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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-seventh Meeting
Montreal, 21-25 November 2005

**REPORT ON DOCUMENTING THE INTERNAL PROCEDURES AND PRACTICES
OF THE TREASURER**

1. Document UNEP/OzL.Pro/ExCom/47/57 is submitted by the Secretariat as a follow up to ExCom Decision 45/59 (f) (ii) requesting the Treasurer “to report on progress in documenting the Treasurer’s internal procedures and practices annually until they had been fully documented” and Recommendation 23 of the subgroup on the study on the financial mechanism in Annex XVII to the report of the 45th Meeting of the Executive Committee, which requests the Treasurer to report on final progress on documenting the internal procedures and practices of the Treasurer to the 46th Meeting.
2. Recommendation 23 also requires the Executive Committee to “report back to the Parties once the internal procedures and practices of the Treasurer had been documented”.
3. Document UNEP/OzL.Pro/ExCom/46/Inf.2 presenting the internal procedures and practices of the Treasurer was submitted by the Secretariat to the 46th Meeting of the Executive Committee to give a brief overview on existing and new fund management practices used for the Multilateral Fund and was adopted by the Executive Committee as an interim report pending final progress on documenting internal procedures and practices.
4. This document is an up-date of Document UNEP/OzL.Pro/46/Inf.2 and presents final progress in documenting the internal procedures and practices of the Treasurer as they relate to the overall responsibilities of the Treasurer in providing the Committee with regular and updated reports on the following items:

- (a) The Status of contributions and disbursements;

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issue of the document.

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- (b) The Accounts of the Fund;
- (c) Promissory notes (PNs) deposits, receipts and encashment and holding;
- (d) Gains and Losses on the Fixed Exchange Rate Mechanism (FERM);
- (e) Interest accrued;
- (f) Cash advances;
- (g) Reconciliation of the accounts exercise;
- (h) Legal framework for operating and reporting on financial matters of the Fund.

(a) The Status of contributions and disbursements

5. The report of the Treasurer on the Status of contributions and disbursements is prepared by the Treasurer for the Executive Committee, in coordination with the Secretariat and the Implementing Agencies (IAs) for each meeting. The Status of contributions and disbursements document aims at providing the Executive Committee with updated information on the position of the Fund balance available to cover commitments.

6. Through decision 40/2 paragraph (b) item (i), the Executive Committee, at its 40th Meeting, requested that the explanation of the methodology and assumptions being used by the Treasurer in preparing the report be made available through the Secretariat's intranet. This record of assumptions and methodology, first published in the Treasurer's report document UNEP/OzL.Pro/Excom/39/3/Rev.1, is still available for reference on the intranet. It constitutes a reference document on the Treasurer's internal practices and procedures in providing the information contained in the Status of contributions and disbursements including some basic assumptions with respect to the losses and gains in the exchange rate as it relates to the value of the PNs, the approved value of bilateral cooperation projects and the FERM.

7. Contributions made by non-Article 5 countries to the Fund are traditionally updated on an on-going basis to reflect the most up to date information on payments. The information on contributions made to the Fund is further updated during the Executive Committee Meeting to allow donor countries to draw the Treasurer's attention to any adjustments they may require.

8. At the request of the Executive Committee at its 41st Meeting, additional information on the gains and losses of the FERM is provided to avoid the confusion between gains and losses due to the FERM and outstanding payments (when a loss is due to the FERM) or overpayment (when a gain is due to the FERM). This new practice has been introduced to respond to the concern of some non Art. 5 countries using the facility of the FERM to ensure that payments of their contributions to the Fund are accurately documented and to substantiate further the information on the gains and losses to the Fund due to the fluctuation of the value of the US dollar. The gains and losses are absorbed by the Fund and not reflected as part of the countries' payment of their pledges.

9. Allocations and Provisions in the Status of contributions and disbursements document reflect Executive Committee decisions on approved amounts and the Secretariat's recommendations on returns from balances and completed and cancelled projects and projects with balances. Recently the Secretariat, the IAs and the Treasurer agreed that IAs should review the amounts reflected by the Treasurer in the Status of contributions and disbursements under allocations and provisions prior to each Executive Committee Meeting as part of the on going reconciliation exercise. Additionally transfers made by the Treasurer to the IAs should be recorded in a ledger and circulated to the IAs prior to each meeting.

10. Since the 45th Meeting in response to decision 45/59 (f) (i) requesting the Treasurer "to circulate to the Secretariat and implementing agencies prior to each Executive Committee meeting a ledger indicating when promissory notes are transferred, received and encashed", a ledger on PNs is circulated to concerned IAs and annexed as an additional table to the Status of contributions and disbursements. This annex provides detailed information on the PNs deposited, withheld and encashed and further substantiates the information on PNs provided in the Status of contributions and disbursements.

(b) Accounts of the Fund

11. To streamline the reporting procedures on reporting the Fund's Accounts to the Executive Committee, the Treasurer agreed with the IAs on an internal procedure to overcome the overlap between the closing of the accounts of UNEP and the closing of the Accounts of the IAs.

12. The new procedure, agreed on at the workshop on common terminology and procedures of the Multilateral Fund held in the Secretariat, consists of submitting to the Treasurer on 30 January of each year following the end of the accounting period a provisional financial statement and on 30 September of each year following the accounting period a final financial statement for the Treasurer's submission of the certified/audited Account of the Fund, as recorded in the UNEP system, to the last Executive Committee meeting of the year. Both the provisional and the final financial statements are prepared in line with a standard format which captures information on PNs and excludes reporting on bilateral assistance projects.

