discrepancy which UNEP explains as a rounding difference in income, the Secretariat considers that UNEP should account for the exact amount received from the Treasurer. If the discrepancy is resulting from internal project allotment, this amount should remain a reconciling item until further clarification is provided and internal adjustments are made by UNEP.

UNIDO

14. With respect to UNIDO, the total estimated interest reported to the Treasurer for the period January – September 2009 is US \$617,368.54. This amount had been netted off by two transfers made by the Treasurer against the 57th and 59th Executive Committee approvals of US \$337,071 and US \$280,297

respectively. As the estimated interest reported to the Treasurer for the first three quarters in 2009 exceeded the total interest reported in the provisional annual 2009 statement, an amount of US \$58,219 was still due to UNIDO as at 31st December 2009. The balance due to UNIDO has been subsequently corrected in the Treasurer's transfer against the 60th Executive Committee approvals in 2010 and no further action is required.

World Bank

15. Row 1 shows a difference of US \$12,163,799 between net approvals in the Bank's progress reports and income in the 2009 final accounts of the Fund. Out of this amount, US \$53,359 corresponds to the interest earnings in the last quarter for October to December 2009 to be reflected in the World Bank's 2010 Progress Report.

16. US \$1,198,946 represents the refund made against the Chiller concessional loan project for Thailand. This amount had been deducted from the World Bank's income by the Treasurer in 2008 and represents a loan repayment of the balance of the project amounting to US \$1,198,947 as noted in decision 55/2 (a)(ii). However this amount is still reflected in the Bank's accounts of its 2009 income, while the Progress Report database had been changed to show a zero net approval. US \$1,198,946 reflected in the World Bank Financial Statement constitutes a reconciling item to be adjusted by the World Bank.

17. The World Bank had further identified an amount of US \$64,500 that refers to the adjustment relating to the Chile Halon technical assistance project (CHI/HAL/42/TAS/156) that was transferred to UNDP, along with support costs. However, funds associated with this transfers were deducted twice through decision 51/10(b) in the World Bank's business plan and decision 52/2(b) and (c) on balances. Corrective action should be taken to refund the Bank the double deduction of this amount.

Standing reconciling items

World Bank

18. The World Bank reported the same standing reconciling item of US \$5,375,000 for a bilateral contribution received in 2006 from the United States of America towards the US-China Accelerated Production Phase-out projects (CPR/PRO/44/INV/425). The Bank added another amount of US \$5,375,000 related to the Accelerated Production Phase-out US bilateral project for China (CPR/PRO/47/INV/439). This project was approved at the 47th Executive Committee Meeting. Both amounts will remain standing reconciling items in the accounts because the World Bank has included them as part of its income in the 2006 and 2008 accounts, whereas it is not included in the Secretariat's list of approved projects for the World Bank because it is a bilateral contribution.

19. The Bank also reported the same sum of US \$225,985 that was a standing reconciling item in previous annual reconciliations of accounts. It is a Swedish bilateral contribution approved at the 29th Executive Committee Meeting and has been treated in a similar manner to the bilateral contribution received from the United States on the US-China Accelerated Production Phase-out projects (CPR/PRO/44/INV/425). Consequently, both will remain as standing reconciling items since they cannot be treated as normal income from the Multilateral Fund in the Bank's progress report.

20. An investment income of US \$8 had been identified as a reconciling difference by the World Bank in the 2007 reconciliation exercise. This is a small amount of investment income that was earned by the World Bank in June 2007 but had been excluded from the quarterly reporting on investment.

Section III: Expenditures Reported in the Accounts and in the Progress Report

21. Table 4 sets out the differences between the cumulative expenditures provisionally reported to the Treasurer in the 2009 accounts of the Fund, and the sum of the funds disbursed and funds obligated as reported to the Fund Secretariat in the annual progress reports of the implementing agencies for the period 1991 to 2009.

Table 4

EXPENDITURES (US\$)

| (1) | PROGRESS REPORT | | | (5) | (6) |
|------------|---|---|--|---|-------------------------|
| | (2) | (3) | (4) | | |
| | Funds disbursed including support costs | Funds obligated including support costs | Total cumulative expenditures {(2)+(3)} | | |
| | | | | Total cumulative expenditures reported to the Treasurer | {(4)-(5)} (See Note) |
| UNDP | 525,285,860 | 2,647,872 | 527,933,731 | 520,705,937* | 7,227,794 |
| UNEP | 148,198,540 | 6,759,805 | 154,958,345 | 154,958,346 | -1 |
| UNIDO | 487,180,568 | 20,472,363 | 507,652,930 | 507,652,733 | 197 |
| World Bank | 963,599,356 | 58,431,997 | 1,022,031,353 | 974,555,526 | 47,475,827 |

*Provisional accounts.

Note: A positive number in the last column means more expenditure was indicated in the progress report than in the accounts of the Fund. A negative number means less expenditure was indicated in the progress report than in the accounts.

22. Table 5 summarises the differences in the expenditures reported in the agencies' progress reports and the accounts of the Fund.

