

FINANCIAL STATEMENTS

AND

REPORT OF THE EXTERNAL AUDITOR

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2003



DOCUMENTATION
for the 35th Session of the Assembly in 2004

INTERNATIONAL CIVIL AVIATION ORGANIZATION

**FINANCIAL STATEMENTS AND
REPORT OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2003**

INTERNATIONAL CIVIL AVIATION ORGANIZATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2003

FOREWORD BY THE SECRETARY GENERAL

1. The financial statements of the International Civil Aviation Organization for the year ended 31 December 2003 are presented under twelve different Funds or groups of Funds as indicated below. The magnitude of the financial operations, in terms of expenditures incurred, is indicated below against each Fund or group of Funds, and a summary is provided in Figure 1.

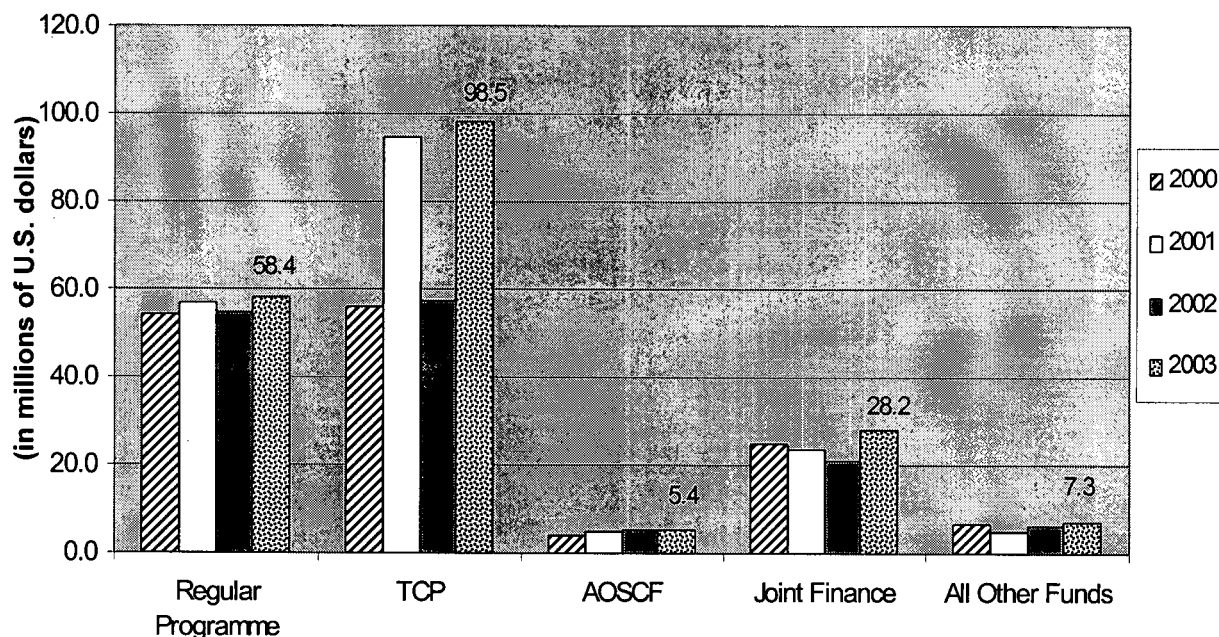
	<u>Total Expenditure</u> <u>(in United States dollars)</u>	
	<u>2003</u>	<u>2002</u>
1) Regular Programme (Funds appropriated by the Assembly or by the Council)	58 363 096	54 817 941
2) Joint Financing (Funds for the Joint Support of the Air Navigation Services)	28 239 912	21 119 513
3) Administrative and Operational Services Cost (Fund for the administration and operation of programmes of technical co-operation)	5 387 851	4 961 235
4) United Nations Development Programme (Funds mainly contributed by governments to UNDP under cost-sharing arrangements)*	7 160 327	19 590 255
5) Trust and Management Service Agreements (Funds provided by various contributors for technical co-operation projects executed by ICAO)*	40 468 588	27 846 401
6) Civil Aviation Purchasing Service (Funds provided by various contributors for civil aviation purchases on their behalf)*	50 862 367	9 976 787
7) Aviation Security Trust (Funds provided by various contributors for the improvement of aviation security)	2 592 111	1 257 424
8) ICAO Universal Safety Oversight Audit Programme (Funds provided by various contributors for safety oversight audits)	10 752	16 295
9) ICAO Objectives Implementation Mechanism (Funds provided by various contributors for technical co-operation)*	68 902	94 968
10) Special Accounts/Funds	1 836 949	1 814 286
11) International Financial Facility for Aviation Security Fund	97 641	-
12) Other (Funds not falling under any of the above categories)*	<u>2 672 293</u>	<u>3 299 141</u>
Total	<u>197 760 789</u>	<u>144 794 246</u>

* Excluding the administrative overhead charges.

2. Summary information relating to income, expenditures, assets and liabilities on the main ICAO Funds and the combined total of all Funds is shown in Statements I and II.

3. A comparison of overall expenditures, in millions of United States dollars, for all ICAO activities during the last four years is provided in Figure 1 below.

FIGURE 1
TOTAL EXPENDITURES - ALL FUNDS COMPARISONS
AS AT 31 DECEMBER



4. **REGULAR PROGRAMME**

4.1 **Appropriations.** The 33rd Session of the Assembly in 2001, under Resolution A33-23, Clause A 2), voted appropriations in the amount of \$ 57 584 000 for 2003. Details of appropriations, transfers, expenditure and unobligated balances of appropriations are given in Statement IV on page 12. The budgetary results for 2003 may be summarized as follows:

Original appropriations	\$ 57 584 000
Carried over from 2002	3 355 466
Carried over to 2004	<u>(2 524 077)</u>
Revised appropriations	58 415 389
Total expenditure	<u>58 363 096</u>
Unobligated balance of appropriations	<u>\$ 52 293</u>

4.2 **Income.** The appropriations for the year 2003 approved by the 33rd Session of the Assembly were to be financed by assessments on Contracting States in the amount of \$ 50 330 000, Miscellaneous Income estimated at \$ 4 454 000, and cash surplus of \$ 2 800 000. The actual results are given in Statement I on page 9 and the following comments apply:

- a) Assessments on Contracting States for 2003 amounted to \$ 50 360 198, including an assessment of \$ 30 198 from a new Contracting State. During the course of the year, \$ 47 979 125 was received, and \$ 2 381 073 remained outstanding at the year end against the current year's assessments. At the beginning of the year, \$ 15 243 715 was receivable from States in respect of 2002 and prior years. An adjustment of \$28 060 was made in 2003 pertaining to prior period receivables, and payments of \$ 3 031 595 were received, leaving a balance outstanding of \$ 12 240 180. The assessments receivable for all years totalled \$ 14 621 253 as at 31 December 2003. Details are provided in Schedules A and B.
- b) **Miscellaneous Income** amounted to \$ 5 766 964 compared with the estimate of \$ 4 454 000.

