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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-fourth Meeting
Prague, 29 November-3 December 2004

2003 ACCOUNTS

(Report by the Treasurer)

1. To date, the Treasurer has not received 2002 audited accounts from the World Bank. 2002 UNDP audited accounts were submitted to the Treasurer after the deadline of the closure of the UNEP 2002 accounts. As a result no adjustments have been made in UNDP and World Bank financial statements recorded in UNEP 2002 audited accounts.
2. UNEP has now received the signed Management Letter from the UN Board of Auditors. No substantial variances from document UNEP/OzL.Pro/ExCom/43/53 are reflected, the Treasurer therefore asks that the 2003 accounts attached be formally reviewed by the Executive Committee at the 44th Meeting.
3. Annex I to this document contains the official 2002-2003 accounts as follows:
 - (a) Schedule 1.1 2003 Statement of Income and Expenditure (in US\$)
 - (b) Schedule 1.2 2003 Statement of Assets and Liabilities (in US\$)
 - (c) Schedule 1.3 2003 Expenditures for Account MFL 2336-2211-2661 Secretariat's Main Account)
 - (d) Schedule 1.4 UNDP Managed Activities in 1991-2003 (in US\$)
 - (e) Schedule 1.5 UNEP Managed Activities in 1991-2003 (in US\$)

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- (f) Schedule 1.6 UNIDO Managed Activities in 1991-2003 (in US\$)
- (g) Schedule 1.7 World Bank Managed Activities in 1991-2003 (in US\$).

4. Annex II to this document presents audit observations and recommendations on the 2002-2003 biennium ending 31 December 2003 for the Executive Committee members' attention and consideration as it relates to the following items:

- (a) The recording of prior years expenditures in the Fund's accounts being recorded as part of the current biennium expenditures instead of prior period adjustment as the Auditors had expected.
- (b) The voluntary pledges receivables amounting to US\$73.07 million being outstanding for more than five years.
- (c) The new cash advances having been granted to implementing agencies when old ones have not been fully accounted for.

5. The Executive Committee may wish to take note of the 2002-2003 audited accounts of the Fund attached as Annex I.

6. On the basis of Annex II, the Executive Committee may wish:

- (a) To support the Treasurer's suggestion to continue with the practice of recording any changes reported by implementing agencies to previous period's expenditures as part of the current period transaction as a result of the reconciliation exercise between the Treasurer and the Implementing agencies.
- (b) To take note that UNEP's policy regarding its own fund in that any pledge to the Fund remaining unpaid after four years are written off with the approval of the Governing Council. In the case of the Multilateral Fund, such pledges would be written off with the approval of the Meeting of Parties.
- (c) To consider directing the Treasurer to review the pertinent aspects of the implementing agency agreements to address the issue of new cash advances being granted to implementing agencies when old ones have not been fully accounted for.

Annex II

Extract of Audit Observations and Recommendations on the 2002-2003 accounts of the biennium ending 31 December 2003

1. During the year, the Board of Auditors of the United Nations reviewed the operations of the Fund of UNEP and also audited its financial statements for the biennium 1 January 2002 to 31 December 2003. The accounts of the Trust Fund for the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer are audited as part of the UNEP financial statements.
2. In respect of the Trust Fund, the Board's report highlighted the following three issues:
 - (a) Expenditures of US\$20.3 million incurred by implementing agencies during the period 1991 to 2001 were recorded in the Fund's accounts as part of the current biennium expenditures instead of prior period adjustment as the Auditors had expected.
 - (b) Voluntary pledges receivables amounting to US\$73.07 million have been outstanding for more than five years.
 - (c) New cash advances have been granted to implementing agencies when old ones have not been fully accounted for.

Expenditures incurred between 1991 and 2001

3. The expenditures of US\$20.3 million referred to above was the outcome of the reconciliation exercise performed in 2002 between the Treasurer and the implementing agencies. The net effect resulted in the increased level of expenditures of the fund.
4. The Board referred to the UN Financial Rule which provides that, "Unless otherwise directed by the Under-Secretary General for Management or by the particular terms governing the operations of a trust fund or a special account, all financial transactions shall be recorded in the account on an accrual basis in compliance with the UN System Accounting Standards (UNSAS)."
5. The Treasurer responded to the Board that this approach has always been used since the inception of the Trust Fund without any comments or observations from the Board. The advantage of including these reconciling items as part of the current biennium's expenditures was that it made it easy for the expenditures reported by each implementing agency to be extracted from the published financial statements at any time. If they are treated as prior year's adjustment, these items would instead be taken to a General ledger account and mixed with other items. It would be impractical and time consuming in future to ascertain the composition of expenditures reported by any implementing agency.

