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RECONCILIATION OF THE 2006 AND 2007 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.

1. This document contains four sections: Section I: Background; Section II: Reconciliation of the Income as recorded in the 2007 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 2007. The Secretariat in collaboration with the implementing agencies and the Treasurer has therefore conducted this exercise every year and reported the results annually to the last meeting of the year.

3. The 2006 reconciliation of the accounts exercise was presented to the 53rd Meeting of the Executive Committee in November 2007 and concluded that the reconciliation of the 2006 accounts would have been completed, with the exception of UNEP, which needed to review its records on approved projects to explain a discrepancy of US \$6,060 in comparison with the Secretariat's inventory of approved projects. UNEP also needed to explain the discrepancy of US \$105,494 recorded in its financial statement and not in its progress report. The document also noted that the World Bank needed to provide an explanation of a US \$303 excess in its income for the Treasurer to offset this amount from future transfers.

4. This document presents the 2007 reconciliation of the accounts exercise and also addresses outstanding items from the 2006 reconciliation exercise.

Section II: Reconciliation of the Income as Recorded in the 2007 Accounts with the Implementing Agencies' Progress Report Financial Data and the Fund Secretariat's Inventory of Approved Projects

5. Adjustments are proposed to be effected in the UNEP/UNON 2008 accounts in consultation with the implementing agencies and the Treasurer subject to the decision of the Executive Committee.

Progress Report Data and the Inventory of Approved Projects

6. 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. Since the ultimate source of the implementing agencies' approvals is the inventory maintained by the Secretariat, it is suggested that the 2007 approved amount of US \$2,123,581,930 as per the inventory be used for the purpose of the 2007 reconciliation of the accounts exercise.

Table 1

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

Agency	2007 Progress Report – Total Funds Approved including Support Costs	Inventory – Total Funds Approved including Support Costs	Difference
UNDP	537,059,608	537,059,598	10
UNEP	138,817,124	138,817,130	-6
UNIDO	498,449,592	498,449,598	-6
World Bank	949,255,606	949,255,611	-5
Total	2,123,581,930	2,123,581,937	-7

7. Table 1 shows a US \$6 difference between UNEP’s records of approved projects and the Secretariat’s inventory. Decision 53/42(b) requesting UNEP to review the inventory of approved projects figures versus progress reports, and to make corrections according to the approvals recorded in the reports of the Executive Committee, has therefore been addressed by UNEP since UNEP was able to resolve the US \$6,060 difference reflected in the 2006 reconciliation exercise.

8. Table 1 shows a difference of (US \$7) between the inventory and the approvals reported in the agencies’ progress reports of which US \$10 is attributed to UNDP. Where the difference is higher than US \$5 it is recommended that the agencies align their figures to the inventory maintained by the Secretariat.

Net Approvals in Progress Reports and 2007 Income Accounts of the Implementing Agencies

9. The net approved funds in the progress report and the income in the 2007 accounts of the fund cover the same period. However, as shown in Table 2, there are differences between the two reports.

Table 2

DIFFERENCES BETWEEN THE PROGRESS REPORTS AND 2007 ACCOUNTS OF THE FUND – FUNDS APPROVED AND INCOME (US\$)

(1)	(2)	(3)	(4)	(5) = (3)-(2)	(6) = (4)-(2)
Agency	2007 Progress Report – Total Funds Approved including Support Costs	Aggregate Income for 2007 Accounts of the Fund (Provisional as reported by the Treasurer)	Aggregate Income for 2007 Accounts of the Fund (per Final statements)	Difference between Provisional Accounts and Progress Report	Difference between Final Accounts and Progress Report
UNDP	537,059,608	537,059,605	538,380,277	-3	1,320,670
UNEP	138,817,124	139,044,284	139,044,036	227,160	226,912
UNIDO	498,449,592	499,083,178	499,083,168	633,586	633,576
World Bank	949,255,606	955,296,497	955,296,504	6,040,891	6,040,898
Total	2,123,581,930	2,130,483,564	2,131,803,985	6,901,634	8,222,056

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

10. Table 3 explains the differences between the progress reports and the agencies’ aggregate income in the 2007 final accounts indicated in Table 2. Table 3 shows that all agencies were able to reconcile their 2007 income with approved amounts as per the inventory with the exception of the World Bank that has a US \$2,686,741 shortfall, and UNEP with US \$45,161 in surplus.