4.3 **Surplus.** The total cumulative surplus as at 31 December 2003, as reflected in Statement V, amounted to \$ 14 389 238, as compared to \$ 14 166 042 in 2002. The balance of assessments receivable from Contracting States of \$ 14 621 253 was lower than the balance in 2002 and contributed to the decrease in cash deficit from \$1 105 733 as at 31 December 2002, restated, to \$ 232 015 as at 31 December 2003, as presented in Statement V.

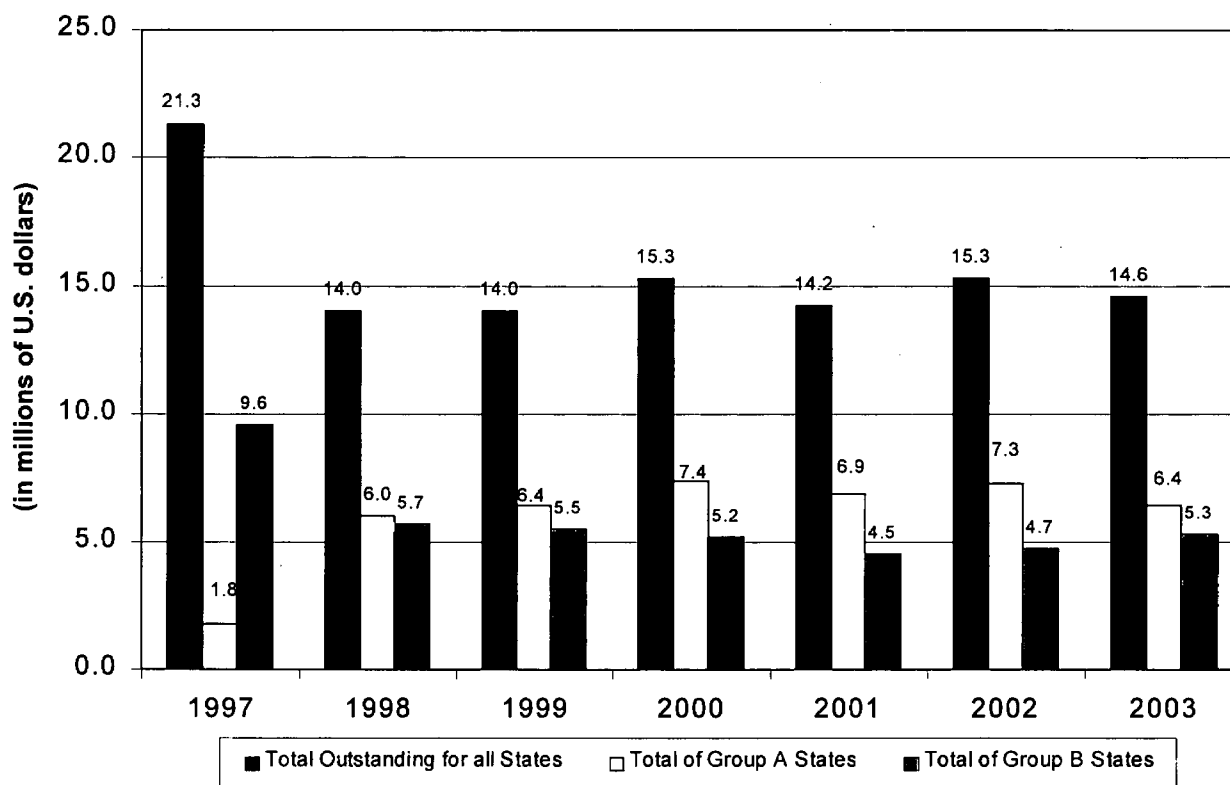
4.4 **Cash Balances.** The cash balance held in the General Fund as at 31 December 2003 amounted to \$ 16 319 633 (including the balance in the Working Capital Fund) and is reflected in Statement II.

4.5 **Forward Purchase of Currency.** In order to reduce the effect of currency fluctuations between the United States and Canadian dollars on the budget and to assist in eliminating the issue of forecasting currency exchange rates in the budget, the Organization entered into forward purchase contracts for Canadian dollars. The total value of the contracts amounted to \$ 151 212 000 Canadian dollars (costing U.S.\$ 97 177 403) for delivery during the period 4 January 2002 to 1 December 2004. During 2003, \$50 281 000 Canadian dollars were received at an actual cost of U.S.\$32 304 730.

5. **REGULAR PROGRAMME - STATUS OF CONTRIBUTIONS**

5.1 As stated in paragraph 4.2 a) above, the balance of contributions receivable from Contracting States in respect of 2002 and prior years as at 31 December 2003 amounted to \$ 14.62 million compared with \$ 15.27 million, restated, as at 31 December 2002. The percentage of receipts of contributions for the last four years in relation to the amount assessed was in excess of 93 per cent. Figure 2 shows the status of the assessed contributions receivable at the end of each of the years since 1997. As reflected in Statement V, the delays in receipt of contributions, as in past years, continue to impact the cash disposition of the General Fund, which was in cash deficit amounting to \$ 0.2 million at 31 December 2003.

**FIGURE 2
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
AS AT 31 DECEMBER**



5.2 Of the total outstanding contributions of \$ 14.62 million at 31 December 2003, \$ 0.5 million pertained to States represented on the Council. As of the same date, outstanding contributions of Group B States, those in arrears for three full years or more, amounted to \$ 5.3 million.

5.3 As at 31 December 2003, 33 States had concluded agreements to liquidate their arrears over a period of years. The agreements provide for these States to effect payment of the current year's contribution as well as an annual instalment payment towards the prior years' arrears. The note on Schedule B indicates the States that had not complied with the terms of their agreements at 31 December 2003.