6. It was agreed with the Board that the Treasurer would obtain the approval of the Excom to continue with the practice of recording any changes reported by implementing agencies to previous period's expenditures as part of the current period transaction. The Excom may wish to support this position.

Old Outstanding Pledges Receivable

7. The Board noted that there was an amount of US\$73.07million which has been outstanding in respect of pledges for more than five years.

8. The Board referred to paragraph 33 of the UNSAS which "Provides, among other things that, in the interest of prudent financial management, provision may be made as appropriate where the collection of the income so recognized is considered doubtful. In specific cases, where the pledge is deemed uncollectible, write-off action will be required."

9. The Treasurer explained to the Board that only the parties to the Fund had the power to make provision in the accounts for old outstanding items or to write off any pledge deemed uncollectible. The Board was informed that the Treasurer would refer the matter to the next Excom meeting for guidance on how these old outstanding pledges are to be treated.

10. The Excom may wish to take note that UNEP's policy regarding its own fund in that any pledge to the Fund remaining unpaid after four years are written off with the approval of the Governing Council. In the case of the Multilateral Fund, such pledges would be written off with the approval of the Meeting of Parties.

11. The Treasurer is therefore requesting guidance from the Excom on how the issue of the outstanding pledges receivable should be treated.

Advances to Implementing Agencies

12. The Board cited the example of cash advances given to UNDP in September 2001 by the Fund which had not been liquidated before another was advanced in January 2002. It also noted that the World Bank had, at the time of the audit, not liquidated cash advances made to it in April 2002.

13. The Board recommended that implementing agencies should be made to report their expenditures on quarterly basis without fail. It expects that no new cash advances would be given to implementing agencies if they were still holding money belonging to the Trust Fund.

14. In view of this audit recommendation, the Excom may wish to direct the Treasurer to review the pertinent aspects of the implementing agency agreements.

Annex I

SCHEDULE 1.1
MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

2003 STATEMENT OF INCOME AND EXPENDITURE (in US\$)

INCOME	2003	2002	1991- 2003
Agreed contributions	159,588,237	124,233,752	1,662,175,395
Interest income	7,227,409	11,093,459	139,684,731
Miscellaneous income	3,692,014	8,733,750	16,972,920
TOTAL INCOME	170,507,660	144,060,961	1,818,833,046
EXPENDITURE			
UNEP Managed Activities	10,647,678	7,184,339	63,783,534
UNDP Managed Activities	21,689,811	45,976,661	332,149,684
UNIDO Managed Activities	34,766,409	34,113,573	295,776,526
World Bank Managed Activities	70,867,244	64,926,330	526,860,386
Secretariat	4,169,163	4,072,567	37,849,567
Bank Charges and Loss on Exchange	0	0	160,462
TOTAL EXPENDITURE	142,140,305	156,273,470	1,256,580,159
Excess of income over expenditure	28,367,355	(12,212,509)	562,252,887
Prior period adjustments	444,657	(247,712)	436,325
Net excess of income over expenditure	28,812,012	(12,460,221)	562,689,212
Fund balance, beginning of period	533,877,200	546,337,421	0
Fund balance, end of period	562,689,212	533,877,200	562,689,212

Changes to Previous years expenditures as reported by the major implementing agencies.

