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

RECONCILIATION OF THE 2003 AND 2004 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 issue of the document.

For reasons of economy, this document is printed in a limited number. Delegates are kindly requested to bring their copies to the meeting and not to request additional copies.

Section I: Brief Background

1. 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 submitted for the last meeting of each year (decision 38/9 (d)).
2. UNDP, UNEP and UNIDO have submitted certified final 2004 accounts to the Treasurer for the period 2004-2005. Adjustments based on the difference between the provisional and final 2004 accounts **are to be** made in 2005. These agencies externally audit their accounts biennially. The audited biennial accounts will be submitted next year. The World Bank submitted its audited accounts for **2003 and** 2004.
3. This document contains five sections: Section I: Brief Background; Section II: Reconciliation of the **Income in the** Accounts with the Implementing Agencies' Revised 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 II: Reconciliation of the Income as Recorded in the 2004 Accounts with the Implementing Agencies' Revised Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects

4. The main assumption of the reconciliation exercise is that if the net funds approved¹ of 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 the documents submitted to the Committee, i.e. the records of the Executive Committee. The record of the recipient, the implementing agencies, is specifically detailed in their progress reports. Therefore, if both agree, the Treasurer, the record keeper of the implementing agencies' accounts of 2004 would make the adjustment on the basis of the agreement and instructions of the agency in accordance with the decision of the Executive Committee in 2005.

Progress Report Data and the Inventory of Approved Projects

5. The progress report data of UNDP, UNEP, and UNIDO agrees with that of the Secretariat's Inventory of Approved Projects within a margin of a few dollars which is due to the rounding of numbers to the nearest decimal. There is a difference of US \$561,093 more in the World Bank's progress report than in the Inventory as shown in Table 1 below.

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

Table 1

DIFFERENCES BETWEEN PROGRESS REPORTS AND INVENTORY OF APPROVED PROJECTS TOTAL NET FUNDS APPROVED INCLUDING SUPPORT COSTS (US\$)

Agency	2004 Progress Report - Total Funds Approved including Support Costs (US\$)	Inventory - Total Funds Approved including Support Costs (US\$)	Difference between Inventory and Progress Report (US\$)
UNDP	471,956,686	471,956,680	-6
UNEP	96,770,294	96,770,298	4
UNIDO	387,924,303	387,924,314	11
World Bank	728,939,930	728,378,837	-561,093
Total	1,685,591,213	1,685,030,129	-561,084

*Includes initial start-up costs of UNDP per Decision 43/39, paragraph b.

6. The difference between the data of the Secretariat and the World Bank are largely explained in Table 2.

Table 2

RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN THE WORLD BANK'S PROGRESS REPORT AND THE INVENTORY OF APPROVED FUNDS (US\$)

Difference between Agency Progress Reports and the Inventory of Approved Projects	-561,093
• Support costs for a foam project in India (IND/FOA/17/INV/44)	29,120
• Costs for a refrigeration project in the Philippines (PHI/REF/19/INV/45)	531,977
• Returned costs for a refrigeration project in Pakistan (PAK/REF/26/INV/31)	2
Balance	6

7. The Secretariat agreed to the modification listed in Table 2.

Net Approvals in Progress Reports and 2004 Income Accounts of the Implementing Agencies

8. One might assume that the net approved funds in the progress report would equal the income in the 2004 accounts of the Fund since they reflect the same period and are reported by the same agency. However, as shown in Table 3, there are differences.

Table 3

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

Agency	2004 Progress Report - Total Funds Approved including Support Costs (US\$)	Aggregate Income for 2004 Accounts of the Fund (US\$)*	Difference between Accounts and Progress Report (US\$)
UNDP	471,956,686	459,320,934	-12,635,752
UNEP	96,770,294	97,323,184	552,890
UNIDO	387,924,303	376,707,957	-11,216,346
World Bank	728,939,930	699,206,460	-29,733,470

Note: A positive number means more income was received by the agency than indicated in the progress report. A negative number means less income was received by the agency than indicated in the progress report.

* As per the Treasurer's records.

