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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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RECONCILIATION OF THE 2006 ACCOUNTS

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 issuance of the document.

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1. This document contains four sections: Section I: Background; Section II: Reconciliation of the Income as recorded in the 2006 Accounts with the Implementing Agencies' Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects; Section III: Expenditures Reported in the 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)). All the implementing agencies have submitted to the Treasurer their final financial statements for the period up to December 2006.

Section II: Reconciliation of the Income as Recorded in the 2006 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 the UNEP/UNON 2007 accounts subject to the decision of the Executive Committee.

Progress Report Data and the Inventory of Approved Projects

4. As shown in Table 1 the progress report data of the implementing agencies is in accordance with that of the Secretariat's Inventory of Approved Projects with the exception of UNEP. There is a difference of US\$ 6,060 between the Secretariat's Inventory of Approved Projects and UNEP's progress report where UNEP records show a higher approved amount. Since the ultimate source of the implementing agencies' approvals is the inventory maintained by the Secretariat, it is suggested that the 2006 approved amount of 122,981,921 as per the Inventory be used for the purpose of the 2006 reconciliation of the accounts exercise.

Table 1

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

Agency	2006 Progress Report – Total Funds Approved including Support Costs	Inventory – Total Funds Approved including Support Costs	Difference
UNDP	523,146,811	523,146,805	6
UNEP	122,987,981	122,981,921	6,060
UNIDO	470,404,418	470,404,423	-5
World Bank	876,406,924	876,406,929	-5
Total	1,992,946,134	1,992,940,078	6,056

Table 1 shows a difference of US\$ 6,056 between the inventory and the approvals reported in the agencies' progress reports. It is recommended that UNEP review the Inventory figures versus its progress reports and make the necessary corrections to reflect the amounts as contained in the Executive Committee reports.

Net Approvals in Progress Reports and 2006 Income Accounts of the Implementing Agencies

5. The net approved funds in the Progress Report and the income in the 2006 Accounts of the Fund cover the same period. However, as shown in Table 2, there are differences in the two reports.

Table 2

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

(1)	(2)	(3)	(4)	(5) = (3)-(2)	(6) = (4)-(2)
Agency	2006 Progress Report – Total Funds Approved including Support Costs	Aggregate Income for 2006 Accounts of the Fund (Provisional as reported by the Treasurer)	Aggregate Income for 2006 Accounts of the Fund (per Final statements)	Difference between Provisional Accounts and Progress Report	Difference between Final Accounts and Progress Report
UNDP	523,146,811	522,671,295	523,603,455	-475,516	456,644
UNEP	122,987,981*	120,341,202	120,371,969	-2,646,779	-2,616,012
UNIDO	470,404,418	472,795,591	472,795,591	2,391,173	2,391,173
World Bank	876,406,924	880,193,134	880,193,134	3,786,210	3,786,210

* figure subject to verification by UNEP

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

6. Table 3 explains the differences between the Progress Reports and the agencies' aggregate income in the 2006 final accounts indicated in Table 2.

Table 3

**RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS
REPORTS AND INCOME IN THE 2006 FINAL ACCOUNTS OF THE FUND (US\$)**

	UNDP	UNEP	UNIDO	World Bank
1. Difference between Agency Audited Accounts and Progress Report	456,644	-2,616,012	2,391,173	3,786,210
2. Amount approved at 48 th Excom meeting but withheld on ExCom instructions until released by MF Secretariat. (see para 7)	1,088,800			1,265,642
3. Amount approved at the 50 th Excom in November 2006 received from Treasurer in January 2007 (see para 8)		3,000,000		
4. Amount agreed with agency at 50 th ExCom for adjustment by Treasurer. Decision 50/44(g). Deducted by Treasurer in 2007 (see para 9)		-373,357		
5. Cumulative exchange rate gain returned to the Fund (see para 10)				2,046,819
6. Difference in interest income between 2005 provisional and final accounts deducted in 2007 (see para 11)	-613,285		-365,276	
7. Additional interest reported in 2006 last quarter deducted in 2007(see para 12)	-932,159		-1,472,546	-1,497,383
8. Amount netted off from the transfer to UNIDO in respect of ExCom 47 approvals (see para 13) Decision 47/47			32,735	
9. Reconciling difference (see para 14)				-303
10. Adjustments proposed to be made by the Treasurer				
11. Higher income as per UNEP's accounts to be offset by the Treasurer in 2007 (see para 15)		-10,631		
12. Miscellaneous income to be deducted in 2007. (see para 15)			-22,585	
13. Miscellaneous expenditure previously netted off against interest (see para 16)			-268,987	
14. Miscellaneous expenditure previously netted off against interest (see para 16)			-294,514	
15. Standing Reconciliation Items:				
16. US bilateral for Accelerated Phase-out (see para 17)				-5,375,000
17. Swedish bilateral contribution recorded as income (see para 18)				-225,985

