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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fourth Meeting
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**RECONCILIATION OF 2006 ACCOUNTS
(FOLLOW-UP TO DECISION 53/42 (C) AND (D))**

1. At its 53rd Meeting the Executive Committee considered document UNEP/OzL.Pro/ExCom/53/65, which contained the results of the reconciliation of the 2006 accounts.
2. The Secretariat noted in the document that UNEP needed to explain the discrepancy of US \$105,494 in the expenditures recorded in its financial statement and not in its progress report. It also noted that the implementing agencies did not report expenditures on project support costs in the same way in their financial statements and in their progress reports. It was therefore decided that, in order to facilitate future reconciliation exercises, the Treasurer should look at ways in which the implementing agencies reported expenditures on programme support costs in the progress reports and in the financial statements and report back to the Executive Committee at its 54th Meeting.
3. Part I of this document presents UNEP's feedback to the Committee on its findings on the amount of US \$105,494 difference in expenditures reported in its financial statement and in its progress report. Part II presents feedback received from the IAs on the methodology they use when reporting on expenditures incurred against the programme support costs for approved projects. Part III provides a set of conclusions and recommendations for the consideration of the Executive Committee.

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Part I: Report of UNEP

4. UNEP informed the Secretariat that its effort to explain the discrepancy of US \$105,494 between the expenditures records in the Financial Statements (FS) and in the Progress Reports (PR) has been hampered by the difficult situation in Kenya. The resignation of the staff member directly responsible for administrative and financial matters has also affected the timely submission of the report.

5. In the meantime UNEP has reviewed both its progress reports and the financial statements and has identified certain areas that would require additional work in order to correctly ascertain the causes of the differences. The agency reported that in some cases it identified that the programme support rates recorded in the allotment reports (i.e. approved amounts for UNEP projects as recorded by UNON) were incorrect. Also, while it is expected that credits resulting from cancelled obligations would be proportional to the programme support costs (PSC) rates, certain credits resulting from liquidation of obligations were not always related to the correct programme support cost rates.

6. As a result, UNEP indicated that it would require additional time to explain these differences and to determine corrective actions. In this regard, it is requesting to report on its findings and the necessary corrections to the 55th Meeting.

Part II. Methodology for reporting on expenditures incurred against the programme support costs for approved projects

7. In responding to decision 53/42(d), the Secretariat provided the agencies with a set of questions to guide their answers to indicate;

- (a) Whether the same approach is used when reporting on the PSC earned and used in both the FS and PR;
- (b) How recording of the PSC earned against approved projects is separated from other trust fund project activities as well as IAs bilateral assistance programme and core units earnings;
- (c) Whether it would be recommended that a standard methodology in reporting on the PSC in both reports could be used by all IAs to facilitate the reconciliation of the accounts exercise.

UNEP

8. In its reply, UNEP indicated that UNEP's PSC reported in the PR and the FS are based on the actual Trust Fund monthly expenditures (disbursements plus unliquidated obligations) recorded in the UNEP/UNON accounts. Since July 2001, the agency has been using the Integrated Management Information System (IMIS) which makes it possible for the actual PSC rate to be stated against each project and object of expenditure. The PSC charged to projects or trust funds are all credited to one UNEP account called Special Account for Programme Support Costs.

9. UNEP is implementing the MF projects through the "IML" Trust Fund. In line with all the other trust funds, its PSC calculation is based on the actual expenditure (disbursement plus unliquidated obligations) recorded in the accounts of the Fund. When allotments are being recorded in IMIS, there is a requirement for the PSC rate to be specified through the Funding document. At the end of each month, a monthly batch is run which automatically calculates the PSC amount based upon the expenditure recorded. The amount charged is recorded as an expenditure in the General Ledger of the Fund and simultaneously recorded as Income in the UNEP's "Special Account for Programme Support Costs" (OTA) account. When the Financial Statements are being prepared, the amount in the General Ledger is chosen and included as part of the total expenditure of the Fund.

10. Annual budget proposals are prepared for the use of the PSC income in the form of administrative personnel. UNEP indicated that there could be differences between the amounts of programme support costs in both the PR and the FS due to human error in inputting the PSC rate in the two systems. Such differences would require the reconciliation of the figures in both the PR and the FS.

UNDP

11. At the 53rd Meeting UNDP reported the sum of US \$5,135,559 in programme support costs (PSC) earned against projects implemented in 2006 and prior years in its progress report. The agency explained that 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.

12. UNDP indicated that all of the agency fees and core unit funding for MLF activities are maintained in a separate Trust Fund account cost and are not pooled with administrative income for the agency's general administration.

13. UNDP expenditure policy considers obligations as expenditure in the year of obligation. When disbursements of the obligation takes place in a future period there is no additional impact on the project funds since the original commitment is reduced to offset the disbursement. Cancellation of an obligation results in a corresponding increase to the project budget balance and a corresponding increase in the associated support cost balance.

14. UNDP advised that an internal reconciliation is necessary and facilitates the reconciliation of accounts with the MLF Treasurer. Differences identified and how these are to be resolved are explained in the submission of the reconciliation of accounts. It also uses the final accounts so that it can feed into the final reconciliation of accounts exercise.

15. UNDP has access to information on the PSC actually earned and spent on a yearly basis. The funds utilized are reported in the core unit budget submission to MLF each year. Since a separate account is maintained, the agency can keep track of the PSC earned from this fund.

