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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-Eighth Meeting
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RECONCILIATION OF THE ACCOUNTS

1. This document contains four sections: Section I: Background; Section II: Reconciliation of the Income as recorded in the 2011 Accounts with the Implementing Agencies' Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects. Section III: Expenditures Reported in the 2011 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 (IAs) 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 2011 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 2012 accounts in consultation with the IAs and the Treasurer subject to the decisions 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 IAs reflects discrepancies for all the agencies compared to the Secretariat's Inventory of Approved Projects. Since the ultimate source of the IAs' approvals is the Inventory maintained by the Secretariat, it is suggested that the 2011 approved

amount of US \$2,652,092,237 as per the Inventory be used for the purpose of the 2011 reconciliation of the accounts exercise.

Table 1

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

Agency	2011 Progress Report – Total funds approved including support costs	Inventory – Total funds approved including support costs	Difference
UNDP	671,401,730	671,401,763	33
UNEP	212,612,912	212,584,723	-28,189
UNIDO	693,183,433	693,184,939	1,506
World Bank	1,074,920,807	1,074,920,812	5
Total	2,652,118,882	2,652,092,237	-26,645

5. Table 1 shows a US \$33 difference between the Secretariat's Inventory of approved projects and the 2011 approvals reported in the UNDP's progress report. The discrepancy of US \$33 is a result of rounding differences. UNDP will make a final adjustment in the 2012 progress report in order to cancel out the previous adjustment that was based on the Inventory as of 2010.

6. The discrepancy of US \$-28,189 between UNEP's records and the Secretariat's inventory reflected in table 1 is the sum of US \$-21,960 against project SIL/SEV/35/TAS/01 to be adjusted in the progress report by UNEP and US \$-6,232 against project AFG/SEV/43/CPG/02 to be adjusted by the Secretariat in the Inventory, leaving a rounding difference of US \$3. Both UNEP and the Secretariat agreed to make the necessary adjustments to match the progress report data with the Secretariat's Inventory of Approved Projects.

7. UNIDO attributes the US \$1,506 discrepancy between UNIDO's Progress Report and the Secretariat's Inventory of Approved Projects to the return of balances on completed projects to the 67th meeting of the Executive Committee, which were already shown as funds returned in the progress and financial report and not yet reflected in the Inventory. A breakdown of this amount, with the list of projects against which these balances had been returned, was provided by UNIDO to the Secretariat leaving no further differences.

8. The difference of US \$5 for the World Bank also results from rounding between the World Bank's Progress Report and the Secretariat's inventory of approved projects.

9. 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 UNDP and UNEP align their records of approved amounts reported in their progress report to the Secretariat's Inventory for the next reconciliation of the accounts exercise.

Net Approvals in Progress Reports and 2011 Income Accounts of the Implementing Agencies

10. The net approved funds in the IAs' progress reports and the income in the 2011 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 2011 ACCOUNTS OF THE FUND – FUNDS APPROVED AND INCOME (US\$)

(1)	(2)	(3)	(4)	(5) = (3)-(2)	(6) = (4)-(2)
Agency	2011 Progress Report – Total funds approved including support costs	Aggregate Income for 2011 Accounts of the Fund (Provisional as reported by the Treasurer)	Aggregate Income for 2011 Accounts of the Fund (per Final statements)	Difference between Provisional Accounts and Progress Report	Difference between Final Accounts and Progress Report
UNDP	671,401,730	671,401,776	671,722,877	46	321,147
UNEP	212,612,912	212,594,525	212,592,214	-18,387	-20,698
UNIDO	693,183,433	693,398,309	693,398,309	214,876	214,876
World Bank	1,074,920,807	1,087,166,826	1,087,166,826	12,246,019	12,246,019
Total	2,652,118,882	2,664,561,436	2,664,880,226	12,442,554	12,761,344

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

11. Table 3 explains the differences between the progress reports and the IAs' aggregate income in the 2011 final accounts.

Table 3

RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS REPORTS AND INCOME IN THE 2011 FINAL ACCOUNTS OF THE FUND (US\$)

Row	Comments	UNDP	UNEP	UNIDO	World Bank
1	Difference between Agency audited accounts and Progress Report	321,147	-20,698	214,876	12,246,019
2	Difference between provisional and final on 2010 interest and miscellaneous (action by Treasurer)			-23,267 -3,015	
3	2011 final quarter interest earnings				-71,078
4	Interest accrued in 2011 reflected in the 2011 accounts not reflected in the progress report (Treasurer for action i.e. to refund over recovery to UNEP)		10,939		
5	Interest balances for the 4 th quarter 2011 (Treasurer for action) Miscellaneous income for the 4 th quarter 2011 (Treasurer for action)			-169,210 -17,890	
6	UNIDO balances for various projects returned at the 67 th Excom			-1,506	