7. Row 2: The amounts of US \$1,088,800 and US \$1,265,642 were approved for both UNDP and World Bank respectively at the 48th Executive Committee meeting in April 2006 for the national phase-out plan for Indonesia. However the approval continued a proviso that the funding should not be released until the Fund Secretariat is officially informed by the Government of Indonesia, through UNDP as lead implementing agency, that the new ODS import control regulations had been adopted and were being implemented. Based on the instructions received, the Treasurer released the funds in 2007.

8. Row 3: As a result of insufficient funds, the Treasurer was not able to pay UNEP the whole amount approved for it at the 50th Executive Committee meeting in December 2006. An amount of US \$3 million was therefore left unpaid until funds became available in January 2007.

9. Row 4: As a result of the 2005 reconciliation of the accounts, the amount of US \$373,357 was due from UNEP as excess income compared to the Progress report on project approvals. This deduction was effected by the Treasurer from the transfers to UNEP in 2007 as per decision 50/44(g).

10. Row 5: The amount of US \$2,046,819 relates to the cumulative exchange gains that the World Bank had made on promissory notes that it held up to December 2005. In 2006, the Treasurer netted off this amount from the value of projects approved for the Bank at the 48th Executive Committee meeting.

11. Row 6: The amounts of US \$613,285 (UNDP) and US \$365,276 (UNIDO) relate to the additional interest income earned by the agencies as per their audited 2005 accounts. These were netted off by the Treasurer from projects approved for agencies in 2007.

12. Row 7: The sums of US \$932,159 (UNDP), US \$1,472,546 (UNIDO) and US \$1,497,383 (World Bank) represent the difference in interest income between that which the agencies had reported to the Treasurer by the end of the third quarter of 2006 and their final figures for 2006. The Treasurer deducted these amounts from the total amount approved for the agencies at the 51st Executive Committee meeting in March 2007.

13. Row 8: Further to Executive Committee decision 47/47 the amount of US \$32,735 had been netted off from the transfers to UNIDO while it should have instead been transferred to UNIDO. This amount should now be returned to UNIDO.

14. Row 9: The amount of US \$303 is an excess income reported in the World Bank's records, which the Bank had agreed to return. The World Bank is expected to provide further explanation on this amount.

Adjustments proposed to be made by the Treasurer:

15. Rows 11 and 12: Based on the above reconciliation, UNEP and UNIDO are to return to the Multilateral Fund the sums of US \$10,631 and US \$22,585 respectively. These amounts represent the additional income earned by the agencies in 2006 when compared with the level of projects approved for them. As a result, the Treasurer is to effect the deduction of these amounts from the approvals at the current meeting. When offsetting the amount of US \$22,585 from UNIDO's approval, the Treasurer shall take into account the amount of US \$32,735 that should be returned to UNIDO as explained in paragraph 13 above.

16. Rows 13 and 14: The amounts of US \$268,987 and US \$294,514 relate to miscellaneous expenditure previously netted off against interest earned. Following UNIDO's compliance with Executive Committee decisions 48/38 (b) and 50/44, these amounts became overpayments which are to be recovered from the next transfers to UNIDO.

Standing reconciliation Items:

17. Row 16: The amount of US \$5,375,000 is a bilateral contribution received by the World Bank in 2006 from the United States of America towards the US-China bilateral project being implemented by the Bank. This amount was approved at the 47th Executive Committee meeting. The amount is a reconciling item because the Bank has included it as part of its income in the 2006 accounts, whereas it is not included in the Secretariat list of approved projects for the Bank because it is a bilateral contribution.

18. Row 17: The sum of US \$225,985 was a reconciling item in the reconciliation of 2005 accounts. It is a Swedish bilateral contribution approved at the 29th Executive Committee. This item is similar to the bilateral contribution received from the United States as stated above. Consequently, they will remain as standing reconciling items since they cannot be treated as normal income from the Multilateral Fund in the Bank's books.