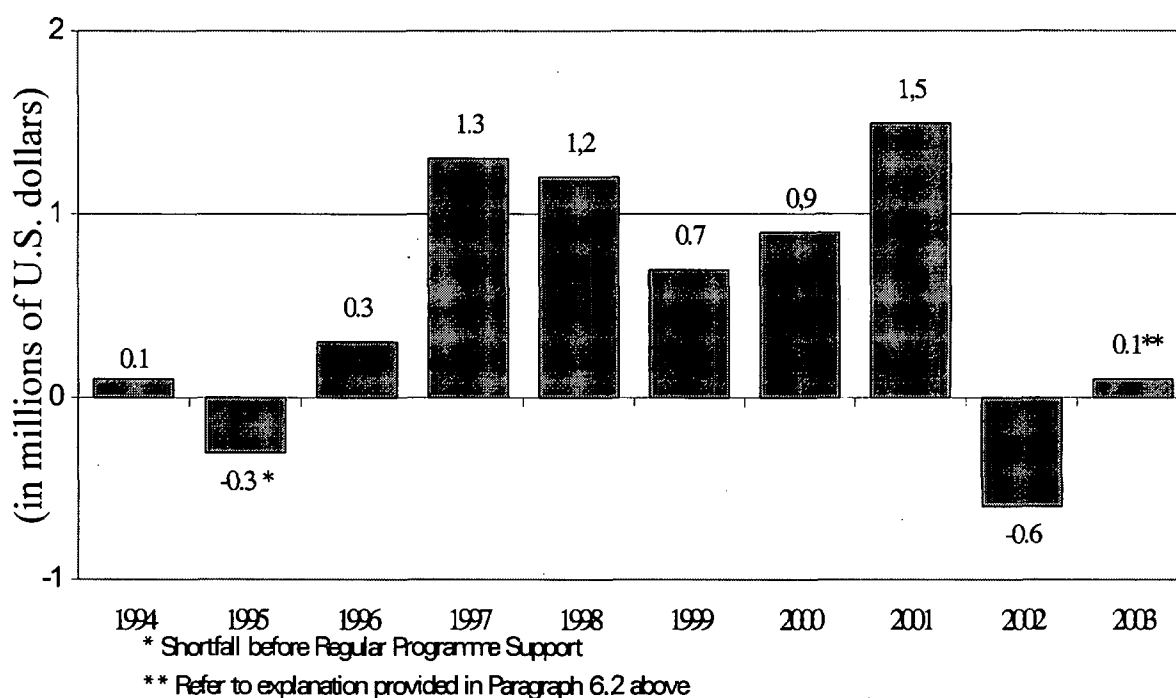
6. ADMINISTRATIVE AND OPERATIONAL SERVICES COST FUND (AOSCF)

6.1 The AOSCF is utilized to meet the costs of administration and operations of the Technical Cooperation Programme (TCP), and is primarily financed from administrative overhead charges on UNDP, CAPS, Trust Fund and MSA projects.

6.2 As shown in Figure 1, due to the significant increase (72%) in programme implementation, total expenditures for the Technical Co-operation Programme (TCP) in 2003 amounted to \$ 98.5 million, compared with \$ 57.4 million in 2002. Consequently, there was an increase in the recovery of overhead charges and support costs, which constitute the primary source of income for the AOSCF. The AOSCF income for 2003 was \$ 5.5 million, an increase of \$ 1.2 million (28%) compared with 2002, and higher than the indicative income budget presented to the 33rd Session of the Assembly by approximately \$ 1.4 million. The actual expenditure, on the other hand, amounted to \$ 5.4 million, of which \$ 0.5 million was used to cover an unusual item pertaining to the shortfall of the reimbursement received from the Government of Viet Nam in relation to a settlement agreement pertaining to a Civil Aviation Purchasing (CAPS) project in Viet Nam. The AOSCF fully recovered its costs for the year 2003 and also earned net income of \$ 0.6 million, before the unusual item of \$ 0.5 million. Net income for the year amounted to \$ 0.1 million.

6.3 After taking into consideration the excess income of \$ 0.1 million the accumulated surplus of the AOSCF increased from \$ 7.0 million in 2002 to \$ 7.1 million in 2003.

**FIGURE 3
AOSCF SHORTFALLS AND SURPLUS AS AT 31 DECEMBER *****



*** Note that the above amounts do not include the expenditure for improving the efficiency and effectiveness of TCB.

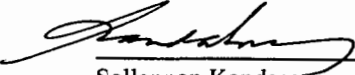
7. THE INTERNATIONAL FINANCIAL FACILITY FOR AVIATION SAFETY (IFFAS)

Pursuant to Assembly Resolution A33-10, the Council, in the 167th Session held on 4 December 2002, established an International Financial Facility for Aviation Safety (IFFAS) and approved the IFFAS Administrative Charter. IFFAS operates under the purview of the Council, and in accordance with its Administrative Charter and the Assembly Resolution A33-10 (*Establishment of an International Financial Facility for Aviation Safety*). The Governing Body of IFFAS was appointed and held its first meeting during 2003.


During 2003, an amount of \$ 1 055 190 was transferred to IFFAS from the Incentive for Settlement of Arrears Account in accordance with Assembly Resolution A34-1. The balance of funds in IFFAS as at 31 December 2003 amounted to \$ 1 492 280.

8. **CERTIFICATION AND APPROBATION:**

The Statements included in this annual report are certified:


Salleppan Kandasamy
Chief, Finance Branch

The Statements included in this annual report are approved:


Taïeb Chérif
Secretary General

INTERNATIONAL CIVIL AVIATION ORGANIZATION
FINANCIAL STATEMENTS FOR THE PERIOD ENDING
31 DECEMBER 2003

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OPINION OF THE EXTERNAL AUDITOR

To the Assembly of the
International Civil Aviation Organization

I have audited the statement of assets and liabilities of the International Civil Aviation Organization (ICAO) as at 31 December 2003, and the statements of income and expenditure and changes in fund balances, cash flow for ICAO's funds, surplus and appropriations for the regular programme general fund and supporting schedules for the year then ended. These financial statements are the responsibility of the Secretary-General. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency and conforming with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary-General, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the International Civil Aviation Organization as at 31 December 2003 and the results of its operations and changes in fund balances, cash flows for the ICAO's funds, surplus and appropriations for the regular programme general fund for the year then ended in accordance with the International Civil Aviation Organization's accounting policies set out in Notes 2 of the financial statements, which were applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the International Civil Aviation Organization that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the International Civil Aviation Organization's Financial Regulations and legislative authority.

