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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fiftieth Meeting
New Delhi, 6 - 10 November 2006

Addendum

RECONCILIATION OF THE 2005 ACCOUNTS

This document is issued to:

- Replace the text after paragraph 3 with the following:

Section I: Background

4. 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)).

5. All the implementing agencies have submitted audited 2005 financial statements to the Treasurer for the period up to December 2005.

6. This document contains four sections: Section I: Background; Section II: Reconciliation of the Income in the 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.

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 II: Reconciliation of the Income as Recorded in the 2005 Accounts with the Implementing Agencies' Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects

7. Adjustments are proposed, subject to the decision of the Executive Committee, to be effected in 2006.

Progress Report Data and the Inventory of Approved Projects

8. As shown in Table 1 the progress report data of the implementing agencies agrees with that of the Secretariat's Inventory of Approved Projects.

Table 1

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

Agency	2005 Progress Report – Total Funds Approved including Support Costs	Inventory – Total Funds Approved including Support Costs
UNDP	505,244,944	505,244,944
UNEP	109,093,915	109,093,915
UNIDO	446,253,298	446,253,298
World Bank	807,774,635	807,774,636
Total	1,868,366,793	1,868,366,793

(Minor rounding differences are considered immaterial and not further considered in this report.)

Net Approvals in Progress Reports and 2005 Income Accounts of the Implementing Agencies

9. The net approved funds in the progress report and the income in the 2005 accounts of the Fund reflect the same period and are reported by the same agency. Nevertheless, as shown in Table 2, there are differences.

Table 2

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

Agency	2005 Progress Report – Total Funds Approved including Support Costs	Aggregate Income for 2005 Accounts of the Fund (Provisional as reported by the Treasurer)	Aggregate Income for 2005 Accounts of the Fund (per Audited statements)	Difference between Provisional Accounts and Progress Report	Difference between Audited Accounts and Progress Report
UNDP	505,244,944	505,247,314	505,860,598	2,370	615,654
UNEP	109,093,915	109,585,399	109,585,399	491,484	491,484
UNIDO	446,253,298	428,113,790	447,258,881	-18,139,508	1,005,583
World Bank	807,774,635	763,840,322	764,480,546	-43,934,314	-43,294,089

Note: A positive number in the last column 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.

10. Table 3 explains the differences between the agencies' progress reports and the agencies' aggregate income in the 2005 audited accounts indicated in Table 2.

Table 3

RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS REPORTS AND INCOME IN THE 2005 AUDITED ACCOUNTS OF THE FUND (US\$)

	UNDP	UNEP	UNIDO	World Bank
Difference between Agency Audited Accounts and Agency Progress Report	615,654	491,484	1,005,583	-43,294,089
Promissory note that was held by Treasurer on behalf of the World Bank				46,739,582
Other reconciling items				
Interest earned in 2005 accounted for in 47 th approvals				-1,719,668
47/47(b) adjustment offset against interest earned				96,680
Additional interest earned in 2005 reported in provisional statements		-118,127	-404,053	-237,057
Additional interest reported in 2005 audited statements	-613,285		-365,276	-640,224
Adjustments proposed to be made by the Treasurer				
Excess of income compared to Progress Report project approvals:				
- as agreed by Agencies in 2005 relating to 2003- 2004 but not yet implemented	-2,370			-96,680
- differences unresolved in the 2003-2004 reconciliation but now agreed	0	-373,357		-622,257
Rounding	-1	0	-3	0
Unresolved Differences				
Swedish bilateral contribution recorded as income (Interest thereon – see note)				-225,985
Amount netted off 47 th Executive Committee allocation -2003 and 2004 misc. charges. Due to UNIDO			25,528	
Amount netted off 47 th Executive Committee allocation –Due to UNIDO.			7,202	
Interest earned previously offset against miscellaneous expenditures			-268,987	

11. The Promissory Note to the value of US\$18,779,814 assigned by the Treasurer to UNIDO was reported, consistent with previous years practice in both UNIDO's provisional and audited statements for 2005 (Decision 41/12 refers). The Promissory Note was held by the Treasurer and therefore excluded from income of the agency as reported by the Treasurer in his presentation of the provisional accounts Again this had also been the practice in previous years. The Promissory Note was encashed and funds remitted to UNIDO in 2006. This is not a reconciling difference because it was recorded in both the Progress Report and the final audited accounts of UNIDO.