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

19. Table 4 sets out the differences between the Cumulative Expenditures provisionally reported to the Treasurer in the 2006 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 2006.

Table 4

EXPENDITURES (US\$)

	PROGRESS REPORT				
(1)	(2)	(3)	(4)	(5)	(6)
	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	428,385,449	3,821,654	432,207,103	426,652,104	5,554,999
UNEP	96,943,157	3,351,685	100,294,842	103,175,624	-2,880,782
UNIDO	396,118,257	24,980,837	421,099,094	421,454,613	-355,519
World Bank	750,884,244	124,953,222	875,837,466	764,665,861	111,171,605

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.

* As per the Treasurer's records reported in provisional accounts.

20. 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	5,554,999	-2,880,782	-355,519	111,171,605
2. Funds allotted to cover 2007 and 2008 administrative not disbursed against PSC earned (see para. 21)	-5,135,559			
3. Reduction of expenditure through cancellation of unliquidated obligations after the provisional accounts (para 25).		2,570,776		
4. Savings on prior biennium obligations not yet credited to the Progress Report (see para 26)	-68,300			
5. Fund balance adjustments in financial statement not directly impacting expenditure (see para 26)	-29,054			
6. Miscellaneous expenditures to be adjusted by the agency in 2007 As per 2005 accounts reconciliation (see para. 27).		60,556		
7. Addition in expenditures between provisional and audited financial statements (see para 28)	-327,760			
8. Committed funds for approved projects yet to be disbursed (see para 29).				-124,953,222
9. Project level errors. (see para 30)	5,685			
10. Rounding difference	-11			
11. Disbursements to Agency's Special Accounts not disbursed to beneficiary at 31 December 2006 (see para 29).				13,781,617
12. Higher expenditure in UNEP accounts requiring further verification and substantiation (see para 31)		105,494		
13. Difference in Programme Support Costs adjusted in 2007 in UNEP's books As per 2005 accounts reconciliation (see para 27).		143,956		
14. Support cost calculated differently. To be adjusted by agency in 2007. (see para 32)			-6,448	
15. Adjustments to be made in UNIDO's records in 2007 as per the 2005 reconciliation. (see para 33)			361,967	

21. Row 2: The sum of US\$5,135,559 represents programme support costs (PSC) earned by UNDP against projects implemented in 2006 and prior years. Even though this amount is considered earned and reported in the progress report, it was not yet disbursed as per the 2006 financial statements. These funds would be utilized during 2007 and future periods to cover administrative costs, as UNDP requires that support costs be earned based on delivery before the funds can be disbursed. It is to be noted that UNDP is the only agency reporting its PSC as expenditures in their progress reports and as not yet spent in their financial statements. UNDP indicated that all of the agency fees and core unit funding for MLF activities are maintained in a separate Trust Fund account, and are not pooled with administrative income for UNDP's general administration. The World Bank has confirmed that its procedures are the same as that of UNDP, but no further explanation was provided as to how the Bank reports on expenditures against the PSC earned on approved projects.

22. With respect to UNIDO, its administrative cost and the disbursement of the PSC are recognized as expenditures only upon project implementation (disbursement and/or obligation of funds). No further explanation was provided as to how UNIDO reports on expenditures against the PSC earned on approved projects.

23. UNEP did not provide an explanation on how expenditures against the PSC are reported in the Progress reports and in the accounts of the Fund.

24. Based on these preliminary findings on this issue, it is recommended that agencies advise both the Treasurer in the financial statement and the Secretariat in the progress report on the methodology used for reporting on expenditures against the PSC earned with a view to adopting a consistent approach and detecting any discrepancies in reporting PSC expenditures.

25. Row 3: In respect of the \$2,570,776 additional obligations reported by UNEP in their final financial statement, and not in the progress report, UNEP follows the UN financial rules that require cancellation of all prior years' unliquidated obligations before the closure of accounts for any fiscal year. In following this procedure, all prior years' obligations for 2006 were cancelled before the closure of the 2006 accounts and credited to the same fiscal year. UNEP had to keep the prior year's obligations unliquidated until they were cancelled, as many of its partners reported expenditures very late. The amount of unliquidated obligations cancelled in 2006 but reinstated in the accounts of 2007 was US \$2,570,776.