In accordance with Article XIII of the Financial Regulations, I have also issued a long-form report on my audit of the International Civil Aviation Organization.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada
External Auditor of the ICAO

Montreal, Canada
17 May 2004

INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(expressed in thousands of United States dollars)

	Regular Programme General Fund and Working Capital Fund		Administrative and Operational Services Cost Fund (1)		Special Accounts/ Funds (1)		Sub-total ICAO Funds		Joint Financing Funds		United Nations Development Programme		Trust Funds and Management Service Agreements		Civil Aviation Purchasing Service Funds		ICAO Mechanisms (2)		Other Funds (3)		Eliminations		Total		
	2003	2002 (4)	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	
INCOME																									
Assessed Contributions (Schedules A and E)	50 360	49 955			150	39	50 360	49 955	436	237			55 353	32 055	47 367	8 095	2 075	2 167	377	561			50 796	50 192	
Government and Other Contributions (Note 4 - ICAO Mechanisms)							150	39									2 075	2 167					105 322	42 917	
Other Income																	2 040	1 698					2 040	1 698	
Other Income																									
Sale of publications	4 109	3 242					4 109	3 242															4 109	3 242	
Funds received under inter-organization arrangements											14 259	28 828											14 259	28 828	
Administrative overhead	21	44	4 631	3 442			4 652	3 486														(4 652)	(3 486)		
Interest income	205	433	71	127	81	66	357	626	13	19			674	840	221	105	62	53		49	68	1 376	1 711		
User charge / Administrative fee revenues									26 168	22 066										2 774	2 903	28 942	24 969		
Other	1 432	1 299	802	759	1 496	792	3 730	2 850					876	542	551		303	273				5 460	3 665		
TOTAL INCOME	56 127	54 973	5 504	4 328	1 727	897	63 358	60 198	26 617	22 322	14 259	28 828	56 903	33 437	48 139	8 200	4 480	4 191	3 200	3 532	(4 652)	(3 486)	212 304	157 222	
EXPENDITURE																									
Salaries and common staff costs	49 254	45 563	4 609	4 579	825	577	54 688	50 719									1 476	769	582	575			56 746	52 063	
General operating expenses (Note 4 - Special Accounts/Funds)	6 297	6 346	71	76	485	445	6 853	6 867											50				6 903	6 867	
Travel	1 551	1 610	86	151	43	30	1 680	1 791									922	416	63	51			2 665	2 258	
Equipment (Note 4 - Special Accounts/Funds)	567	529	8	6	116	320	691	855			831	12 459	14 075	3 310	50 357	8 090	79	39				66 033	24 753		
Meetings	464	399					464	399															464	399	
Expert and other personnel costs									4 315	4 997	24 093	18 195							11				28 408	23 203	
Subcontracts									1 016	825	714	3 792			251				38				1 981	4 617	
Training									654	808	1 001	722							4				1 691	1 568	
Administrative overhead charges									521	1 216	2 591	1 960	1 515	256			36	10					29 936	23 503	
Service costs									28 031	21 021	344	501	586	1 827	254	1 887	158	96	1 905	2 482	(4 652)	(3 486)	2 388	5 563	
Other (Note 3 - Special Accounts/Funds and Note 6b-AOSCF)	230	371	69	149	368	442	667	962	209	99									170	191			2 388	5 563	
SUBTOTAL	58 363	54 818	4 843	4 961	1 837	1 814	65 043	61 593	28 240	21 120	7 681	20 806	43 060	29 806	52 377	10 233	2 675	1 379	2 791	3 343	(4 652)	(3 486)	197 215	144 794	
UNUSUAL ITEM																									
Shortfall of Reimbursement from Vietnam (Note 5 - AOSCF)			545				545																545		
TOTAL EXPENDITURE	58 363	54 818	5 388	4 961	1 837	1 814	65 588	61 593	28 240	21 120	7 681	20 806	43 060	29 806	52 377	10 233	2 675	1 379	2 791	3 343	(4 652)	(3 486)	197 760	144 794	
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(2 236)	155	116	(633)	(110)	(917)	(2 230)	(1 395)	(1 623)	1 202	6 578	8 022	13 843	3 631	(4 238)	(2 033)	1 805	2 812	409	189			14 544	12 428	
BALANCE OF FUNDS																									
Adjustment of prior year's unliquidated obligation/expenditure	191	345	3	12	6		200	357											17				217	357	
Surplus distribution (Note 11 - Regular Programme)		(1 000)						(1 000)																(1 000)	
Increase (Decrease) in Working Capital Fund		(3)						(3)																(3)	
Transfers to/from other funds (Statement V)	(1 364)	(562)		(613)	(746)	1 175	(2 110)						18	(78)	(18)	78	1 055						(4 973)	(3 932)	
Refund of contributions/transfer of Fund balances									(4 684)	(3 525)	(271)	(407)							(3)				56 219	48 369	
Fund balances, beginning of period (Note 3 - Special Accounts/Funds)	33 020	34 085	7 015	8 249	7 775	7 517	47 810	49 851	(817)	(2 019)	(22 599)	(30 621)	21 585	21 557	853	3 215	5 310	2 498	4 077	3 888			66 007	56 219	
BALANCE OF FUNDS, END OF PERIOD	29 611	33 020	7 134	7 015	6 925	7 775	43 670	47 810	(2 440)	(817)	(16 021)	(22 599)	30 762	21 585	(3 674)	853	8 184	5 310	5 526	4 077			66 007	56 219	

(1) Reclassification of the International Financial Facility for Aviation Safety Fund (IFFAS) in Other Funds (Refer Note 6a - Special Accounts / Funds) and TCB Special Reserve Fund (Refer Note 6b - AOSCF)

(2) The ICAO Mechanisms comprise the Aviation Security Trust Fund (Schedule L), ICAO Universal Safety Oversight Audit Programme Fund (Schedule J) and the ICAO Objectives Implementation Mechanism Fund (Schedule K).

(3) The Other Funds comprise the IFFAS Fund (Schedule L) and Other Funds (Schedule M).

(4) Refer to Note 13 - Regular Programme for description of the restatement of the 2002 expenditure.