Table 5

RATIONALE FOR DIFFERENCES IN EXPENDITURES REPORTED IN PROGRESS REPORTS AND THE ACCOUNTS OF THE FUND (US\$)

| | UNDP | UNEP | UNIDO | World Bank |
|---|-----------|------|-------|------------|
| 1. Difference between Agency Accounts and Agency Progress Report | 7,227,794 | -1 | 197 | 47,475,827 |
| 2. Funds allotted to cover 2009 & 2010 administrative commitments. Earned and reported in progress report, not yet disbursed per 2009 accounts | 5,696,686 | | | |
| 3. Difference between provisional and final 2009 financial statements to be recorded in 2010 based on the final 2009 financial statement submitted by UNDP | 1,472,350 | | | |
| 4. Project level errors identified and removed from 2009 progress report not adjusted in 2009 financial statement. To be adjusted by UNDP in 2010 accounts. | -38,597 | | | |

| | | | | |
|---|-----------|----------|----------|-------------|
| 5. Standing reconciling item is reduction of expenditure in financial statements not associated with any specific projects. Increases the fund balance due to MLF but can only be returned when the trust fund is closed* | 68,300 | | | |
| 6. Standing reconciling item is reduction of expenditure in financial statement is not associated with any specific projects. Increases the fund balance due to MLF but can only be returned when the trust fund is closed* | 29,054 | | | |
| 7. Committed value for approved projects | | | | 58,431,997 |
| 8. Disbursement to WB Special Accounts | | | | -10,956,170 |
| 9. Outstanding reconciling items | | | 197 | |
| 10. Rounding difference | | | -1 | |
| 11. Total (Rows 2 to 10) | 7,227,793 | | -1 | 197 |
| 12. Difference | 1 | 0 | 0 | 0 |

* Standing reconciling item that can be returned when the trust fund is closed

UNDP

23. Row 2 represents funds allotted to cover 2009 and 2010 administrative commitments earned and reported in progress report, not yet disbursed per 2009 financial statement. UNDP explained that even though this amount is considered to be earned and reported in the progress report, it was not yet disbursed as per the 2009 financial statements.

24. Row 3 represents the difference of US \$1,472,350 between the provisional and final 2009 financial statements to be recorded by the Treasurer in 2010 based on the final 2009 financial statement submitted by UNDP.

25. Row 4 is a 2009 reconciling item related to an error of an amount US \$(38,597) identified and removed from the 2009 progress report that shall be adjusted by UNDP in its 2010 accounts.

Standing reconciling items

26. Rows 5 and 6 show the sums of US \$68,300 and US \$29,054 that will remain as standing reconciling items for UNDP till closure of the Multilateral Fund funded projects and cannot be associated with any specific project. It is to be noted that through reducing its expenditures by these two amounts in its financial statement UNDP has, in theory, taken the required action to return these amounts to the Fund.

UNEP

27. Except for the US \$1 difference, there is no discrepancy between UNEP's 2009 progress report and 2009 accounts. During the 2008 reconciliation of the accounts document, UNEP had one reconciling item related to a 2009 meeting participants cost inadvertently posted in 2009 that has resulted in a difference of US \$1,905 between the 2008 progress report and the 2008 financial statements. This amount has been cleared by UNEP.

UNIDO

28. With respect to UNIDO, it has reported US \$197 more expenditure in its 2009 financial statement compared to its 2009 progress report. UNIDO did not explain the reason for the discrepancy. The additional US \$197 in UNIDO's 2010 Financial Statement remains a reconciling item to be revisited at the next reconciliation of the accounts exercise.

World Bank

29. Regarding the World Bank, US \$47,475,827 relates to the fact that it uses a cash basis of accounting where disbursements are not recorded in its financial statements until such payments are made, while they are reflected in its progress reports. Therefore its progress report will always reflect a higher expenditure than its final statement. The progress report's disbursement figures are primarily made up of those reported to the World Bank by their financial agents and client countries (in the case of some sector and national ozone depleting substance phase-out plans), whereas expenditures in the financial statement represent the funds that flow out of the Bank into the special accounts (and eventually to the beneficiary). At any given time, there will be a higher total expenditure level in the accounts than in the progress report because of the time lag between disbursement to the special accounts and disbursement to the beneficiary.

Section IV: Recommendations

30. The Executive Committee may wish to:

- (a) Note the reconciliation of the 2009 accounts as presented in document UNEP/OzL.Pro/ExCom/62/59;
- (b) Request the implementing agencies to carry out 2009 adjustments in 2010 as follows:
 - (i) UNDP to adjust its records of approved amount by US \$(19), and its records of income by US \$9 in its Progress Report; and
 - (ii) UNEP to adjust its records of approved amount by \$7 in its Progress Report; and US \$222,749 income not reflected in its Progress Reports.
- (c) Request the Treasurer:
 - (i) To transfer US \$81 that had been overlooked during the transfers made to UNEP for the approved amount at the 55th Meeting and 56th Meeting of the Executive Committee;
 - (ii) To refund to the World Bank an amount of US \$64,500 to rectify the double deduction on the transfer of the Chile Halon project (CHI/HAL/42/TAS/156).
- (d) To note the 2009 reconciling items as follows:
 - (i) US \$197 additional expenditure in UNIDO's 2009 Accounts;
 - (ii) US \$8 reported as a rounding difference in UNEP's income; and
 - (iii) US \$1,198,946 for the return of the loan of Thai Chiller project (THA/REF/26/INV/104) still recorded in the World Bank's 2009 Financial Statement as income.
- (e) To note the standing reconciling items for UNDP and the World Bank as follows:
 - (i) UNDP standing reconciling items for unspecified projects at the amounts of US \$68,300 and US \$29,054;

- (ii) World Bank standing reconciling items for the following projects:
- Sweden bilateral (THA/HAL/29/TAS/120) at the amount of US \$225,985;
 - US bilateral (CPR/PRO/44/INV/425) at the amount of US \$5,375,000;
 - US bilateral (CPR/PRO/47/INV/439) at the amount of US \$5,375,000; and
 - US \$8 investment income adjustment.