The reported expenditures includes the changes in prior period expenditures as reported by the implementing agencies and treated as part of the current year expenditures

For easy monitoring of the expenditures reported by the major implementing agencies, (UNDP, UNEP, UNIDO and WE IBRD), the Treasurer has adopted the practice of recording any changes reported by these agencies against previous period (s) expenditures, as part of the current period transactions

In this regard, the total expenditures reflected in the current accounts include an amount of US\$20,027,231 relating to previous periods but reported in the current period

SCHEDULE 1.2		
MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL		
2003 STATEMENT OF ASSETS AND LIABILITIES (in US\$)		
ASSETS	31.12.2003	31.12.2002
Cash and term deposits	73,537,204	83,244,519
Voluntary pledges receivable	163,566,703	162,157,853
Inter-fund balance receivable	7,276,955	0
Other accounts receivable	168,938	276,969
Provision for doubtful debt	0	0
Other assets - deferred charges	18,621	57,800
Promissory notes	126,945,032	97,885,068
Operating funds provided to implementing agencies	193,001,241	194,390,768
TOTAL ASSETS	564,514,694	538,012,977
LIABILITIES		
Deferred credits	1,234,859	799,540
Reserve for obligations	354,375	368,110
Inter-fund balance payable	0	2,160,602
Other accounts payable	236,248	802,151
Advances provided by implementing agencies	0	5,378
TOTAL LIABILITIES	1,825,482	4,135,781
RESERVES AND FUND BALANCES		
Financial reserves	562,689,212	533,877,200
TOTAL RESERVES AND FUND BALANCES	562,689,212	533,877,200
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	564,514,694	538,012,981

SCHEDULE 1.3

A. 2003 Expenditures for Account MFL 2336-2211-2661: (Secretariat's Main Account)

			Approved Budget	Actual Expenditure	Savings/ (Deficit)
10	PROJECT PERSONNEL COMPONENT				
	1100	<i>Project Personnel</i>			
	1101	Chief Officer (D-2)	275,407	246,408	28,999
	1102	Deputy Chief Officer (Economic Cooperation) (P-5)	139,000	150,225	(11,225)
	1103	Deputy Chief Officer (Technical Cooperation) (P-5)	139,000	155,486	(16,486)
	1104	Economic Affairs Officer (P-4/5)	139,000	116,640	22,360
	1105	Environmental Affairs Officer (P-4/5)	139,000	132,352	6,648
	1106	Project Management Officer (P-4/5)	139,000	146,060	(7,060)
	1107	Project Management Officer (P-4/5)	139,000	137,679	1,321
	1108	Information Management Officer (P-3)	122,906	112,310	10,596
	1109	Administrative and Fund Management Officer (P-4)	124,712	128,959	(4,247)
	1110	Senior Monitoring and Evaluation Officer (P-5)	139,000	161,380	(22,380)
	1111	Executive Assistant to Chief Officer (P-2)	58,350	33,336	25,014
	1188	Prior Year's Adjustment			
	1199	<i>Sub-total</i>	1,554,375	1,520,835	33,540
	1200	<i>Consultants</i>			
	1201	Projects and technical reviews etc	150,000	83,776	66,224
	1299	<i>Sub-total</i>	150,000	83,776	66,224
	1300	<i>Administrative Support Staff costs</i>			
	1301	Admin Assistant (G-8)	54,000	51,742	2,258
	1302	Meetings Services Assistant (G-7)	51,096	54,017	(2,921)
	1303	Programme Assistant (G-8)	54,000	62,191	(8,191)
	1304	Senior Secretary (Deputy Chief, Economic Cooperation) (G-6)	40,000	45,835	(5,835)
	1305	Senior Secretary (Deputy Chief, Technical Cooperation) (G-6)	40,000	34,733	5,267
	1306	Computer Operations Assistant (G-7/G-8)	54,000	68,950	(14,950)
	1307	Secretary (to 2 Programme Officers) (G-6)	40,000	49,908	(9,908)
	1308	Secretary/Clerk, Administration (G-5)	34,000	33,691	309
	1309	Registry Clerk (G-4)	32,892	32,524	368
	1310	Database Assistant (G-8)	54,000	43,387	10,613
	1311	Secretary, Monitoring and Evaluation, (G-5/G-6)	40,000	42,872	(2,872)
	1301-11	<i>Sub-total (support staff costs)</i>	493,988	519,851	(25,863)
	1333	Executive Committee -(ExCom 33-35)	600,000	575,993	24,007
	1333	<i>Sub-total (conference servicing)</i>	600,000	575,993	24,007
	1335	Temporary Assistant	50,000	46,916	
	1388	Prior Year's Adjustment	-	-	0
	1388	<i>Sub-total</i>	-	0	0
	1399	<i>Sub-total</i>	1,143,988	1,142,761	(1,856)