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
AS AT 31 DECEMBER 2003
(expressed in thousands of United States dollars)

	Regular Programme General Fund and Working Capital Fund		Administrative and Operational Services Cost Fund (1)		Special Accounts/ Funds (1)		Sub-total ICAO Funds		Joint Financing Funds		United Nations Development Programme		Trust Funds and Management Service Agreements		Civil Aviation Purchasing Service Funds		ICAO Mechanisms (2)		Other Funds (3)		Eliminations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
ASSETS																								
Cash and term deposits	16 320	24 710	5 703	7 897	7 463	4 336	29 486	36 943	1 429	1 359	1 690	276	44 954	26 195	34 864	7 772	7 048	4 387	5 865	4 297			125 336	81 229
Accounts receivable:																								
Assessed contributions receivable from Contracting States (Schedules A, B, E and Notes 3 and 4 - Regular Programme)	14 634	15 339					14 634	15 339		1													14 634	15 340
Inter-fund balances	665	1 091	1 661	347	398	4 063	2 724	5 501	49	4	3 706	2 544	943	1 126	2 490	203	1 701	1 740	39	102	(11 652)	(11 220)		
Receivables and advances (Note 6a - AOSCF, Note 3 - Special Accounts)	3 949	3 200	689	636	398	158	5 036	3 994	993	1 540	2 604	7 961	105	170	3	3	21	149	491			9 253	13 817	
Recoverable from Regional Bodies: ARCAC and LACAC (Note 5 - Regular Programme)	1 651	1 746					1 651	1 746															1 651	1 746
Other assets	107	32					107	32															107	32
Land and Buildings, at cost	1 065	1 065					1 065	1 065															1 065	1 065
TOTAL ASSETS	38 391	47 183	8 053	8 880	8 259	8 557	54 703	64 620	2 471	2 904	8 000	10 781	46 002	27 491	37 357	7 978	8 770	6 276	6 395	4 399	(11 652)	(11 220)	152 046	113 229
LIABILITIES																								
Contributions received in advance (Schedule C - Regular Programme)	2 016	3 173					2 016	3 173									14	20					2 030	3 193
Unliquidated obligations	1 562	1 282	119	169	28	139	1 709	1 590			372	5 602	9 578	1 331	36 295	3 504	214	188	17	40			48 185	12 255
Accounts payable	2 547	3 779	119	76	91	161	2 757	4 016			21 056	27 762	3 071	2 770	3 578	2 713	52	162	62			30 576	37 423	
Due to Regional Bodies: ECAC (Note 5 - Regular Programme)	358	379					358	379															358	379
Inter-fund balances (Note 3 - Regular Programme)	2 297	5 550	661	1 610	1 215	482	4 173	7 642			2 593	16	2 591	1 805	1 158	908	306	596	790	253	(11 652)	(11 220)	4 870	3 750
Credits to contracting/servicing Governments (Schedule E)									4 870	3 721													4 870	3 750
Other credit balances and provisions			20	10			20	10															20	10
TOTAL LIABILITIES	8 780	14 163	919	1 865	1 334	782	11 033	16 810	4 911	3 721	24 021	33 380	15 240	5 906	41 031	7 125	586	966	869	322	(11 652)	(11 220)	86 039	57 010
BALANCE OF FUNDS																								
Represented by:																								
Contributed capital relating to land and buildings	1 065	1 065					1 065	1 065															1 065	1 065
Appropriations carried forward	2 524	3 355					2 524	3 355															2 524	3 355
Cumulative Surplus (Statement V)	14 389	14 167					14 389	14 167															14 389	14 167
Reserved Cash Surplus (Note 11 - Regular Programme)	5 629	8 429					5 629	8 429															5 629	8 429
Working Capital Fund	6 004	6 004					6 004	6 004															6 004	6 004
Reserved under A-34-1 (Note 5 - Special Accounts / Funds)				1 055			1 055																1 055	
Balance of Funds			7 134	7 015	5 870	7 775	13 004	14 790	(2 440)	(817)	(16 021)	(22 599)	30 762	21 585	(3 674)	853	8 184	5 310	5 526	4 077			35 341	23 199
TOTAL BALANCE OF FUNDS	29 611	33 020	7 134	7 015	6 925	7 775	43 670	47 810	(2 440)	(817)	(16 021)	(22 599)	30 762	21 585	(3 674)	853	8 184	5 310	5 526	4 077			66 007	56 219
TOTAL LIABILITIES AND BALANCE OF FUNDS	38 391	47 183	8 053	8 880	8 259	8 557	54 703	64 620	2 471	2 904	8 000	10 781	46 002	27 491	37 357	7 978	8 770	6 276	6 395	4 399	(11 652)	(11 220)	152 046	113 229

(1) Reclassification of the International Financial Facility for Aviation Safety Fund (IFFAS) in Other Funds (Refer Note 6a - Special Accounts / Funds) and TCB Special Reserve (Refer Note 6b - AOSCF)

(2) The ICAO Mechanisms comprise the Aviation Security Trust Fund (Schedule I), ICAO Universal Safety Oversight Audit Programme Fund (Schedule J) and the ICAO Objectives Implementation Mechanism Fund (Schedule K).

(3) The Other Funds comprise the International Financial Facility for Aviation Safety Fund (Schedule L) and Other Funds (Schedule M).

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT OF CASH FLOW
FOR THE PERIOD ENDING 31 DECEMBER 2003

(expressed in thousands of United States dollars)

	Regular Programme General Fund and Working Capital Fund		Administrative and Operational Services Cost Fund (1)	
	2003	2002	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net excess (shortfall) of income over expenditure (Statement I)	(2 236)	155	116	(633)
Less : Interest income	(205)	(433)	(71)	(127)
(Increase) decrease in contributions receivable	705	(1 164)		
(Increase) decrease in other accounts receivable (Note 6a - AOSCF)	(654)	700	(53)	(282)
(Increase) decrease in other assets	(75)	34		
Increase (decrease) in contributions received in advance	(1 157)	7		
Increase (decrease) in accounts payable	(1 253)	(580)	43	(20)
Increase (decrease) in unliquidated obligations	280	(754)	(50)	(115)
Increase (decrease) in other credit balances and provisions			10	9
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	(4 595)	(2 035)	(5)	(1 168)
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES:				
(Increase) decrease in inter-fund balances receivable (Note 6 - AOSCF)	426	(417)	(1 314)	(162)
Increase (decrease) in inter-fund balances payable	(3 253)	(1 724)	(949)	1 262
Increase (decrease) in balance of the Working Capital Fund		(3)		
Interest income	205	433	71	127
NET CASH (OUTFLOW) FROM INVESTING AND FINANCING ACTIVITIES	(2 622)	(1 711)	(2 192)	1 227
CASH FLOWS FROM OTHER SOURCES:				
Adjustment to prior year's unliquidated obligations/expenditure	191	345	3	12
Distribution of surplus and Transfers to/from other funds	(1 364)	(1 562)		(613)
NET CASH (OUTFLOW) FROM OTHER SOURCES	(1 173)	(1 217)	3	(601)
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(8 390)	(4 963)	(2 194)	(542)
Cash and term deposits, beginning of period	24 710	29 673	7 897	8 439
CASH AND TERM DEPOSITS, END OF PERIOD	16 320	24 710	5 703	7 897

The accompanying notes and schedules are an integral part of the financial statements.