Table 3

**RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS REPORTS
AND INCOME IN THE 2007 FINAL ACCOUNTS OF THE FUND (US\$)**

	UNDP	UNEP	UNIDO	World Bank
1. Difference between Agency Audited Accounts and Progress Report	1,320,670	226,912	633,576	6,040,898
2. Oct-Dec 07 Interest accrued offset by the Treasurer in 2008	-1,320,670	-187,233	-632,801	-1,838,022
3. Miscellaneous income to be recorded by the Treasurer in 2008			-776	
4. Exchange rates on 2007 payments		5,482		
5. Thailand Chiller Project (THA/REF/26/INV/104)				-1,353,124
6. Investment Income – Adjustments				-8
7. Chile Halon Transfer (CHI/HAL/42/TAS/156)				64,500
8. Sweden bilateral (THA/HAL/29/TAS/120)				-225,985
9. US bilateral (China APP-CPR/PRO/44/INV/425)				-5,375,000
10. Reconciling difference	0	45,161	-1	-2,686,741

11. Row 1 indicates the difference between incomes in the agency's audited accounts and the approved amounts in the progress reports. As shown in Table 3 all agencies were able to reconcile the 2007 income with approved amounts as per the inventory with the exception of the World Bank, with a shortfall of US \$2,686,741 in income and UNEP with a \$45,161 surplus.

12. UNDP explained that the difference of US \$1,320,670 between the 2007 progress report and the 2007 financial statement, shown in row 2 corresponds to the difference in interest income between the 2007 provisional and final statement, which will be offset by the Treasurer from the 56th Meeting or future cash transfers to UNDP. The Treasurer confirmed the amount is to be recorded in the 2008 accounts of UNEP as a prior years' adjustment.

13. Row 1 also shows that UNEP's 2007 final accounts reflect US \$226,912 more income in its financial statement than in its progress report. Out of this amount US \$187,233 corresponds to the interest accrued that was not reflected in the progress report. This amount shall be reflected in the 2008 accounts of the Fund by the Treasurer. The amount of US \$5,482 in row 4 corresponds to a loss due to the exchange rate and the amount of US \$45,161 in row 10 corresponds to a higher income that had been recorded in UNEP's accounts. This amount will be reviewed in consultation with the Treasurer and constitutes an outstanding reconciling item which requires further investigation.

14. With respect to UNIDO, as shown in row 1, the total difference between the net approvals in the progress reports and the income in the 2007 final accounts of the fund for UNIDO amounts to US \$633,576. This amount consists of US \$632,801 in row 2 relating to additional interest accrued in the fourth quarter of 2007 and reported in UNIDO's provisional financial statement but not considered in 2007 by the Treasurer. This amount shall be reflected as 2007 adjustments in the Treasurer's accounts for 2008. Also a miscellaneous income of US \$776 for UNIDO had been recorded in its 2007 final statement and shall be reflected in the Treasurer's accounts for 2008.

15. Row 1 shows a difference of US \$6,040,898 between net approvals in progress reports and income in the 2007 final accounts of the fund for the World Bank. Out of this amount, US \$1,838,022 corresponds to the interest earnings in the last quarter for October to December 2007, which were accounted for in the 54th Meeting approvals in March 2008.

16. The refund of US \$1,353,124 made in 2007 against the chiller concessional loan project for Thailand is reflected in row 5 of Table 3. This amount had been deducted from the World Bank's income by the Treasurer in 2008 and represents a loan repayment of the balance of the project (US \$1,198,947) as noted in decision 55/2(ii) and exchange gain (US \$154,177) associated to it. Both amounts were deducted by the Treasurer from the 54th Meeting approvals in May 2008. This adjustment has therefore been made and does not require any further action.

17. An investment income of US \$8 had been identified as a reconciling difference by the World Bank. This is a small amount of investment income that was earned by the World Bank in June 2007 but had been excluded from the quarterly reporting of investment income. Hence there was a total US \$8 difference in interest earnings reported during 2007 and early 2008.

18. The World Bank also identified an amount of US \$64,500 in row 7 that refers to the adjustment relating to the Chile halon technical assistance project (CHI/HAL/42/TAS/156) that was transferred to UNDP, along with support costs. However funds were deducted twice through decision 51/10(b) on the the World Bank's business plan and decision 52/2(b) and (c) on balances.