13. Though the financial statement format has been standardised to respond to the Treasurer needs, IAs will still submit official Financial Statements using the internal format of the IAs to stay in line with their internal reporting procedures. Any variation from the information provided by the IAs in their provisional statement, and already recorded in the UNEP final accounts, is adjusted the following year and reflected as a prior year adjustment in the statement of the accounting period.

(c) Interest accrued

14. The new internal practice on reporting interests accrued to the Treasurer consists of reporting the interest accrued twice a year on 15 April and 15 October of the current year to allow the Treasurer to deduct equivalent amounts from the net transfers approved by the Executive Committee for the IAs.

(d) Gains and losses on the FERM

15. A Fixed Exchange Rate is calculated for the triennium as determined by the Parties to the Montreal Protocol through an average exchange rate of the year preceding the year in which invoices to the contributing Parties are due, and is communicated to contributing Parties qualified to use the FERM. Gains and losses due to the fixed-exchange-rate mechanism are determined as deviations in the US dollar payments made by the country compared to the US dollar amount calculated in determining the Party's pledges when converted to national currencies using the fixed exchange rate mechanism.

16. Internal procedures and practices on the FERM are described in paragraph 8 above. A separate column has been inserted in Table 3 of the 1991- 1995 summary table on the status of contributions in the report of the Treasurer in order to document separately any gain or deficit due to the FERM against a country's pledge.

(e) Promissory notes deposits, receipts and encashment and holding

17. The Treasurer's internal practices and procedures in handling PNs is contained in documents UNEP/OzL.Pro/ExCom/43/54 and UNEP/OzL.Pro/ExCom/43/54/add 1 as a follow up to decisions 41/4 and 42/44.

18. As indicated above a ledger on PNs providing details on receipts and transfers of PNs with the date of submission, the year of contributions, the country of origin, the currency, as well as details on date, value and currency of the encashment of the note is now available for both the IAs and the Executive Committee's information at each meeting of the Executive Committee as part of the report of the Treasurer.

(f) Cash advances

19. As a follow up to decision 44/54, directing the Treasurer “to review the pertinent aspects of the implementing agencies agreements to address the issue of new cash balances being granted when old ones had not been fully accounted for”, the Treasurer clarified the procedures. In respect of cash advances to IAs as described in document UNEP/OzL.Pro/ExCom/45/50 and recalling that since the Fund Secretariat instructs transfers of funds at aggregate level to the Treasurer, the Treasurer does not handle financial information at project level to determine the level of funds retained by IAs which are not utilized. The allocations and provisions to the IAs will be based on net transfers based on Executive Committee meeting reports. Then, based on the annual reconciliation of accounts, any errors in transfer instructions, recordkeeping, or agency financial statements would be identified and addressed as appropriate. In this way, the Treasurer can ensure that any new cash balance transferred to the IAs takes into account old cash balance transfers.

20. On the other hand, the Secretariat monitors unutilised funds through the information contained in the IAs’ Progress Reports and recommends to the Executive Committee returns of funds from completed and cancelled projects.

21. The amounts for projects approved by the Executive Committee for IAs are adjusted during the meetings of the Executive Committee as recommended by the Secretariat, resulting in net transfers. The practice of attaching an annex on the Net Allocations to the Executive Committee final reports has been introduced to respond to the need to keep official records on net approvals.

22. After each meeting the Secretariat advises the Treasurer of the net transfer amounts as annexed to Executive Committee reports. The Treasurer further adjusts the net transfers after taking into account the interests accrued and reported by the IAs on April and October as described in c) above to make the cash transfer.

(g) Reconciliation of the Accounts exercise

23. To further document internal procedures and practices in handling the Multilateral Fund financial matters, the Secretariat has compiled into a manual all relevant documentation on reconciling the records of the Secretariat with those of the IAs and those of the Treasurer on amounts approved by the Executive Committee for the IAs and amounts disbursed to the IAs by the Treasurer. This was discussed at the workshop on common terminology and procedures. The manual which also includes information on the internal procedures and practices of the Treasurer will be available on the Secretariat intranet and constitutes a reference document for internal use.

(h) Legal framework for operating and reporting on financial matters of the Fund.

24. In addition to the 1991 agreements between the Executive Committee and the IAs (and their subsequent 1992 amendments in the case of UNIDO and UNDP), the 2003 agreement between the Treasurer and the Executive Committee and its annex provide additional information on the role of the Treasurer and the envisaged procedures of the Treasurer in accomplishing this role.

25. The text of the agreements between the Treasurer and each of the IAs was endorsed by the Executive committee at its 46th Meeting and provides an additional framework for further streamlining and documenting the internal practices and procedures of the Treasurer in transferring funds to the IAs, receiving reports from the IAs and reporting to the Executive Committee. While most of the clauses in the Agreements are standard, each Agreement takes into account the IAs institutional and legal framework on specific clauses such as audit and termination clauses.

Recommendation

26. The Executive Committee is invited to note that the final progress report on documenting the internal procedures and practices of the Treasurer is contained in document UNEP/OzL.Pro/ExCom/47/57.