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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-third Meeting
Geneva, 5-9 July 2004

**RECONCILIATION OF THE 2002 ACCOUNTS OF THE MULTILATERAL FUND
(FOLLOW-UP TO DECISION 42/41)**

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Brief Background

1. Following the 38th Meeting and the submission of the 2001 Accounts of the Fund, the Executive Committee has requested a full reconciliation of the Accounts with the progress and financial reports to be submitted for the last meeting of each year. A paper was presented to the 41st Meeting (UNEP/OzL.Pro/ExCom/41/12) on the 2002 Accounts reconciliation. Due to the fact that the 2002 accounts of the World Bank had not yet been audited and UNDP's financial records were under review by its Comptroller, the 41st Meeting had been unable to complete the reconciliation and a paper was submitted to the 42nd Meeting (UNEP/OzL.Pro/ExCom/42/46). However, as the audit/review had still not been completed prior to the 42nd Meeting the Executive Committee decided to:

“Request the Treasurer to complete the reconciliation of the accounts of the World Bank on the basis of audited 2002 accounts, and the accounts of UNDP on the basis of the UNDP Comptroller's review, based on the figures derived from the reconciliation presented in documents UNEP/OzL.Pro/ExCom/41/12 and UNEP/OzL.Pro/ExCom/42/46, as well as any relevant decisions taken at the 42nd Meeting of the Executive Committee and to urge the World Bank and UNDP to submit the information required for reconciliation as soon as possible (Decision 42/41, paras. e and f).”

2. The main assumption of the reconciliation is that if net funds approved¹ in the progress and financial reports equal the net funds approved in the Inventory of Approved Projects, then there is agreement about the amount of income that the agencies should have received. The reason for using the progress reports and the Inventory is that they provide the greatest level of detail available. The Inventory is based on Executive Committee Meeting Reports and documents submitted to it. This is the record of the Executive Committee—the source of funding. The record of the recipient, the implementing agencies, is clearly detailed in their progress reports. Therefore, if both agree, the Treasurer would make the adjustment on the basis of the agreement and instruction of the agency in accordance with the decision of the Executive Committee.

Progress Report Data and the Inventory of Approved Projects

3. As mentioned in the report to the 41st Meeting, the progress report data of UNDP, UNEP, and UNIDO for the period 1991-2002 (representing net approvals of over US \$808 million) agrees with the data of the Secretariat's Inventory of Approved Projects within US \$28—due to the rounding of numbers to the nearest dollar. The difference between the records of the Fund Secretariat's Inventory of Approved Projects and the World Bank's progress report data were resolved based on Decision 42/41(d) and there are no remaining differences with the World Bank.

¹ Net Approved Funds equals the initial approved funds plus any additional approved funds minus the value of unused funds returned.

Net Approvals in Progress Reports and 2002 Income Accounts of the Implementing Agencies

4. The paper submitted to the 41st Meeting further explained that there are understandable differences between the net approved funds in the progress report and the income in the 2002 Accounts of the Fund for example due to income transferred in 2003 for projects approved in 2002, differences on the net level of initial start-up costs, and promissory notes held by the Treasurer. However, there remained differences between the data with the Treasurer and UNDP and the World Bank.

UNDP

5. Based on the analysis presented to the 41st Meeting, the Secretariat and UNDP concluded that UNDP had received US \$1,791,730 more than indicated in its progress report assuming that the initial start-up costs amounted to US \$401,250.

Interest due to the Fund from UNDP

6. UNDP first reviewed this information without consideration of the initial start-up costs. UNDP determined that the difference is related to interest income that had not been taken into account in the calculation of transfers.

7. Through to the end of 2001, it had been agreed that UNDP's total interest income was US \$33,892,123. However, UNDP owed the Multilateral Fund US \$1,003,762 cumulative up till 31 December 2001 that had been reported by UNDP but not acknowledged by the Treasurer through netting of approvals.

8. UNDP has also reviewed its Financial Statements and determined that the cumulative interest income earned up to 31 December 2002 is US \$36,084,087. However this total includes cumulative bilateral interest income of US \$149,890. Therefore, the actual total due to the Multilateral Fund cumulatively is a net US \$35,934,197.

9. Therefore, UNDP currently owes the Multilateral Fund a total of US \$2,042,074, comprising the cumulative unacknowledged balance of US \$1,003,762 for 1991–2001 and US \$1,038,312 reported for 2002 but not acknowledged pending the conclusion of the reconciliation of accounts.

