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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

**RECONCILIATION OF THE 2002 AND 2003 ACCOUNTS
(FOLLOW-UP TO DECISION 43/39)**

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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. Documents on the reconciliation of the 2002 accounts were presented to the 42nd and 43rd Meetings (UNEP/OzL.Pro/ExCom/42/46, UNEP/OzL.Pro/ExCom/43/52 and add.1). Since the 2002 accounts of the World Bank had not yet been audited, the Executive Committee decided to urge the World Bank to submit the audited 2002 accounts to the 44th Meeting of the Executive Committee (Decision 43/39 (c)).
3. Concerning the Secretariat's recommendation at the 43rd Meeting that interest collected from bilateral activity funding included in interest-bearing accounts should be returned to the Multilateral Fund for re-programming, one member indicated that changes to the recommendation proposed during the discussion would require further consultation in his capital before it could be accepted. The recommendation was therefore deferred to the 44th Meeting of the Executive Committee.
4. UNDP, UNEP and UNIDO have submitted audited biennial Accounts to the Treasurer for the period 2002-2003. At the time of writing, the World Bank had not submitted its audited accounts for 2002 or 2003 which are a pre-requisite for reconciliation.
5. This document contains five sections: Section I: Brief Background; Section II: Reconciliation of 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; Section IV: Interest from Bilateral Contributions Held in Interest-bearing Accounts of Implementing Agencies; and Section V: Recommendations.

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

6. The main assumption of the reconciliation is that if 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 2003 would make the adjustment on the basis of the agreement and instructions of the agency in accordance with the decision of the Executive Committee.

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

7. It should be noted that all implementing and bilateral agencies are given an opportunity to justify changes to the Fund Secretariat's Inventory of Approved Projects following each Executive Committee Meeting.

Progress Report Data and the Inventory of Approved Projects

8. The progress report data of UNEP agrees with that of the Secretariat's Inventory of Approved Projects within a margin of US \$5, which is due to the rounding of numbers to the nearest decimal. There were however other difference amounting to US \$5.9 million between the other agency's progress reports and the Secretariat's Inventory as shown in Table 1 below.

Table 1

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

Agency	2003 Progress Report – Total Net Funds Approved including Support Costs (US\$)	Inventory – Total Net Funds Approved including Support Costs (US\$)	Difference between Inventory and Progress Report (US\$)
UNDP	443,454,999	444,063,533*	608,534
UNEP	83,603,785	83,603,790	5
UNIDO	348,188,748	349,370,644	1,181,896
World Bank	648,319,912	644,198,407	4,121,505
Total	1,525,357,880	1,519,445,939	5,911,940

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

9. The differences between the two reports are largely explained in Table 2.

Table 2

RATIONALE FOR DIFFERENCES BETWEEN NET APPROVALS IN PROGRESS REPORTS AND THE INVENTORY OF APPROVED FUNDS (US\$)

	UNDP	UNEP	UNIDO	World Bank	Total
Difference between Agency Progress Reports and the Inventory of Approved Projects	608,534	5	1,181,896	4,121,505	5,911,940
Other Reasons for Differences between the Progress Reports and the Inventory of Approved Projects (US\$)					
• Initial start-up costs not included in progress reports	-596,500				
• Balances returned to be returned as part of returns to 44 th Meeting	-12,034				
• Half of the approved amount of CPR/REF/41/INV/406 not transferred			-1,181,889		
• Adjustments approved at 42 nd Meeting per Decision 42/41(d) and subsequent double modifications				4,121,505	
• Adjustments approved at 40 th meeting in 2004 that are not included in the Inventory					
Adjustments to 1991 to 2003 Income	0	5	7	0	12

10. UNDP's progress report did not include initial start-up costs that were included in the Inventory and UNDP's progress report included funds for balances that had been returned in error.

11. UNIDO indicated that the difference between the progress report and the Inventory was that only half of the approved amount for the refrigeration project in China (CPR/REF/41/INV/406) had been transferred per Decision41/65.