(1) Reclassification of the TCB Special Reserve Fund (Refer Note 6b - AOSCF)

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME GENERAL FUND
STATEMENT OF APPROPRIATIONS
FOR THE PERIOD ENDING 31 DECEMBER 2003

(expressed in thousands of United States dollars)

STATEMENT IV

	Appropriations					Expenditure			Balance
	Original (A33-23A) \a	Carried over from prior year \b	Transfers between Major Programmes \c	Carried over to following year \c	Revised	Disbursements	Unliquidated obligations	Total	
General Policy and Direction	888	991	48	(494)	1 433	1 386	39	1 425	8
Air Navigation	8 640	812		(730)	8 722	8 444	277	8 721	1
Air Transport	4 622	73	111	(252)	4 554	4 378	173	4 551	3
Legal	816	30	87	(8)	925	919	2	921	4
Regional and Other Programmes	15 069	275	8	(85)	15 267	14 986	281	15 267	
Administrative Support	22 039	367	186	(180)	22 412	21 907	505	22 412	
Finance, External Relations/ Public Information and Programmes Evaluation, Audit and Management Review	3 468	246	(440)	(179)	3 095	2 883	211	3 094	1
Universal Safety Oversight Audit Programme	990	153		(3)	1 140	1 048	57	1 105	35
	56 532	2 947		(1 931)	57 548	55 951	1 545	57 496	52
Universal Safety Oversight Audit Programme funded by cash surplus	1 052	408		(593)	867	850	17	867	
TOTAL	57 584	3 355		(2 524)	58 415	56 801	1 562	58 363	52

\a Includes appropriations funded by cash surplus of \$ 2 800 000 (A33-23, A-3(c)).

\b Approved by Council at its 167th and 169th Sessions (C-167/9 and C-169/12).

\c Approved by Council at its 170th Session (C-170/11).

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME GENERAL FUND
STATEMENT OF CUMULATIVE SURPLUS
FOR THE PERIOD ENDING 31 DECEMBER 2003

(expressed in thousands of United States dollars)

Cumulative Surplus	2003	2002
Balance of cumulative Surplus at beginning of year	14 167	26 733
i) Excess (shortfall) of income over expenditure	(2 236)	155
ii) Adjustment to prior year's expenditures	90	143
iii) Write-off	(31)	(6)
iv) Cancellation of prior year's unliquidated obligations	132	208
v) Appropriations carried over from prior year	3 355	280
vi) Appropriations carried over to following year	(2 524)	(3 355)
vii) Transfer to Special Accounts/Funds :		
Incentive for settlement of arrears (A33-27) (Note 1.6 - Special Accounts/Funds)	(1 364)	(562)
viii) Transfer from/(to)Reserved Cash Surplus (A33-23B) (Note 11 - Regular Programme)		
Transfer to Reserved Cash Surplus during the year		(11 688)
Transfer from Reserved Cash Surplus during the year	2 800	2 259
Balance of cumulative Surplus at end of year (Statement II)	14 389	14 167

Cash Surplus/(Deficit)	2003	2002
Balance of cumulative Surplus at end of year	14 389	14 167
Non-cash Surplus for balance of outstanding assessed contributions receivable, restated (Schedule B and Note 3 - Regular Programme)	14 621	15 272
Cash Deficit, restated (Note 3 - Regular Programme)	(232)	(1 105)

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME
ASSESSMENTS ON CONTRACTING STATES FOR THE GENERAL FUND
FOR THE FINANCIAL YEAR 2003 AND BALANCES RECEIVABLE
AS AT 31 DECEMBER 2003

(in United States dollars)

Contracting States Assembly Resolutions A33-26 and A33-23A	2003	Assessments	Contributions Received	Balances Receivable
Afghanistan	0.06	30 198		30 198
Albania	0.06	30 198		
Algeria	0.07	35 231	35 231	
Andorra	0.06	30 198	30 198	
Angola	0.06	30 198		30 198
Antigua and Barbuda	0.06	30 198		30 198
Argentina	0.79	397 607	397 607	
Armenia	0.06	30 198		30 198
Australia	1.64	825 412	825 412	
Austria	0.76	382 508	382 508	
Azerbaijan	0.06	30 198		30 198
Bahamas	0.06	30 198	30 198	
Bahrain	0.06	30 198	30 198	
Bangladesh	0.07	35 231	35 231	
Barbados	0.06	30 198	30 198	
Belarus	0.06	30 198		30 198
Belgium	0.93	468 069	468 069	
Belize	0.06	30 198	30 198	
Benin	0.06	30 198		30 198
Bhutan	0.06	30 198	30 198	
Bolivia	0.06	30 198	29 964	234
Bosnia and Herzegovina	0.06	30 198	22 873	7 325
Botswana	0.06	30 198	30 198	
Brazil	1.80	905 940	905 940	
Brunei Darussalam	0.06	30 198		30 198
Bulgaria	0.06	30 198	30 198	
Burkina Faso	0.06	30 198	24 850	5 348
Burundi	0.06	30 198	30 198	
Cambodia	0.06	30 198	30 198	
Cameroon	0.06	30 198		30 198
Canada	2.26	1 137 458	1 137 458	
Cape Verde	0.06	30 198		30 198
Central African Republic	0.06	30 198		30 198
Chad	0.06	30 198		30 198
Chile	0.29	145 957	66 000	79 957
China	1.38	694 554	694 554	
Colombia	0.25	125 825		125 825
Comoros	0.06	30 198		30 198
Congo	0.06	30 198		30 198
Cook Islands	0.06	30 198	30 198	
Costa Rica	0.06	30 198	30 198	
Côte d'Ivoire	0.06	30 198	11 275	18 923
Croatia	0.06	30 198	30 198	
Cuba	0.06	30 198	28 692	1 506
Cyprus	0.06	30 198	30 198	
Czech Republic	0.16	80 528	80 528	
Democratic People's Republic of Korea	0.06	30 198	30 198	
Democratic Republic of the Congo	0.06	30 198		30 198
Denmark	0.56	281 848	281 848	
Djibouti	0.06	30 198		30 198
Dominican Republic	0.06	30 198	30 198	
Ecuador	0.06	30 198	30 198	
Egypt	0.17	85 561	82 194	3 367
El Salvador	0.06	30 198		30 198
Equatorial Guinea	0.06	30 198	30 198	
Eritrea	0.06	30 198	30 198	
Estonia	0.06	30 198	30 198	
Ethiopia	0.06	30 198	30 198	
Fiji	0.06	30 198	30 198	
Finland	0.43	216 419	216 419	
France	5.32	2 677 556	2 677 556	
Gabon	0.06	30 198		30 198
Gambia	0.06	30 198	30 198	
Georgia	0.06	30 198		30 198
Germany	7.63	3 840 179	3 840 179	