10. This relates to the calculation indicated by the Secretariat in its document to the 41st Meeting of US \$1,791,730 in the following way.

Item	Amount (US\$)
Net difference reported by Secretariat to 12/2002 (Based on UNEP/OzL.Pro/ExCom/41/12 paragraph 19, Table 2.)	1,791,730
Add back start-up costs	401,250
Difference relating to interest income	2,192,980
Less: Unacknowledged interest to be credited as returned from UNDP	(2,042,074)
Less: total bilateral interest	(149,890)
Un-reconciled difference	1,016

11. The un-reconciled difference is within the rounding margin for this size of portfolio.

Initial start-up costs

12. The Chief Officer communicated Decision 42/41 to the Comptroller of the United Nations for his comment.

13. At the 42nd Meeting of the Executive Committee, the UNDP representative explained that the official records, as maintained by the Finance Department in UNDP, reported a net balance of US \$596,500 from the US \$750,000 approved for UNDP's initial start up cost. The UNDP representative stated that this amount had not been reported in its progress report to the Fund Secretariat. She also added that UNDP's policy was not to keep records for longer than 7 years and that she was therefore no longer in a position to make additional research to confirm the amounts reported by UNDP's Finance Department.

14. The Secretariat on its part has determined that, based on the amounts returned and approved as indicated in the reports of the Executive Committee and also documents submitted to it, that the start-up costs should total US \$401,250. It should also be noted that the information provided by the Secretariat and submitted to the Executive Committee originates from the reports provided by UNDP to the Secretariat.

15. It was also noted that UNDP's accounts were audited up to 2001 while the issue of the start up costs goes back to 1991 and should have, in principle, been covered by earlier audits. The discrepancy of US \$195,250 between UNDP's accounts and the Secretariat's records represents a percentage of 0.04 percent of a total US \$452,108,497 funds allocated to UNDP to date, and is based on records for a total of 1,637 projects approved by the Executive Committee for implementation by UNDP.

16. The Comptroller was asked whether the accounts should be subject to external audit by the United Nations when they have already been audited in line with UN rules and regulations governing un-reconciled funds, and whether the amount of US \$596,500 should be accepted by the Executive Committee as the correct net balance remaining from the initial start-up costs that were initially approved at a level of US \$750,000.

World Bank

17. The reconciliation of accounts reported to the 41st Meeting indicated a difference amounting to US \$21,855,851 in income received from the Treasurer versus income due based on net funds approved taking into account that the Bank's figures in its progress report must be resolved. The World Bank reported to the Secretariat that the audit of the 2001 accounts has been completed and the 2002 accounts should be completed before the 43rd Meeting. At the time of writing this, the accounts had not been completed. The World Bank also indicated that, in reviewing the excess income, it determined that US \$565,000 of the amount cited above was for a bilateral project in Mexico that the Bank implemented for the United Kingdom. Therefore, the actual amount of excess income taking the UK bilateral funds into account is US \$21,290,851.

Comment from the Fund Secretariat

18. UNDP indicated that it has collected US \$149,890 in interest since 1991 on bilateral funds held by UNDP. All interest collected from implementing agencies on funds advanced by the Treasurer is returned as income to the Multilateral Fund. The Executive Committee may wish to consider requesting bilateral agencies that advance funds to implementing agencies, and are placed in interest bearing accounts, to return the interest as additional income to the Multilateral Fund.

19. The 2002 audited accounts of the World Bank were due one year ago. The World Bank and the Fund Secretariat have agreed the level of income approved for the World Bank is US \$21,290,851 less than the income provided to the World Bank by the Treasurer. The Executive Committee may wish to consider offsetting the US \$21,290,851 in excess income held by the World Bank based on its provisional accounts pending the submission of the World Bank's audited 2002 accounts.

Recommendations

The Executive Committee may wish to:

1. Note the reconciliation of 2002 accounts as presented in UNEP/OzL.Pro/ExCom/43/52.
2. Note that the Treasurer would make the appropriate adjustments to account for the additional interest reported by UNDP and the audited level of initial start-up costs as indicated by UNDP to be US \$596,500.
3. Request bilateral agencies that advance funds to implementing agencies that are placed in interest bearing accounts, to return the interest collected as additional income to the Multilateral Fund.
4. Offset the US \$21,290,851 in excess income held by the World Bank based on its provisional account, pending the submission of the World Bank's audited 2002 accounts against approvals at the current meeting.