Standing reconciliation Items:

26. Rows 4 and 5: The sums of US\$68,300 and US \$29,054 will remain as outstanding reconciling items for UNDP till closure of the MLF funded projects and can not be associated with any specific project. It is to be noted that by 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, but will do so only on closure of all UNDP MLF funded activities. These amounts will therefore remain outstanding reconciling items.

27. Rows 6 and 13: As per the 2005 reconciliation UNEP's miscellaneous expenditures of US \$60,556, to be adjusted in 2007, represent income/charges that UNEP agreed to resolve as part of the miscellaneous charges and programme support cost exercise in its accounts in 2007. As per the 2005 accounts reconciliation, UNEP is to effect the reduction of the sum of US \$143,956 from its programme support costs in its books for 2007.

28. Row 7: After the submission of its provisional 2006 financial statements to the Treasurer, UNDP incurred further charges of US \$327,760 in 2006, which are recorded in the progress report but not in the Treasurer's accounts. The Treasurer is to record the difference in 2007.

29. Rows 1, 8 and 11: The difference of US \$111,171,605 (net amount of US \$124,953,222 less US \$13,781,617) between the 2006 Agency Accounts and the disbursement, plus obligated funding shown in the Bank's 2006 Progress Report, is attributed to two reasons. All funds for a project are committed as soon as there is an agreement with the beneficiary. However, in line with World Bank accounting procedures, obligated, or "committed" funds are not counted as disbursement and not included in the 2006 audited financial statement. The progress report's disbursement figures are on the most part figures reported to the Bank by its Financial Agents whereas expenditures in the financial statement represent the funds that flow out of the Bank into the special accounts (and eventually to the beneficiary).

30. Row 9: The amount of US \$5,685 represents project level error identified and removed from 2006 progress report but not yet adjusted in the 2006 financial statement. This will be adjusted by UNDP in the 2007 accounts.

31. Row 12: This reconciling amount of US \$105,494 is the difference between the total expenditure recorded in UNEP's progress report when compared with the total indicated in its cumulative accounts. UNEP is required to verify this difference and to report back to the Executive Committee at its 54th meeting.

32. Row 14: The amount of US \$6,448 is an adjustment that is required to the support cost calculation derived by UNIDO which will be adjusted in 2007.

33. Row 15: As per decision 50/44, UNIDO proposed to adjust this amount in 2007 between its projects and administrative costs and to specifically identify the projects. The 2005 reconciliation statement referred to the amount of US \$361,967 as per UNIDO's explanation.

Section IV: Recommendations

32. The Executive Committee may wish to:

- (a) Note the reconciliation of 2006 accounts as presented in UNEP/OzL.Pro/ExCom/53/65;
- (b) Request UNEP to review the Inventory figures versus progress reports and make corrections according to the approvals recorded in the reports of the Executive committee;
- (c) Request UNEP to present to the next meeting of the Executive Committee a report on its findings on the reconciling amount of US \$105,494 and the action(s) it proposes to take to reconcile the data in its progress report with that in its final financial statement;
- (d) Note UNDP, UNIDO and the World Bank's explanations on the expenditures of the PSCs earned in respect of approved projects, and request UNEP to do so at the

next meeting to allow for a better understanding on expenditures incurred against the PSC earned by the agency;

- (e) Request the Treasurer to report to the next meeting on the methodology used by the agencies when reporting on expenditures incurred against the PSCs earned on approved projects;
- (f) Request the World Bank to provide an explanation on the US\$303 excess income in order to offset this amount against future transfers, if required; and
- (g) Request the Treasurer and the agencies to make the adjustment required in the 2007 accounts as a result of the 2006 reconciliation exercise as follows:

Table 1

**ADJUSTMENTS TO THE 2006 ACCOUNTS TO BE MADE BY THE AGENCIES
IN THEIR 2007 FINANCIAL STATEMENTS
(US\$)**

	INCOME	EXPENDITURE
UNDP	-	5,685
		60,556
UNEP	-	143,956
		6,448
UNIDO	-	361,967
WORLD BANK	-	-

Table 2

**ADJUSTMENTS TO BE MADE BY THE TREASURER
(US\$)**

	INCOME (current/future transfers to be offset by:)	EXPENDITURES (to be recorded in 2007)
UNDP	-	327,760
UNEP	10,631	-
	22,585	
UNIDO	268,987	-
	294,514	
WORLD BANK	-	-