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME
ASSESSMENTS ON CONTRACTING STATES FOR THE GENERAL FUND
FOR THE FINANCIAL YEAR 2003 AND BALANCES RECEIVABLE
AS AT 31 DECEMBER 2003

Contracting States		(in United States dollars)			
<u>Assembly Resolutions A33-26 and A33-23A</u>	<u>2003</u>	<u>Assessments</u>	<u>Contributions Received</u>	<u>Balances Receivable</u>	
Ghana	0.06	30 198	30 198		
Greece	0.45	226 485	226 485		
Grenada	0.06	30 198	11 557	18 641	
Guatemala	0.06	30 198	29 436	762	
Guinea	0.06	30 198	30 000	198	
Guinea-Bissau	0.06	30 198		30 198	
Guyana	0.06	30 198		30 198	
Haiti	0.06	30 198	30 198		
Honduras	0.06	30 198	30 198		
Hungary	0.12	60 396	60 396		
Iceland	0.06	30 198	30 198		
India	0.40	201 320	201 320		
Indonesia	0.25	125 825	10 200	115 625	
Iran, Islamic Republic of	0.24	120 792		120 792	
Iraq	0.09	45 297		45 297	
Ireland	0.28	140 924	140 924		
Israel	0.47	236 551		236 551	
Italy	3.73	1 877 309	1 877 309		
Jamaica	0.06	30 198	30 198		
Japan	14.36	7 227 388	7 227 388		
Jordan	0.06	30 198	30 198		
Kazakhstan	0.06	30 198	30 198		
Kenya	0.06	30 198		30 198	
Kiribati	0.06	30 198	30 198		
Kuwait	0.17	85 561	85 561		
Kyrgyzstan	0.06	30 198		30 198	
Lao People's Democratic Republic	0.06	30 198		30 198	
Latvia	0.06	30 198	30 198		
Lebanon	0.06	30 198	30 198		
Lesotho	0.06	30 198	30 198		
Liberia	0.06	30 198	30 000	198	
Libyan Arab Jamahiriya	0.06	30 198		30 198	
Lithuania	0.06	30 198	15 099	15 099	
Luxembourg	0.20	100 660	100 660		
Madagascar	0.06	30 198		30 198	
Malawi	0.06	30 198		30 198	
Malaysia	0.54	271 782	271 782		
Maldives	0.06	30 198	30 198		
Mali	0.06	30 198		30 198	
Malta	0.06	30 198	30 198		
Marshall Islands	0.06	30 198		30 198	
Mauritania	0.06	30 198		30 198	
Mauritius	0.06	30 198	30 198		
Mexico	0.93	468 069	468 069		
Micronesia, Federated States of	0.06	30 198		30 198	
Monaco	0.06	30 198	30 198		
Mongolia	0.06	30 198	30 198		
Morocco	0.10	50 330	6 602	43 728	
Mozambique	0.06	30 198	28 198	2 000	
Myanmar	0.06	30 198		30 198	
Namibia	0.06	30 198	30 198		
Nauru	0.06	30 198		30 198	
Nepal	0.06	30 198	30 198		
Netherlands	1.94	976 402	976 402		
New Zealand	0.36	181 188	181 188		
Nicaragua	0.06	30 198		30 198	
Niger	0.06	30 198	30 198		
Nigeria	0.06	30 198	30 198		
Norway	0.50	251 650	251 650		
Oman	0.08	40 264	40 264		
Pakistan	0.16	80 528	80 528		
Palau	0.06	30 198	30 198		
Panama	0.06	30 198		30 198	
Papua New Guinea	0.06	30 198	30 198		
Paraguay	0.06	30 198	30 198		

SCHEDULE A
(continued)

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INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME
ASSESSMENTS ON CONTRACTING STATES FOR THE GENERAL FUND
FOR THE FINANCIAL YEAR 2003 AND BALANCES RECEIVABLE
AS AT 31 DECEMBER 2003