12. The Promissory Note to the value of US \$46,739,582 was to be transferred to the World Bank for approvals at the 47th meeting however it was not included in either the provisional or audited accounts of the World Bank because it was held by the Treasurer. The note was excluded from the income reported by the Treasurer: this too was encashed and funds transferred in 2006. This is a reconciling difference because the approvals it covers are recorded in the Progress Report.

13. The World Bank, in view of the changing business requirements under the Multilateral Fund, is reluctant to accept Promissory Notes assigned to the Bank unless the Promissory Note may be encashed on demand so as to avoid the commitment of funding that is not available and consequent delays in project implementation.

14. All the Implementing Agencies report that they are extremely concerned to accept Promissory Notes with long term encashment dates as funding for current allocations. This is related to the change in the basis of business of the Fund, whereby project funding is provided on an annual rather than a project basis, which has contributed to the reduction of flexibility of the agencies to manage a reduced portfolio. According to the World Bank the time taken for note encashment for the 47th meeting approvals has already caused delays in starting project implementation for the bank

15. The remaining differences between the provisional and audited statements relate to interest income reported by the agencies.

16. For information: it should be noted that the income reported in the audited Financial Statements of the Multilateral Fund as incorporated in UNEP's Financial Statements is the total of Contributions, Interest and Miscellaneous income. Allocations made to the Implementing Agencies are initially recorded as Advances. Implementing Agency expenditures are recorded annually when they are reported and are offset against these advances.

17. Other Reconciling Items:

- (a) Interest earned has been reported by the agencies as part of their aggregate income as at 31 December 2005 but was not netted off from approvals in 2005.
- (b) The excess of income over project approvals represents the funds that the Agencies agree should be returned to the Multilateral Fund against approvals at the current meeting.

18. Unresolved differences:

- (a) The issue of removing the Swedish bilateral contribution from the 29th Executive Committee meeting was raised with the World Bank. The Bank explained that this was a transaction of long standing and that it was not possible to make an adjustment at this time. Therefore the Bank requests that it should remain as a reconciliation item until the project is fully disbursed. The Bank stated that because the bilateral contribution had been transferred to the Bank's main Ozone Trust Fund, any interest earned would have been included in the total interest earnings and retained in this Fund. the Government of Sweden has recently reiterated to the Bank its agreement with having the interest on the contribution channelled back to the fund
- (b) UNIDO has written to confirm that it will comply with decision 48/38(b) by assigning Miscellaneous income/(charges) and currency revaluation of US \$361,966 for the period up to December 2005 to either project or administrative costs. UNIDO proposes to absorb US \$107,048 against UNIDO's administrative costs and to assign US \$254,918 to project costs: UNIDO has provided the Secretariat the list of projects that would absorb these costs. UNIDO further explained that the US\$268,987 described as "Interest earned previously offset against miscellaneous expenditures" is the total that had been netted off against interest income as at 31 December 2002. The differences of US \$25,528 and US \$7,202 are linked to this issue and are anticipated to be resolved in this process. As UNIDO's financial statements for the biennium 2004-2005 have been closed, the required accounting entries will be carried out in 2007 and will then be reconciled in 2008.

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

19. Table 4 sets out the differences between the Cumulative Expenditures reported to the Treasurer in the 2005 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 2005.