The World Bank

16. The World Bank has confirmed that its procedures are the same as that of UNDP in 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 other administrative incomes. The reporting of actual support cost expenditures is done internally through the Bank's financial management/accounting system (SAP). The core unit budget is kept completely separate from project funds in a trust fund for use by the core unit.

17. Similarly, project management funds (i.e. support costs on projects) are channelled to the Bank's regions, i.e. the project management teams, for supervision and management separately from project funds. Project funds intended for countries to implement projects are channelled alone to child trust funds.

18. In the financial statement, support cost expenditure is reported in the category Administration expenses. It is a consolidation of data in the Bank's accounting system on administrative expenses from the regions and the core unit. It also includes project preparation expenditures). These expenditures are subject to annual external audits.

19. In its feedback, the World Bank indicated that the provision in the agreement between IBRD and the Executive Committee states that the Bank will administer and implement projects in accordance with its rules and procedures.

UNIDO

20. In its reply, UNIDO indicated that its administrative cost and the disbursement of the PSC are recognized as expenditures only upon project implementation (disbursement and/or obligation of funds). Support costs earned are based on expenditures in both reports. UNIDO provides information in its PR on project expenditures, and reports separately on the PSC earned. Information on the core unit costs is provided separately in a different report submitted to the Secretariat. In its FS, UNIDO's expenditures cover both project support cost and core unit funding expenditures together.

21. UNIDO undertakes an internal reconciliation of the accounts which facilitates the reconciliation of the annual reconciliation exercise with the Secretariat and the Treasurer. A preliminary reconciliation takes place based on provisional accounts. Then a final reconciliation is carried out based on final accounts before the last meeting of the Executive Committee. Differences are reported to the Executive Committee when the reconciliation of accounts is discussed at the last meeting of each year.

22. UNIDO confirmed that it has access to the information on PSC earned on a yearly basis. The agency has an account at "Fund" level and does not keep a separate account for support cost income. A database for PSC earned is maintained.

PART III: Summary of findings and conclusions:

	UNDP	UNEP	UNIDO	The World Bank
Reporting on PSC in PR/FS	PSC appears as commitment* in PR and actual disbursement in FS	Both FS and PR report PSC as committed. No discrepancy appears in the reconciliation of the accounts exercise	Both FS and PR report PSC as committed No discrepancy appears in the reconciliation of the accounts exercise	PSC appears as commitment* in PR and actual disbursement in FS
Separate trust Fund for MP activities	Yes	Yes	No- General Fund of UNIDO	Yes
SEPARATE PSC ACCOUNT	Yes –core unit usage separated from agency fees usage	Yes	No	Yes - core units usage separated from agency fees usage
SEPARATE CORE UNIT ACCOUNT	No	N/A	No	Yes
ACCESS TO PSC EARNINGS AND USAGE	Yes	Yes - returned in personnel support	Yes	Yes
Itemized report of PSC and core unit usage	Regular Report on core unit usage but no report required for PSC usage	Not required. Regular report on CAP but no report required for PSC usage.	Regular report on core unit usage but no report required for PSC usage	Regular report on core unit usage but no report required for PSC usage

**Even though PSC amounts are considered earned and reported in the progress report, it is not yet actually disbursed.*

23. It appears that the IAs do not use the same methodology when reporting on FS and PS on PSC expenditures. While the reporting on PSC expenditures at the PR level is standard for all agencies, it is not at the FS level. The methodology used by UNEP and UNIDO in their FS does not provide information on the actual amount disbursed against PSC earnings, while it does in the case of the WB and UNDP. This is due to the fact that IAs have different accounting systems and therefore a standardisation of reporting on the PSC expenditures in FS may not be possible.

24. The PSC earned against approved projects is separated from other trust fund project activities in the case of UNEP, UNDP and the World Bank, but not in the case of UNIDO. In the absence of separate Multilateral Fund activities, it may be more difficult to track earning and usage of PSC. It may also make it more difficult to assess whether the level of administrative fees is adequate.

25. The World Bank and UNDP separate core unit funding from agency fees which is not the case for UNIDO. In the case of UNIDO, expenditures against core units and agency fees are lumped together. Separating agency fee accounts from core unit accounts would allow for a better assessment of the appropriate level of core unit funding. It would also allow for a determination of whether the approved PSC rates are at a suitable level.

26. Finally, in the light of the ongoing administrative cost study, this document does not address how the PSC on bilateral activities is recorded in the IAs financial accounts and whether it is separated from projects approved for IAs. Presently bilateral activities income and expenditures, including associated PSC amounts, are excluded from the FS as a follow up to the workshop on common terminology and procedures. Some errors in the IAs' FS linked to bilateral activities have been identified as standing reconciling items during the 2005 reconciliation of the accounts exercise. IA's with bilateral project activities should record such activity in separate accounts to avoid permanent reconciling items.

RECOMMENDATIONS

27. The Executive Committee may wish to:
- (a) Take note of document UNEP/OzL.Pro/ExCom/54/55;
 - (b) Note UNEP's request to report on its findings on the US \$105,494 difference in expenditures recorded in its financial statement, its progress report, and the nature of the corrective action required, to the 55th Meeting;
 - (c) Note that further work will be undertaken in the administrative cost study to address the adequacy of the agency fees and core unit funding as well the recording of the programme support cost earned under bilateral activities;
 - (d) Recommend that the Consultant for the administrative cost study take this document into account;
 - (e) Note that there is no standard methodology to report on the programme support cost in the financial statements;
 - (f) Note that three agencies out of four have a separate trust fund for Montreal Protocol activities; and
 - (g) Note that two of three agencies have a separate account for core unit costs and a separate one for agency fees.