Row	Comments	UNDP	UNEP	UNIDO	World Bank
7	Difference between actual and estimated 2011 interest (Treasurer for action in 2012 Accounts)	-321,101			
8	Difference in Programme Support Costs reflected in inventory and not in progress report		9,720		
9	Standing reconciling item of Thailand Chiller Project (THA/REF/26/INV/104)*				-1,198,946
10	Standing reconciling item of Sweden bilateral (THA/HAL/29/TAS/120)*				-225,985
11	Standing reconciling item US bilateral (CPR/PRO/44/INV/425)*				-5,375,000
12	Standing reconciling item US bilateral (CPR/PRO/47/INV/439)*				-5,375,000
13	Total (Rows 2 to 12)	-321,101	20,659	-214,888	-12,246,009
14	Difference (Outstanding reconciling item)	46	-39	-12	10

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

12. Table 3 shows that UNDP, UNEP, UNIDO and the World Bank did not identify the reasons for their differences in time for the 68th meeting.

UNDP

13. UNDP explained that the difference of US \$321,147 between the 2011 progress report and the income in its 2011 financial statement represents the difference in interest income between the 2011 UNDP's provisional and final financial statements amounting to US \$321,101. This amount will be credited to Multilateral Fund's interest income account in 2012. The remaining difference of US \$46 is an outstanding reconciling item due to a pending adjustment to be made after the discrepancy between the Secretariat's Inventory of Approved Projects and data on approved projects in UNDP's progress report is clarified between UNDP and the Secretariat.

UNEP

14. Row 1 of table 3 shows that UNEP's 2011 final accounts reflect US \$-20,698 less income in its 2011 financial statement than in its 2011 progress report. UNEP explained that out of this total US\$10,939 (row 4 of Table 3) is net interest recovered more than necessary by the Treasurer and should be reflected in the next remittance to UNEP. US \$9,720 is an adjustment in the programme support cost that is still to be reflected in the Inventory and has already been adjusted in the UNEP progress report which needs to be adjusted in the Secretariat's Inventory. This would leave a US \$-39 difference unexplained.

UNIDO

15. UNIDO has reported more income in its 2011 accounts than in its progress report. This is due to the interest earned plus miscellaneous income to be reflected in the Treasurer's financial statement. Out of the total difference of US \$214,876 UNIDO attributes US \$23,267 to the difference in the interest between provisional and final interest reported in 2010 and US \$3,015 to miscellaneous income in 2010, which was not considered by the Treasurer as at end of 2011. The amounts of US \$169,210 and US \$17,890 are explained by UNIDO as interest balance for the 4th quarter of 2011 and 2011

miscellaneous income both not considered by the Treasurer as at end of 2011. These amounts became available after the year-end and shall be credited to the miscellaneous income. This would leave a US \$-12 difference unexplained and constitute an outstanding reconciling item.

World Bank

16. Row 1 shows a difference of US \$12,246,019 between net approvals in the Bank's progress reports and income in the 2011 final accounts of the Fund. Out of this amount, US \$71,078 corresponds to the interest earned in the last quarter of the year that has been reflected in the Financial Statement by the Treasurer and taken but not reflected in the World Bank progress report. The last row of table 3 shows a shortfall of US \$10 in the World Bank approved amounts in the 2011 progress report. The World Bank explains that this may be due to a rounding difference in the progress report database of net approvals and/or small differences in interest amounts deducted from net approvals. This remains an outstanding reconciling item till further explanation is provided.

Standing reconciling items

World Bank

17. The World Bank reported an additional standing reconciling item of US \$1,198,946 for the loan repaid by the Government of Thailand through the Bank directly to the Treasurer in 2007. Along with this repayment, a previous return of the balance of the original project approval of \$2,475,000 was made through the Bank's OTF in 2005. The total approval has been shown as zero in the progress report as appropriate, to account for the repayment and return of the funds to the MLF. Thus, it is expected that this will continue to be a standing reconciliation item.

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 represents a Swedish bilateral contribution approved at the 29th Executive Committee meeting (THA/HAL/29/TAS/120) and has been treated in a similar manner as the bilateral contribution received from the United States mentioned above. Consequently, it will remain a standing reconciling item since it cannot be treated as normal income from the MLF in the Bank's progress report.

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

20. Table 4 sets out the differences between the cumulative expenditures provisionally reported to the Treasurer in the 2011 accounts of the Fund, and the sum of the funds disbursed and obligated as reported to the Fund Secretariat in the annual progress reports of the implementing agencies for the period 1991 to 2011.

Table 4

EXPENDITURES (US\$)

(1)	PROGRESS REPORT			(5)	(6)
	(2)	(3)	(4)		
Agency	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	588,988,569	1,326,077	590,314,645	585,563,314	4,751,331
UNEP	181,610,824	7,978,190	189,589,014	189,589,014	0
UNIDO	537,012,332	27,523,242	564,535,574	564,551,167	-15,593
World Bank	1,001,507,233	71,107,045	1,072,614,278	1,009,359,006	63,255,272

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.

