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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-seventh Meeting
Montreal, 30 March - 3 April 2009

**RECONCILIATION OF 2006 AND 2007 ACCOUNTS
(DECISION 56/67)**

Background

1. 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 that needed to explain the discrepancy of US \$105,494 expenditures recorded in its financial statement and not in its progress report and the World Bank that needed to provide an explanation of a US \$303 excess in its income for the Treasurer to offset this amount from future transfers.
2. At the 56th Meeting in 2008, Document UNEP/OzL.Pro/ExCom/56/60, addressed the outstanding items from the 2006 reconciliation of the accounts exercise and indicated that both UNEP and the World Bank needed to report back on the two outstanding reconciling items listed above. The Executive Committee decision 56/67(b) noted, therefore, that in order to complete the 2006 reconciliation exercise, a further update from UNEP and the World Bank was required on the US \$105,494 additional expenditures in project support cost for UNEP and US \$303 excess in the World Bank's income.
3. In addition to addressing the 2006 two outstanding reconciling items, document UNEP/OzL.Pro/ExCom/56/60 also presented the results of the 2007 reconciliation of the accounts exercise, which had revealed that the records of approved amounts for the agencies were substantially the same as those of the Secretariat. However, comparison among the approvals for the implementing agencies in the progress reports and the 2007 income accounts of the implementing agencies indicated a shortfall in the World Bank's income of US \$2,686,741 and a surplus of US \$45,161 in UNEP's income. UNEP was also still investigating an entry of US \$93,622 in its final expenditures for 2007. Some adjustments were also still required in 2008 for UNDP.

4. By decision 56/67(c) to (g) the Executive Committee therefore decided:

- “(c) To note that the 2007 reconciliation of the accounts exercise was 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 and to request UNEP and the World Bank to report on those two amounts to the 57th Meeting;
- (d) To note that UNEP was 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 would report on those items at the 57th Meeting;
- (e) To request UNDP to adjust its 2007 expenditures by US \$6,445 in 2008;
- (f) To 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; and
- (g) To request the Treasurer to record the 2007 expenditures of US \$299,485 for UNDP in 2008.”

5. Section I of this document addresses outstanding reconciling items for the 2006 reconciliation of the accounts exercise for UNEP and the World Bank as a follow-up to decision 56/67(b). Section II addresses outstanding reconciling items in the 2007 accounts for UNEP and the World Bank as a follow-up to decision 56/67(c) and (d). Section III addresses some adjustments in the 2008 accounts to be made by UNDP and the Treasurer as a follow-up to decision 56/67(e) (f) and (g). Section IV presents the Secretariat recommendations for the Executive Committee’s consideration.

SECTION I: Reconciliation of the 2006 Accounts

6. UNEP had a discrepancy of US \$105,494 expenditures recorded in its 2006 financial statement and not in its 2006 progress report. UNEP explained that the amount of US \$105,494 is related to support cost expenditures for the years prior to 2006 that had been inadvertently recorded against some of its projects in 2006. Due to the automatic generation of programme support cost (PSC) for institutional strengthening projects which are no longer charged, the PSC posted in the IMIS accounting system shows higher PSC expenditures than those reported in the progress report. UNEP was able to identify the projects to which these expenditures relate and indicated that it would make the necessary corrections to its 2006 accounts through an adjustment in its 2008 accounts. The detail of this adjustment to UNEP IMIS accounting system giving the related IMIS project numbers was provided to the Secretariat. The 2006 reconciliation of the accounts exercise is therefore completed for UNEP.

7. On the US \$303 excess income for the World Bank, the Bank indicated that it is still investigating this discrepancy that goes back to the 2006 reconciliation of the accounts, and suspects that it could be attributed to an adjustment in the progress report. This amount will therefore remain an outstanding item in the 2006 reconciliation of the accounts exercise and shall be revisited on the occasion of the 2008 reconciliation of the accounts exercise at the 59th Meeting.