12. Decision 42/41(d) accounted for US \$3.2 million of the US \$4.1 million in differences between the Bank's progress report data and the data for the Bank in the Inventory of Approved Projects. However, in making the corrections to the Inventory, there were double modifications that amounted to US \$4.1 million.

13. With these explanations, the agencies' progress reports and the Inventory of Approved Projects are reconciled to within US \$12.

Net Approvals in Progress Reports and 2003 Income Accounts of the Implementing Agencies

14. One might assume that the net approved funds in the progress report would equal the income in the 2003 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	2003 Progress Report – Total Funds Approved including Support Costs	Agency Aggregate Income for 2003 Accounts of the Fund	Difference between Implementing Agency Accounts and Progress Reports
UNDP	443,454,999	416,434,918	27,020,081
UNEP	83,603,785	74,534,051	9,069,734
UNIDO	348,188,748	308,890,115	39,298,633
World Bank*	644,730,384	644,437,345	293,039
Total	1,519,977,916	1,444,296,430	75,681,486

* Provisional accounts.

15. Table 4 explains the difference between the agencies' progress reports and the agencies' aggregate income in the 2003 Accounts indicated in Table 3.

Table 4

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

	UNDP	UNEP	UNIDO	World Bank	Total
Difference between Agency Accounts and Agency Progress Report	27,020,081	9,069,734	39,298,633	293,039	75,681,486
Other Reasons for Differences between the Accounts and Progress Reports (US\$)					
• Income from 41 st Meeting transferred to 2004	30,020,278	9,367,431	18,453,278	see below	87,125,306
• Promissory Notes (Bank amount for 41st Meeting Approvals)			20,264,334	25,385,375	
• 2002 & 2003 Interest reflected in 2004	-2,826,023			-10,098,623	
• Double-counting of Jan-Jun Interest 2003 reflected in 2004	-176,543			-1,842,310	
• Part of 2002 interest adjusted twice			-336,641		
• Decision 41/65		-410315			
• Revocation of Promissory Notes				-14,084,380	
• Miscellaneous Income Charges and Currency Revaluation			-30,846	213,738	
• Income from 2002 Reconciliation		112,619	1,169,476		
Adjustments to 1991 to 2003 Income	2,369	-1	-221,148	719,239	500,459

16. Table 4 demonstrates some of the reasons for the differences: some approved funds in 2003 were transferred in 2004, promissory notes were not reflected in UNIDO's schedules; some interest received by implementing agencies needed to be taken into account; Decision 41/65 funding half of a refrigeration strategy for China; the revocation of promissory notes; balances returned prematurely; miscellaneous income charges and currency revaluation; and income from the 2002 reconciliation.

17. 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 2004 Accounts, or possibly in the 2005 Accounts, since adjustments to the 2003 Accounts based on the reconciliation may not occur until 2005 due to the end-November date of the 44th Meeting and the ensuing holiday season.

18. The last column of Table 2 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 2003. In the case of UNIDO, US \$221,148 should be offset against 44th Meeting approvals based on the calculations above.

19. In the case of UNDP and the World Bank, additional funds should be transferred to account for approvals to the end of 2003 amounting to US \$2,369 and US \$719,239, respectively. This adjustment for the World Bank should only be made if the Bank is able to submit its 2002 and 2003 audited accounts in time for the 44th Meeting.

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

20. The Cumulative Expenditures reported to the Treasurer in the 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. Table 5 indicates that three agencies reported less expenditure in their progress reports than in their Accounts. However, UNDP, UNIDO and the World Bank reported more expenditures in their progress reports than their Accounts.

Table 5

EXPENDITURES (US\$)

Agency	Progress Report as at 31 December 2003			2003Accounts of the Fund	Difference
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	328,856,783	11,907,455	340,764,238	332,149,684	8,614,554
UNEP	60,613,787	2,865,100	63,478,887	63,949,397	-470,510
UNIDO	272,814,865	27,022,630	299,837,495	295,776,527	4,060,968
World Bank	512,377,184	132,013,426	644,390,610	526,860,386	117,530,224
Total	1,174,662,619	173,808,611	1,348,471,230	1,218,735,994	129,735,236

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.