		Approved Budget	Actual Expenditure	Savings/ (Deficit)
	1600			
	1601	160,000	109,316	50,684
	1699	160,000	109,316	50,684
1999	COMPONENT TOTAL	3,008,363	2,856,688	148,592
20	SUB-CONTRACTS COMPONENT			
	2100			
	2101	30,000	3,076	26,924
	2102		100,300	(100,300)
	2199	30,000	103,376	(73,376)
	2300			0
	2301	0	0	0
	2399	0	0	0
2999	COMPONENT TOTAL	30,000	103,376	(73,376)
30	MEETINGS PARTICIPATION COMPONENT			
	3300			
	3301	30,000	(1,692)	31,692
	3302	225,000	193,604	31,396
	3303	30,000	14,648	15,352
	3399	285,000	206,560	78,440
3999	COMPONENT TOTAL	285,000	206,560	78,440
40	EQUIPMENT COMPONENT			
	4100			
	4101	15,000	14,211	789
	4102	9,000	6,228	2,772
	4199	24,000	20,439	3,561
	4200			
	4201	10,000	4,879	5,121
	4202	5,000	3,112	1,888
	4299	15,000	7,991	7,009
	4300			
	4301	310,000	313,136	(3,136)
	4399	310,000	313,136	(3,136)
4999	COMPONENT TOTAL	349,000	341,566	7,434
50	MISCELLANEOUS COMPONENT			
	5100			
	5101	9,000	3,415	5,585
	5102	9,000	2,768	6,232
	5103	15,000	12,928	2,072
	5104	9,000	6,975	2,025
	5105	12,000	0	12,000
	5199	54,000	26,086	27,914
	5200			

		Approved Budget	Actual Expenditure	Savings/ (Deficit)
	5201			
	5202	20,000	10,545	9,455
	5299	20,000	10,545	9,455
	5300			
	5301	40,000	33,639	6,361
	5302	15,000	12,066	2,934
	5303	5,000	3,253	1,747
	5305	38,000	2,018	35,982
	5399	98,000	50,976	47,024
	5400			
	5401	10,000	8,760	1,240
	5499	10,000	8,760	1,240
5999	COMPONENT TOTAL	182,000	96,367	85,633
99	PROJECT TOTAL	3,854,363	3,604,557	246,723
	<i>Programme Support Costs</i>	266,287	265,289	998
	GRAND TOTAL	4,120,651	3,869,846	247,721
B. 2003 Expenditures for Account MFL 2336-2212-2661: (Monitoring and Evaluation)				
		Approved Budget	Actual Expenditure	Savings/ (Deficit)
	1201	241,000	216,875	24,125
	1601	50,000	49,443	557
	4101	0	0	0
	4201	5,000	1,000	4,000
	5105	0	0	0
	5201	0	0	0
	5301	2,000	479	1,522
	ACCOUNT TOTAL	298,000	267,796	30,204
C. 2003 Expenditures for Account MFL 2336-2213-2661: (Technical Audits: Production Sector)				
	2300			
	2301	61,000	4,846	56,154
	ACCOUNT TOTAL	61,000	4,846	56,154
D. 2003 Expenditures for Account MFL 2336-2720-2661: (Information Strategy)				
		Approved Budget	Actual Expenditure	Savings/ (Deficit)
	1201	13,000	11,126	1,874
	4102	21,750	11,397	10,353
	4201	23,000	4,150	18,850
	5105	0	0	0
	ACCOUNT TOTAL	57,750	26,673	31,077
	TOTAL FOR ALL ACCOUNTS	4,537,401	4,169,162	334,079

