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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fifth Meeting
Bangkok, 14-18 July 2008

RECONCILIATION OF 2006 ACCOUNTS**(FOLLOW-UP TO DECISION 54/41(B))**

1. As a follow up to decision 53/42(c), the Executive Committee considered document UNEP/OzL.Pro/ExCom/54/55 at its 54th Meeting which contained the results of the reconciliation of the 2006 accounts. The Secretariat reported in the document that UNEP needed to explain the discrepancy of US \$105,494 in the expenditures recorded in its financial statement and not in its progress report. Since UNEP was not able to report to the 54th Meeting the reason for the discrepancies, the Committee agreed under decision 54/41(b) to request UNEP to report back to the 55th Meeting of the Executive Committee on this issue.

2. Further to decision 54/41 UNEP explained that its records revealed that one reason for the discrepancy is due to US \$4 resulting from figures being rounded and the other difference of US \$105,490 is related to differences in 2006 support costs. UNEP indicated that the difference in support cost of US \$105,490 is due to different rates in support costs applied under the accounting system from those in the progress report. This happens mainly during the process of inputting funding documents into the IMIS UNEP accounting system at various levels namely:

- (a) When allotments are created in the accounting system. As per standard UN financial procedures, once UNEP receives funds from the Multilateral Fund, it must first establish an internal UNEP project document with the appropriate funding before raising any obligations or carrying out any other financial transactions. There are cases where UNEP groups several approved Multilateral Fund projects into a single UNEP project document when creating the allotments

in the accounting system. These approved projects do not all have the same support cost rates, in accordance with prior decisions of the Executive Committee. Errors have occurred during the entry of the differentiated rates into the accounting system at the time when the internal UNEP projects were created, revised or amended. These errors in support cost rates subsequently led to incorrect support cost being generated when the rates are applied to expenditures through the automated IMIS financial system's processing.

- (b) When credits from closed prior year obligations were re-programmed using a rate different from that approved. This happened in the case of several on-going institutional strengthening projects that were charged 13% programme support cost before the 36th Meeting. After the 36th Meeting, and with the introduction of the UNEP CAP budget, those projects were no longer charged programme support cost. A similar error also occurred with almost all projects which are made up of several approved projects grouped together into a single UNEP project, whereby keying in the differentiated rates applicable can result in a higher risk of wrong entry.
 - (c) At the time the unspent balances on projects from prior years are carried forward into the following year in the accounting system through an automated process. This means that existing errors in support cost rates in one year are replicated in the following year since the assumption is that the rates already in the system are correct.
3. UNEP has proposed that the additional support cost of US \$105,490 recorded in its financial statements be adjusted through a journal entry in 2008 to bring the support cost in the financial statements to the correct level as in the progress report. Another adjustment to correct the rounding error of US \$4 should be made via a journal entry in 2008 against affected projects to restore the expenditures in the financial statements to the correct level.
4. Since the same errors are likely to have occurred in 2007, UNEP believes that there may be additional amounts that would need to be adjusted in the 2007 accounts.
5. For the on-going UNEP projects, which have several approved projects grouped together, arrangements will be put in place for the support cost to be calculated manually and recorded using a journal entry at the end of every year in order to eliminate the risk of incorrect generation of support cost.
6. UNEP will henceforth group only projects with similar support cost rates into single UNEP projects to remove the risk of keying in wrong rates caused by grouping approved projects with differentiated support cost rates. This would also facilitate the checking of the support cost generated at the end of the year by applying a single rate on the expenditures at UNEP project level.

RECOMMENDATIONS

7. The Executive Committee may wish to:
 - (a) Note UNEP's explanation on the cause of the difference of US \$105,494 between the disbursements and obligations recorded in the progress report and UNEP's 2006 financial statements;
 - (b) Note that corrective action will be taken to reduce UNEP's 2006 expenditures by US \$105,494 and bring them within the correct 2006 disbursement level as reflected in the progress report;
 - (c) Note that UNEP is taking corrective actions to adjust the same errors that are likely to have occurred in its 2007 accounts;
 - (d) Note that UNEP will put in place a system for ongoing projects to calculate and record support costs manually to eliminate the risk of incorrect generation of support costs in future; and
 - (e) Request UNEP to report to the 56th Meeting of the Executive Committee on progress made in implementing these actions as part of the 2007 reconciliation of the accounts exercise.