21. 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	Total
Difference between Agency Accounts and Agency Progress Report	8,614,554	-470,510	4,060,968	117,530,224	
Other Reasons for Differences between the Accounts and Progress Reports (US\$)					
• Obligations for project funds		365,200	-3,682,285		
• Obligations for support costs		29,786	-388,266		
• Adjustments to progress report			+9,583		
• Committed value for approved projects				-103,050,224	
• Advances to financial intermediaries from committed accounts				14,480,000	
• Exchange rate loss and bank charges		75,524			
Balance	8,614,554	0	0	0	8,614,554

22. UNDP provided information on its expenditures that suggested that there was a US \$9,201,447 difference between UNDP's financial statements and the Accounts of the Fund. However, some of that difference was due to reporting cost-sharing and bilateral activities as part of UNDP's Fund expenditures. The Secretariat provided UNDP with copies of the accounts of the fund presented to the Executive Committee since its 7th Meeting. At the time of writing, UNDP was reviewing its accounts to better describe the difference.

23. UNEP indicated that the difference between expenditures in its progress report and its Accounts results from the fact that part of the un-liquidated obligations could not be allocated to individual projects and therefore could not be reflected in its progress report. The remaining difference for UNEP is due to exchange rate loss and bank charges that had not been expended against project budgets in the progress reports. UNIDO indicated that its differences were also due to un-liquidated obligations that had not been allocated in the progress report as well as some final budget adjustments amounting to US \$9,583 that had not been reflected in the progress report figures.

24. The World Bank indicated that its accounting system is different from 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 \$117 million as at the end of 2003. It also noted that US \$14.48 million of the amount committed had been advanced to its financial intermediaries for project implementation as at the end of 2003.

Section IV: Interest from Bilateral Contributions Held in Interest-bearing Accounts of Implementing Agencies

25. At the 43rd Meeting, the Secretariat raised the issue of how to account for interest collected from bilateral activity funding included in interest-bearing accounts held by the implementing agencies. The issue arose in the context of the reconciliation of accounts when it was discovered that UNDP had identified interest collected on funds deposited by bilateral agencies in UNDP's Trust Fund. At the 43rd Meeting, concern was expressed that the collection of interest may raise some difficulties with Governments.

26. At its 44th Meeting, the Executive Committee will consider the return of balances from a cancelled bilateral project that included interest. In this case, the agreement between UNDP and the bilateral agency indicated that any interest accrued should be returned to the Fund as interest instead of additional contributions. However, there may be cases where the donor country has an agreement that the interest would be returned to the donor country or that the funds would be held in promissory notes. Therefore, taking these concerns into account, the Executive Committee may wish to consider deciding whether interest collected from interest-bearing accounts for bilateral cooperation projects held by implementing agencies should be returned to the Multilateral Fund for re-programming in accordance with United Nations financial rules where agreements between the implementing and bilateral agency do not stipulate otherwise.

Section IV: Recommendations

The Executive Committee may wish to:

1. Note the reconciliation of accounts as presented in UNEP/OzL.Pro/ExCom/44/66.
2. Request the Treasurer to adjust the accounts of UNIDO by US \$221,148 in excess income to be offset against approvals at the 44th Meeting, and UNIDO to provide supporting information for this adjustment in certified accounts in 2004 and audited accounts in 2005.
3. Request the Treasurer to transfer an additional US \$2,369 to UNDP and US \$719,239 to the World Bank in addition to approvals at the 44th Meeting as a result of the 2003 reconciliation, and UNDP and the World Bank to provide supporting information in certified accounts in 2004 and audited accounts in 2005.
4. Consider the explanations provided by UNDP concerning expenditure differences at the 44th Meeting.
5. Request bilateral agencies that advance funds to implementing agencies, which are then placed in interest bearing accounts, to return the interest collected as additional income to the Multilateral Fund in accordance with United Nations financial rules unless their agreements with bilateral agencies stipulate otherwise.