9. Table 4 explains the difference between the agencies' progress reports and the agencies' aggregate income in the 2004 accounts indicated in Table 3.

Table 4

RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS REPORTS AND INCOME IN THE 2004 ACCOUNTS OF THE FUND (US\$)

	UNDP	UNEP	UNIDO	World Bank
Difference between Agency Accounts and Agency Progress Report	-12,635,752	552,890	-11,216,346	-29,733,470
• Income from 44th Meeting transferred in 2005	13,927,069		10,489,152	32,665,054
• 2004 provisional interest income credit against 44th Approvals	-1,185,000		-813,953	-2,083,040
• Additional interest earned in 2004 not accounted for		-179,224		
• Double deduction of 2002 Interest		632,717		

	UNDP	UNEP	UNIDO	World Bank
• Fund transfer from promissory notes not previously deducted		-1,006,383		
• project CPR/REF/41/INV/406 was approved at the 41st ExCom in principle, but US\$ 1,181,890 released at the 45th Meeting			1,181,890	
• Actual adjustment per ExCom/44/66 and Corr.1			366,461	
• Actual miscellaneous expenditures			1,883	
• Swedish bilateral recorded as Bank income				-225,985
• Adjustment per Table 4 of ExCom/44/66 and Corr.1 for Adjustments 1991 to 2003 based on the 2003 Reconciliation	-2,369	1	390,109	-719,239
TOTAL ADJUSTMENTS 1991-2004 to be made in 2004	103,948	1	31,735	-96,680

Note: A positive number means more income was received than indicated from approvals in the progress report and the Treasurer should recover these amounts against future approvals. A negative number means less income was received than indicated from approvals in the progress report and the Treasurer would transfer that amount of income to the agency.

10. Table 4 demonstrates some of the reasons for the differences: some approved funds in 2004 were transferred in 2005, interest adjustments, encashment of promissory notes, received by implementing agencies needed to be taken into account; transfers from prior reconciliations; actual miscellaneous expenditures; release in 2005 of funds approved in 2004, and bilateral income reflected as agency income.

11. Depending upon the timing of the last Executive Committee Meeting of the year, there may continue to be some differences between the income reported in the accounts and net funds approved reported in the progress reports if funds are transferred in the year following their approval. Moreover, there may continue to be differences for other reasons. For example, the proposed adjustment from this reconciliation will be implemented in the 2005 accounts, or possibly in the 2006 accounts, since adjustments to the 2004 accounts based on the reconciliation may not occur until 2006 due to the end-November date of the 47th Meeting and the ensuing holiday season.

12. The penultimate row of Table 4 indicates amount of adjustments indicated in the Reconciliation of the 2003 accounts. Since this adjustment is a cumulative exercise, the column reflects the cumulative total to date. The Executive Committee requested the Treasurer to make the necessary adjustment in accordance with his ongoing responsibility to ensure sufficient funds to cover Executive Committee approvals (decision 44/5(b)). These adjustments, however, were

not made in the case of UNDP and the World Bank. A partial adjustment was made for UNIDO. No adjustment was required for UNEP.

13. The last row of Table 4 indicates the amount of funds that should be returned or offset against approvals at the current meeting to fully reconcile the accounts of the Fund to the end of 2004. US \$106,317 should be offset against 47th Meeting approvals for UNDP; and US \$622,559 for the World Bank.

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

14. The Cumulative Expenditures reported to the Treasurer in the 2004 accounts of the Fund should equal the sum of the funds disbursed and funds obligated, that is reported to the Fund Secretariat in the annual progress reports of the implementing agencies for the period 1991 to 2004. Table 5 indicates that UNEP and UNIDO reported less expenditure in their progress reports than in their accounts. However, UNDP and the World Bank reported more expenditure in their progress reports than in their accounts.