19. Finally as show in row 10, there is a reconciling difference for the World Bank of US \$2,686,741 which is pending further explanation from the World Bank. The Bank explained that the difference of US \$2,686,741 is likely to be related US \$2,046,819 in cumulative exchange rate gains from the last promissory note assigned to the Bank that was adjusted in 2006 against 48th Meeting approvals, and US \$640,224 in interest earnings that were not reported until early 2007 and adjusted by the Treasurer against the 51st Meeting approvals. These are now appearing as a shortfall in the Bank's accounts and require additional review. The US \$2,686,741 also include the US \$303 in excess funds received by the World Bank and identified during the 2006 reconciliation for which the World Bank was requested to provide an explanation by decision 53/42. The World Bank is still investigating the US \$303 amount but proposes that this amount be offset by the Treasurer if it cannot be identified by the time the Executive Committee convenes. The World Bank indicated that it will be prepared to provide an update at the Executive Committee Meeting on this reconciliation item.

Standing reconciliation items:

20. The World Bank reported the same standing reconciling item of US \$5,375,000 for a bilateral contribution received in 2006 from the United States of America towards the US-China Accelerated Production Phase-out project being implemented by the World Bank. This amount was approved at the 47th Executive Committee Meeting. The amount is a reconciling item because the World Bank has included it as part of its income in the 2006 accounts, whereas it is not included in the Secretariat's list of approved projects for the World Bank because it is a bilateral contribution.

21. The Bank also reported the same sum of US \$225,985 that was a standing reconciling item in previous annual reconciliations of accounts. It is a Swedish bilateral contribution approved at the 29th Executive Committee Meeting and has been treated in a similar manner as the bilateral contribution received from the United States as stated above. Consequently, both will remain as standing reconciling items since they cannot be treated as normal income from the Multilateral Fund in the Bank's progress report.

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

22. Table 4 sets out the differences between the cumulative expenditures provisionally reported to the Treasurer in the 2007 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 2007.

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	455,237,872	2,103,647	457,341,519	451,462,678	5,878,841
UNEP	109,294,790	7,371,482	116,666,272	117,335,219	-668,947
UNIDO	425,658,144	27,644,771	453,302,915	453,366,787	-63,872
World Bank	855,552,769	91,543,674	947,096,443	862,924,424	84,172,019

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.

23. Table 5 summarises the differences in the expenditures reported in the agencies' progress report 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	5,878,841	-668,947	-63,872	84,172,019
2. Funds allotted to cover 2007 and 2008 administrative cost not disbursed against PSC earned	5,488,430			
3. Difference between progress reports and final statements	299,485			
4. Savings on prior biennium obligations not yet credited to the Progress Report	68,300			
5. Fund balance adjustments in financial statement not directly impacting expenditure	29,054			
6. Project level errors.	-6,445			
7. Rounding difference	17			
8. Variance between provisional and final 2007 accounts to be reflected in the 2008 accounts		256,575*		
9. 2006 PSC amount to be deducted in 2008				
10. Savings uploaded from Regional Offices		301,488		
11. Cumulative PSC adjusted in 2007 as per 2005 account reconciliation		146,685		
12. Prior year adjustment as per 2006 accounts		-35,801		
13. Expenditures/support cost recorded			63,872	
14. Disbursements to Agency's Special Accounts not disbursed to beneficiary at 31 December 2006				-7,371,656
15. Committed value for approved projects				91,543,674
Reconciling Difference	0	0	0	-1

*US \$256,575 in row 8 is the sum of US \$93,622 which UNEP indicated it requires further investigation, US \$57,459 (2007 PSC) and US \$105,494 (2006 PSC).

24. As shown in row 2 of Table 5, US \$5,488,430 represents programme support costs (PSC) earned by UNDP against projects implemented in 2007 and prior years. UNDP explained that even though this amount is considered to be earned and reported in the progress report, it was not yet disbursed as per the 2007 financial statements. UNDP explained that these are funds allocated to cover 2008 and 2009 administrative commitments. The same justification was provided by UNDP during the 2006 reconciliation exercise with respect to the difference between expenditures recorded in its 2006 progress report and its 2006 financial statement, which had raised the issue of PSC earnings accountability. The matter is further addressed in the administrative cost document with a view to clarifying how the other implementing agencies' account for expenditures against PSC earnings.

25. Row 3 indicates that the difference of US \$299,485 in expenditures between the UNDP financial statement and UNDP's progress report corresponds to the difference in the 2007 expenditures between the provisional accounts and the final statements. This difference shall be recorded by the Treasurer in 2008 based on the 2007 final accounts that had been submitted by UNDP to the Treasurer in September 2008.

Standing reconciliation items:

26. Row 6 refers to the amount of US \$6,445 as a project level error that has been reflected in the progress report and not adjusted in the 2007 accounts. The adjustment of this amount will be reflected in the 2008 accounts by UNDP.