Table 4

EXPENDITURES (US\$)

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 reported to the Treasurer*	{(3)-(4)}
		{(1)+(2)}		Total Cumulative Expenditures reported to the Treasurer*	(See Note)
UNDP	403,303,069	3,149,960	406,453,029	401,845,864	4,607,165
UNEP	84,721,706	5,163,141	89,884,847	90,089,359	-204,512
UNIDO	349,926,249	26,742,785	376,669,034	376,781,189	-112,155
World Bank	673,246,205	130,510,444	803,756,649	678,461,267	125,295,382

Note: A positive number in the last column 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.

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
Difference between Agency Accounts and Agency Progress Report	4,607,165	-204,512	-112,155	125,295,382
Funds allotted to cover 2006 and 2007 administrative commitments	-4,495,379			
Savings on prior biennium obligations not yet credited to the Progress Report	-68,300			
Adjustment for non-MFL projects to be corrected by UNDP in their 2006 financial statement	-14,432			
Fund balance adjustments in financial statement not directly impacting expenditure	-29,054			
Expenditure adjustments to be made in the 2006 Progress Report			44,704	
Miscellaneous expenditures to be adjusted by the agencies in 2007		60,556	77,086	
Reduction in expenditures between provisional and audited financial statements			-9,635	
Committed funds for approved projects yet to be disbursed				-130,510,444
Disbursements to Agency's Special Accounts not disbursed to beneficiary at 31 December 2005				5,215,062
Difference in Programme Support Costs currently under review by UNEP		143,956		
	0	0	0	0

21. Miscellaneous expenditures to be adjusted in 2007 represent income/(charges) that both UNEP and UNIDO have agreed to resolve as part of the miscellaneous charges exercise in their accounts in 2007. The final amount reported by UNIDO for 2005 was US \$67,451 (US \$77,086 minus US \$9,635) whilst UNEP reported an amount of US \$60,556.

22. The difference of US \$125,295,382 between the 2005 Accounts and the disbursement, plus obligated funding, shown in the Bank's 2005 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 2005 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). At any given time, there will be a higher total expenditure level in the accounts than in the progress report because of the lag between disbursement to the special accounts and disbursement to the beneficiary.

23. UNEP has indicated that it needs more time to determine in detail the projects to which the programme support costs relate.

24. In accordance with the Executive Committee decision 49/9 (f), which requested UNDP to report to the 50th Executive Committee Meeting on the status of overruns UNDP has submitted a table which reflects the current status of overruns. UNDP have stated that adjustments have been made in the 2006 accounts. Accordingly, the 2006 Progress report and financial statement will reflect these adjustments to expenditure.

Section IV: Recommendations

25. The Executive Committee may wish to:

- (a) Note:
 - (i) The reconciliation of 2005 accounts as presented in UNEP/OzL.Pro/ExCom/50/60 and UNEP/OzL.Pro/ExCom/50/60/Add.1;
 - (ii) That UNIDO has written to confirm that it will comply with decision 48/38(b) by assigning Miscellaneous charges of US \$361,966 for the period up to December 2005 to either project or administrative costs. And that UNIDO proposes to absorb US \$107,048 against UNIDO's administrative costs and to assign US \$254,918 to project costs;
 - (iii) That any interest received on behalf of the Swedish Bilateral Contribution would be returned to the Fund; and
 - (iv) That the Implementing agencies are unable to commit to project expenditures against Promissory Notes without assurance that the Promissory Notes are encashable upon demand and that this has already resulted in delays in implementation.
- (b) Request the Treasurer to review the Executive Committee's policy on Promissory Notes in recognition of financial requirements to reflect the emerging business circumstances of the Multilateral Fund.
- (c) Request UNIDO to present, in the Balances Report to the 51st Executive Committee Meeting, the list of projects to which the charges of US \$ 254,916 are proposed to be recorded at that meeting.
- (d) To acknowledge the updated status of overruns reported by UNDP noting that whilst progress has been made further explanations are still required.
- (e) Request the Treasurer to make the following adjustments to funds approved for implementing agencies by offsetting these amounts against current, or future, approvals: UNDP US\$2,370, UNEP US \$373,357, World Bank US \$96,680 and US \$622,257.