Table 5

EXPENDITURES

Column No.	(1)	(2)	(3)	(4)	(5)
	Funds Disbursed including Support Costs	Funds Obligated including Support Costs	Total Cumulative Expenditures {(1)+(2)}	Total Cumulative Expenditures*	{(3)-(4)}
					(See Note)
UNDP	368,747,397	6,014,119	374,761,516	372,404,066	2,357,450
UNEP	72,914,862	3,179,675	76,094,537	76,443,700	-349,163
UNIDO	311,661,847	25,868,550	337,530,397	337,547,818	-17,421
World Bank	575,608,578	146,591,507	722,200,085	590,831,090	131,368,995
Total	1,328,932,684	181,653,851	1,510,586,535	1,377,226,674	133,359,861

Note: A positive number means more expenditure was indicated in 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.

15. Table 6 presents the reasons for the differences in the expenditures reported in the agencies' progress reports and the accounts of the Fund.

Table 6

RATIONALE FOR DIFFERENCES IN EXPENDITURES REPORTED IN PROGRESS REPORTS AND THE ACCOUNTS OF THE FUND (US\$)

	UNDP*	UNEP	UNIDO	World Bank
Difference between Agency Accounts and Agency Progress Report	2,357,450	-349,163	-17,421	131,368,995
Obligations from support costs	-3,983,338			
Adjustments to progress report to be made in 2005 progress report	1,723,313			
Un-liquidated obligations not recorded in the progress report		188,700		
Support costs not recorded in the progress report		71,502		
Exchange rate loss and bank charges		75,960		
Committed Value				-146,591,507
Advances to financial intermediaries from committed accounts				15,222,512
Exchange rate loss and bank charges				
TOTAL ADJUSTMENTS 1991-2004 to be made in 2004	97,425	-13,001	-17,421	0

* The China Solvent Sector prior year expenditure reclassification was taken into account in the Final Accounts and there was no adjustment of US \$8.6 million for the 2003 Reconciliation as indicated in the original document.

16. UNEP reported expenditures of US \$71,502 as exchange rate loss and bank charges. UNIDO reported miscellaneous charges such as bank charges, losses due to exchange rates (currency re-evaluations), and late charges related to closed projects, etc. as negative miscellaneous income. The Secretariat asked the four agencies how these issues were usually addressed. UNEP indicated that it assigned these charges to project approvals. UNDP assigned these charges to the project wherever they could be identified for specific projects and otherwise to administrative costs. The World Bank indicated that it assigned most of these costs to administrative costs and some costs for exchange rate losses to projects. UNIDO indicated that it would offset these costs as negative miscellaneous income against interest it collected.

17. Exchange rate losses might be incurred in the encashment of promissory notes, but the Treasurer encashes the notes instead of UNDP, UNEP and UNIDO and any losses of this nature would be reflected in UNON's accounts as the Treasurer for the Fund, but not in agency accounts. Also, bank charges might be considered as normal costs of doing business and as such would be covered by agency fees. Therefore miscellaneous income, exchange rate losses of this nature and bank charges might not be appropriately listed. The Executive Committee may wish to consider a report as a follow-up to this reconciliation on options for a consistent approach to the application of miscellaneous income, exchange rate losses, and bank charges for funds

approved by the Executive Committee and any consequences in light of the agreements between the implementing agencies and the Executive Committee.

18. The World Bank indicated that its accounting system is different from that of the United Nations agencies. The Bank does not use the term “obligations”. However, for the purpose of the progress report, the Bank provides information on committed resources as obligated balances. Those committed resources amounted to US \$146.6 million as at the end of 2004. It also noted that US \$15.2 million of the amount committed had been advanced to its financial intermediaries for project implementation as at the end of 2003.

Section IV: Recommendations

19. The Executive Committee may wish to:

(a) Note:

(i) The reconciliation of 2003 and 2004 accounts as presented in UNEP/OzL.Pro/ExCom/47/51; and

(ii) The changes to the Inventory of Approved Projects for the projects indicated in Table 2;

(b) Request the Treasurer to make the appropriate adjustments and to ensure that funds transferred to the implementing agencies are the net amounts authorized by the Executive Committee; and

(c) Request the Secretariat in cooperation with the implementing agencies and the Treasurer to submit a report as a follow-up to this reconciliation on options for a consistent approach to the application of miscellaneous income, exchange rate losses, and bank charges for funds approved by the Executive Committee and any consequences of alternative approaches for the consideration by the next meeting of the Executive Committee.