27. Rows 4 and 5 show the sums of US \$68,300 and US \$29,054 that will remain as outstanding reconciling items for UNDP till closure of the MLF funded projects and cannot 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 actually do so only on closure of all UNDP MLF funded activities.

28. With respect to UNEP's difference between its progress report and the accounts on expenditure incurred in 2007, UNEP has reported US \$668,947 more in expenditures in its financial statement than its progress reports.

29. UNEP reported that US \$256,575 of this amount is the variance between the 2007 provisional financial statement and the final 2007 accounts, which had not been recorded in the account by the Treasurer. When breaking down this amount UNEP explained that US \$93,622 is a figure that requires further clarification, US \$57,459 is a difference in the 2007 PSC that will be reflected in 2008, and US \$105,494 corresponds to the 2006 PSC to be adjusted in 2008 as a follow-up to decision 55/46(b)"to request UNEP to report to the 56th Meeting of the Executive Committee on progress made in implementing those actions as part of the 2007 reconciliation of accounts exercise".

In its response UNEP indicated that an adjustment by journal will be reflected in the 2008 accounts on this amount. It indicated that the audited financial statements for UNEP for the biennium 2006-2007 have recently been published in August 2008 and action is being taken to reconcile the expenditure against the progress report with the aim of completing this exercise before the end of 2008. While reviewing UNEP 2007 audited accounts, the Secretariat noted that the adjustments to the 2006 accounts for the amount of US \$105,494 have been withheld and are pending a detailed breakdown by projects from UNEP. UNEP needs therefore to provide the correct PSC rates against each project.

30. UNEP has also explained that savings of US \$301,488 from the regional offices were recorded in the accounts after the preparation of the interim accounts and were included in the final accounts as shown in row 9.

31. Row 10 indicates an amount of US \$146,685 which corresponds to the adjustment resulting from the cumulative differences in programme support costs for the period up to 2005 as per the 2006 reconciliation that was done in 2007 and row 11 refers to the amount of US \$35,801 that relates to the prior year's adjustment as per the 2006 accounts.

32. With respect to UNIDO, it has reported higher expenditures of US \$63,872 in its provisional 2007 financial statement compared to its 2007 progress report. UNIDO explained that this is due to a revision in the total expenditures/support costs recorded between submission of the provisional statement based on first cut-off figures and the final statement based on final cut-off figures. At the time of preparation of the 2007 progress report, the final cut-off figures were already available, which was not the case for the provisional statement.

33. Regarding the World Bank, row 1 indicates that the Bank has reported US \$84,172,019 less expenditures in its financial statement than its progress report. The World Bank explained that it uses a cash basis of accounting where disbursements are not recorded in its financial statements until such payments are made, while they are reflected in its progress reports. Therefore its progress report will always reflect a higher expenditure than its final statement.

Section IV: Recommendations

34. The Executive Committee may wish to:

- (a) Note the reconciliation of 2007 accounts as presented in UNEP/OzL.Pro/ExCom/56/60;
- (b) Note that that further update is required on the 2006 standing reconciling item from UNEP and the World Bank on:
 - (i) US \$105,494 which is pending an itemised list of projects with the PSC rates associated to each project for the adjustment to be carried out in the accounts of UNEP as Treasurer;
 - (ii) US \$303 excess on the World Bank's income for the Treasurer to offset this amount from future transfers;
- (c) Note that the 2007 reconciliation of the accounts exercise is pending further explanation from the World Bank on the shortfall of US \$2,686,741 in its income and US \$45,161 surplus from UNEP in its income;
- (d) Request UNEP and the World Bank to report on these two amounts to the next meeting if no up-date is provided at the 56th Meeting;
- (e) Note that UNEP is still investigating an entry of US \$93,622 in its 2007 final expenditures to explain the difference between the expenditures in its progress reports and in its provisional statement, and will report on this item in the 2008 reconciliation of the accounts exercise;
- (f) Request the Treasurer and the agencies to make the adjustment required in the 2008 accounts as a result of the 2007 reconciliation exercise as follows:
 - (i) Request UNDP to adjust its 2007 expenditures by US \$6,445 in 2008;
 - (ii) Request the Treasurer to record in 2008 the 2007 income of US \$1,320,670 for UNDP, US \$187,233 for UNEP, US \$633,576 for UNIDO and US \$1,838,022 for the World Bank in 2008;
 - (iii) Request the Treasurer to record in 2008 the 2007 expenditures US \$299,485 for UNDP.