SCHEDULE 1.4			
MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL			
UNDP Managed Activities in 1991 - 2003 (in US\$)			
INCOME	2003	2002	1991-2003
Cash transferred from the Multilateral Fund	24,892,179	36,406,606	348,566,587
Promissory notes	0	31,150,012	31,150,012
Interest and miscellaneous income earned and retained	807,267	1,038,312	36,718,319
TOTAL INCOME	25,699,446	68,594,930	416,434,918
TOTAL EXPENDITURE	18,098,504	49,390,356	332,149,684
EXCESS OF INCOME OVER EXPENDITURE	7,600,942	19,204,574	84,285,234
NET EXCESS OF INCOME OVER EXPENDITURE	7,600,942	19,204,574	84,285,234
Fund balance, beginning of period	76,684,292	57,479,718	0
Add excess of income over expenditure	7,600,942	19,204,574	84,285,234
Fund balance, end of period	84,285,234	76,684,292	84,285,234

SCHEDULE 1.5

MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

UNEP Managed Activities in 1991 - 2003 (in US\$)

INCOME	2003	2002	1991-2003
Cash transferred from the Multilateral Fund in 1998 recorded in 2002	0	1,800,000	1,800,000
Cash transferred from the Multilateral Fund in 2001 recorded in 2002	0	2,230,159	2,230,159
Cash transferred from other donors in prior periods posted to UNEP in error reversed in 2002	0	(237,040)	(237,040)
Cash transferred from the Multilateral Fund in 2002-2003	7,936,424	11,378,340	19,314,764
Total transfers	7,936,424	15,171,459	70,151,521
Interest earned and retained	410,315	632,720	4,382,530
TOTAL INCOME	8,346,739	15,804,179	74,534,051
TOTAL EXPENDITURE	10,879,032	7,098,386	63,949,397
EXCESS OF INCOME OVER EXPENDITURE	(2,532,293)	8,705,793	10,584,654
Prior period adjustments	0	(580)	(36,036)
NET EXCESS OF INCOME OVER EXPENDITURE	(2,532,293)	8,705,213	10,548,618
Fund balance, beginning of period	13,080,911	4,375,698	0
Add excess of income over expenditure	(2,532,293)	8,705,213	10,548,618
Fund balance, end of period	10,548,618	13,080,911	10,548,618

Note: The figures presented take into account any prior period adjustments reported by Implementing agencies.

SCHEDULE 1.6			
MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL			
UNIDO Managed Activities in 1991 - 2003 (in US\$)			
INCOME	2003	2002	1991-2003
Cash transferred from the Multilateral Fund	23,588,553	28,776,501	285,018,794
Interest and miscellaneous income earned and retained	588,458	824,555	23,871,322
TOTAL INCOME	24,177,011	29,601,056	308,890,116
TOTAL EXPENDITURE	37,879,011	31,000,972	295,776,527
EXCESS OF INCOME OVER EXPENDITURE	(13,702,000)	(1,399,916)	13,113,589
NET EXCESS OF INCOME OVER EXPENDITURE	(13,702,000)	(1,399,916)	13,113,589
Fund balance, beginning of period	26,815,589	28,215,505	0
Add excess of income over expenditure	(13,702,000)	(1,399,916)	13,113,589
Fund balance, end of period	13,113,589	26,815,589	13,113,589

Note: The figures presented take into account any prior period adjustments reported by Implementing agencies.

SCHEDULE 1.7

MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

World Bank Managed Activities in 1991 - 2003 (in US\$)

INCOME	2003	2002	1991-2003
Cash transferred from the Multilateral Fund	74,243,362	42,231,532	424,138,430
Promissory notes encashed*	3,619,394	6,729,026	164,678,757
Promissory notes transferred, net of encashments			0
Interest and miscellaneous income earned and retained (investment income)	3,892,206	6,206,417	55,620,158
TOTAL INCOME	81,754,962	55,166,975	644,437,345
TOTAL EXPENDITURE	70,867,244	64,926,330	526,860,386
EXCESS OF INCOME OVER EXPENDITURE	10,887,718	(9,759,355)	117,576,959
NET EXCESS OF INCOME OVER EXPENDITURE	10,887,718	(9,759,355)	117,576,959
Fund balance, beginning of period	106,689,241	107,892,528	0
Add excess of income over expenditure	10,887,718	(9,759,355)	117,576,959
Fund balance, end of period	117,576,959	98,133,173	117,576,959

*Promissory notes information provided by World Bank accounts.

Note: The figures presented take into account any prior period adjustments reported by Implementing agencies.