SECTION II: Reconciliation of the 2007 Accounts

UNEP

8. At the 56th Meeting UNEP was still investigating an expenditure of US \$93,622 recorded in its final 2007 expenditures and not in its 2007 progress reports. UNEP explained that it relates to cumulative

prior year charges that include inter-office vouchers processed in 2007, which had been included in the 2007 accounts. UNEP advised the Secretariat that this expenditure amount will be reversed and will be deducted from the 2007 UNEP expenditures accounts in 2008.

9. Regarding the US \$45,161 surplus in the UNEP accounts, UNEP explained that the surplus is a result of a fund balance resulting from the timing in recording project approvals, returned balances and income earned from interest. UNEP explained that it had received four transfers of funds in 2007 as opposed to the normal three related to the three Executive Committee approvals. One of these payments was the balance of the amount due to UNEP after the 50th Meeting of Executive Committee in December 2006 transferred in late January 2007, hence its inclusion in the 2007 income. During 2007 UNEP also made returns, and some of the interest collected had been offset against approvals causing the excess to appear in the UNEP income. UNEP advised the Secretariat that this excess is to be offset against future income.

10. With these explanations and after the suggested adjustments are made, the 2007 reconciliation of the accounts would have been completed for UNEP.

World Bank

11. The World Bank explained that the shortfall of US \$2,686,741 in the World Bank income accounts originates from three elements:

- (a) A sum of US \$2,046,819 which corresponds to the cumulative exchange rate gain on notes since the 38th Meeting of the Executive Committee that had been deducted from the World Bank's project approvals at the 38th, 41st and 45th Meetings, and was once again deducted from the new approvals from the 48th Meeting resulting into a double deduction.
- (b) The other amount of US \$640,224 had resulted from an omission of an investment income loss that occurred during the change in the Bank's accounting system. The investment income loss was deducted at the amount reported to the Treasurer for 2005, however it had been added back when reporting 2007 investment income. The unrealized loss was therefore not considered in the investment income amount provided to the Treasurer, leading to a double deduction from future transfers to the Bank.
- (c) Finally, the World Bank had reported an additional US \$8 earnings between 2005 and 2006 causing a discrepancy of the same amount, which had been deducted by the Treasurer in the transfers made to the Bank.

12. The Treasurer was able to confirm a double deduction of US \$1,176,270 which had occurred on the basis of the World Bank's 2004 audited financial statements, and in 2006 through an audit confirmation request. Further verification is however needed by the Treasurer before proceeding with refunding the World Bank the remaining shortfall of US \$1,510,471. This amount constitutes an outstanding reconciling item for the 2007 reconciliation of the accounts exercise for further follow-up at the 59th Meeting.

SECTION III: 2007 Adjustments required in 2008 by UNDP and the Treasurer

13. UNDP confirmed to have effected an adjustment of US \$6,445 to adjust its 2007 expenditures in their 2008 accounts. Similarly, the Treasurer confirmed that he recorded UNDP's income of US \$1,320,670 in 2008 that had not been reported by UNDP in their 2007 provisional statement but reported in their final Financial Statements (FS) later in 2008. The Treasurer confirmed also that all the necessary adjustments to the 2007 accounts, as recommended in UNEP/OzL.Pro/ExCom/56/60,

were made including the amounts to be withheld from the IAs approvals in 2008 as described in Table 3 of the "Reconciliation of the 2006 and 2007 Accounts" report to the 56th Meeting of the Executive Committee.

SECTION IV: Recommendations

14. The Executive Committee may wish to:

- (a) Take note of document on reconciliation of 2006 and 2007 accounts as contained in UNEP/OzL.Pro/ExCom/57/65;
- (b) Note that the reconciliation of 2006 and 2007 accounts has been completed for UNEP;
- (c) Note the return of US \$45,161 surplus for UNEP and request the Treasurer to offset this amount against future transfers to UNEP;
- (d) Note the World Bank explanation on the shortfall of US \$2,686,741 and request the Treasurer to return US \$1,176,270 to the Bank;
- (e) Note that follow-up actions on the 2006 - 2007 accounts have been completed for UNDP, UNEP and UNIDO and is pending a report to the 59th Meeting:
 - (i) from the World Bank on the amount of US \$303; and
 - (ii) on verification by the Treasurer that the amount of US \$1,510,471 had been deducted twice from the transfers that had been made to the World Bank.