21. Table 5 summarises the differences in the expenditures reported in the IAs' 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	4,751,331	0	-15,593	63,255,272
2. Funds allotted to cover 2012 & 2013 administrative commitments. Earned and reported in progress report, not yet disbursed per 2011 accounts	-4,664,824			
3. Project level errors identified and removed from 2011 progress report not adjusted in 2011 financial statement. To be adjusted by UNDP in 2012 accounts.	10,847			
4. Standing reconciling item of 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			
5. Standing reconciling item of reduction of expenditure in financial statement 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			
6. UNIDO's accounts already adjusted in 2011			3,975	
7. Adjustments to be made in 2012 against 2011 expenditure of 5 projects reported to the Treasurer			11,612	

	UNDP	UNEP	UNIDO	World Bank
by UNIDO				
8. Committed value for approved projects				-71,107,045
9. Disbursement to WB Special Accounts				7,851,773
10. Total (Rows 2 to 9)	-4,751,331	0	15,587	-63,255,272
11. Difference	0	0	-6	0

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

UNDP

22. Row 2 represents funds allotted to cover 2012 and 2013 administrative commitments earned, included in the progress report, and not yet disbursed as per the 2011 financial statement. Row 3 is a 2011 reconciling item related to an error at an amount of US \$10,847 identified and removed from the 2011 progress report that will be adjusted by UNDP in its 2012 accounts.

Standing reconciling items

23. 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

24. There is no discrepancy between UNEP's 2011 progress report and 2011 accounts.

UNIDO

25. With respect to UNIDO, it has reported US \$15,593 more expenditure in its 2011 financial statement compared to its 2011 progress report. UNIDO explains that the cumulative expenditure for two projects reported to the Treasurer is US \$3,975 higher than it should be and that UNIDO accounts will be adjusted in 2012. UNIDO also explains that the amount of US \$11,612 is related to cumulative expenditure for 5 projects reported to the Treasurer in 2011 that needs to be adjusted in 2012, leaving US \$(6) difference that may be due to rounding differences.

World Bank

26. Regarding the World Bank, the difference of US \$63,255,272 is attributed to the fact that, in line with World Bank's accounting procedures, "obligated" or "committed" funds are not counted as disbursement. The World Bank uses a cash basis of accounting where disbursements are not recorded in financial statements until such payments are made. Therefore the figure in the "obligated" column does not correspond to expenditures as per established Bank practice and thus is not included in the 2011 audited financial statement. By adding funds that are destined for disbursement, the progress report database will always show a large excess over the expenditures contained in the annual financial statement for the same period – as long as there are remaining committed/obligated funds to be disbursed. In 2011, the amount of obligated funds is particularly large due to the first tranche of the China HCFC Phase-out PU Foam Sector Plan worth nearly \$39 million alone.

27. In addition, the progress report's disbursement figures are primarily figures reported to the World Bank directly by its Financial Agents and partner countries (in the case of some sector and national ODS phaseout 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 lag between

disbursement to the special accounts and disbursement to the beneficiary. If obligated funds were taken out of the reconciliation, the difference between the funds disbursed in the progress report and those disbursed from the Bank's Ozone Trust Fund, would be about one per cent.

Section IV: Recommendations

28. The Executive Committee may wish to:

- (a) Note the reconciliation of the 2011 accounts, as presented in document UNEP/OzL.Pro/ExCom/68/xx;
- (b) Request the implementing agencies to carry out 2011 adjustments in 2012 as follows:
 - (i) UNDP to adjust its records of approved amounts by US \$33 in its Progress Report;
 - (ii) UNEP to adjust its progress report records on approved amounts by US \$-21,960 and the Secretariat by US \$-6,232;
 - (iii) UNEP to adjust its income by US \$10,939 and US \$9,720 in its Progress Report; and
 - (iv) UNIDO to adjust its records of approved amount by US \$1,506 and its income by US \$213,382 in its Progress Report,
- (c) Request the Treasurer to:
 - (i) Withhold from its future transfers to UNDP an amount of US \$321,101 representing the additional interest income reported by UNDP; and
 - (ii) Refund to UNEP an amount of US \$10,939 to rectify an over recovery reported by UNEP.
- (d) Note the 2011 outstanding reconciling items as follows:
 - (i) US \$39 difference in income in UNEP's 2011 Accounts;
 - (ii) US \$-12 in income and US \$6 less expenditure in UNIDO's 2011 Accounts; and
 - (iii) US \$-10 in the World Bank's approved amounts.
- (e) Note the standing reconciling items as follows:
 - (i) UNDP standing reconciling items for unspecified projects at the amounts of US \$68,300 and US \$29,054; and
 - (ii) World Bank standing reconciling items for the following projects:
 - Thailand Chiller Project (THA/REF/26/INV/104) at the amount of US \$1,198,946;
 - Sweden bilateral (THA/HAL/29/TAS/120) at the amount of US \$225,985;

- United States of America bilateral (CPR/PRO/44/INV/425) at the amount of US \$5,375,000; and
- United States of America bilateral (CPR/PRO/47/INV/439) at the amount of US \$5,375,000.