Contracting States		(in United States dollars)			
<u>Assembly Resolutions A33-26 and A33-23A</u>	<u>2003</u>	<u>Assessments</u>	<u>Contributions Received</u>	<u>Balances Receivable</u>	
Peru	0.09	45 297	45 297		
Philippines	0.17	85 561	82 842	2 719	
Poland	0.31	156 023	156 023		
Portugal	0.40	201 320	201 320		
Qatar	0.06	30 198	30 198		
Republic of Korea	2.19	1 102 227	1 102 227		
Republic of Moldova	0.06	30 198	30 198		
Romania	0.07	35 231	35 231		
Russian Federation	0.83	417 739	417 739		
Rwanda	0.06	30 198	30 198		
Saint Lucia	0.06	30 198		30 198	
Saint Vincent and the Grenadines	0.06	30 198	30 198		
Samoa	0.06	30 198	30 198		
San Marino	0.06	30 198	30 198		
Sao Tome and Principe	0.06	30 198		30 198	
Saudi Arabia	0.62	312 046	312 046		
Senegal	0.06	30 198	30 198		
Serbia and Montenegro	0.06	30 198		30 198	
Seychelles	0.06	30 198	8 905	21 293	
Sierra Leone	0.06	30 198	30 000	198	
Singapore	1.15	578 795	578 795		
Slovakia	0.06	30 198	30 198		
Slovenia	0.06	30 198	30 198		
Solomon Islands	0.06	30 198		30 198	
Somalia	0.06	30 198		30 198	
South Africa	0.53	266 749	266 749		
Spain	2.01	1 011 633	1 011 633		
Sri Lanka	0.06	30 198	30 198		
Sudan	0.06	30 198	30 198		
Suriname	0.06	30 198		30 198	
Swaziland	0.06	30 198	30 198		
Sweden	0.77	387 541	387 541		
Switzerland	1.23	619 059	619 059		
Syrian Arab Republic	0.07	35 231	35 231		
Tajikistan	0.06	30 198		30 198	
Thailand	0.58	291 914	291 914		
The former Yugoslav Republic of Macedonia	0.06	30 198		30 198	
Togo	0.06	30 198	30 198		
Tonga	0.06	30 198	30 198		
Trinidad and Tobago	0.06	30 198	30 198		
Tunisia	0.06	30 198	29 644	554	
Turkey	0.44	221 452	221 452		
Turkmenistan	0.06	30 198	30 198		
Uganda	0.06	30 198	30 198		
Ukraine	0.06	30 198	30 198		
United Arab Emirates	0.36	181 188	181 188		
United Kingdom	5.31	2 672 523	2 672 523		
United Republic of Tanzania	0.06	30 198	30 198		
United States	25.00	12 582 500	12 582 500		
Uruguay	0.06	30 198		30 198	
Uzbekistan	0.06	30 198		30 198	
Vanuatu	0.06	30 198		30 198	
Venezuela	0.19	95 627		95 627	
Viet Nam	0.06	30 198	30 198		
Yemen	0.06	30 198	30 198		
Zambia	0.06	30 198	30 198		
Zimbabwe	0.06	30 198	30 198		
Sub-total	100.00	50 330 000	47 979 125	2 350 875	
<u>New Contracting State</u>					
Saint Kitts and Nevis	C-167/4	0.06	30 198	30 198	
TOTAL		50 360 198	47 979 125	2 381 073	

INTERNATIONAL CIVIL AVIATION ORGANIZATION
REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
IN RESPECT OF ALL FINANCIAL YEARS AS AT 31 DECEMBER 2003

(in United States dollars)

<u>Contracting States</u>	<u>General Fund</u>			<u>Working Capital Fund</u>	<u>Total Balances Receivable</u>
	<u>2003 (Schedule A)</u>	<u>Prior years</u>	<u>Total</u>		
GROUP A (cf.note)					
Belarus (1)	30 198	33 035	63 233		63 233
Benin (1)	30 198	184 535	214 733		214 733
Bosnia and Herzegovina (1)	7 325	22 873	30 198		30 198
Burkina Faso (1)	5 348	198 668	204 016		204 016
Burundi		51 855	51 855		51 855
Cambodia		241 659	241 659		241 659
Central African Republic (1)	30 198	290 662	320 860		320 860
Chad (1)	30 198	334 897	365 095		365 095
Congo (1)	30 198	334 260	364 458		364 458
Cook Islands		127 234	127 234		127 234
Côte d'Ivoire (1)	18 923	125 279	144 202		144 202
El Salvador (1)	30 198	135 325	165 523		165 523
Gabon (1)	30 198	136 182	166 380		166 380
Gambia		313 489	313 489		313 489
Grenada (1)	18 641	282 151	300 792		300 792
Guinea (1)	198	223 854	224 052		224 052
Kazakhstan		352 347	352 347		352 347
Kyrgyzstan (1)	30 198	193 540	223 738		223 738
Liberia (1)	198	281 585	281 783		281 783
Madagascar (1)	30 198	39 295	69 493		69 493
Malawi (1)	30 198	71 792	101 990		101 990
Mali (1)	30 198	225 232	255 430		255 430
Mauritania (1)	30 198	213 378	243 576		243 576
Nicaragua (1)	30 198	56 199	86 397		86 397
Niger		86 975	86 975		86 975
Paraguay		44 265	44 265		44 265
Republic of Moldova		165 294	165 294		165 294
Rwanda		90 332	90 332		90 332
Sao Tome and Principe (1)	30 198	366 015	396 213		396 213
Seychelles (1)	21 293	79 701	100 994		100 994
Sierra Leone (1)	198	304 779	304 977		304 977
Suriname (1)	30 198	114 593	144 791		144 791
Zambia		108 703	108 703		108 703
Total Group A	525 094	5 829 983	6 355 077		6 355 077
GROUP B (cf.note)					
Afghanistan	30 198	289 729	319 927	459	320 386
Antigua and Barbuda	30 198	376 669	406 867	981	407 848
Armenia	30 198	67 836	98 034		98 034
Comoros	30 198	435 396	465 594	540	466 134
Democratic Republic of the Congo	30 198	251 855	282 053		282 053
Djibouti	30 198	428 978	459 176	1 080	460 256
Georgia	30 198	311 470	341 668	3 600	345 268
Guinea-Bissau	30 198	489 809	520 007	1 080	521 087
Iraq	45 297	1 087 001	1 132 298	2 400	1 134 698
Nauru	30 198	233 720	263 918		263 918
Saint Lucia	30 198	87 877	118 075		118 075
Solomon Islands	30 198	254 074	284 272		284 272
Somalia	30 198	447 186	477 384	1 080	478 464
Uruguay	30 198	85 821	116 019		116 019
Total Group B	437 871	4 847 421	5 285 292	11 220	5 296 512

INTERNATIONAL CIVIL AVIATION ORGANIZATION
REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
IN RESPECT OF ALL FINANCIAL YEARS AS AT 31 DECEMBER 2003

(in United States dollars)

<u>Contracting States</u>	<u>General Fund</u>			<u>Working Capital Fund</u>	<u>Total Balances Receivable</u>
	<u>2003 (Schedule A)</u>	<u>Prior years</u>	<u>Total</u>		
GROUP C (cf.note)					
Cameroon	30 198	21 220	51 418		51 418
Cape Verde	30 198	29 964	60 162		60 162
Colombia	125 825	54 935	180 760		180 760
Iran, Islamic Republic of	120 792	19 913	140 705		140 705
Israel	236 551	417 205	653 756		653 756
Kenya	30 198	43 234	73 432		73 432
Lao People's Democratic Republic	30 198	28 765	58 963		58 963
Libyan Arab Jamahiriya	30 198	16 572	46 770		46 770
Marshall Islands	30 198	27 715	57 913		57 913
Micronesia, Federated States of	30 198	59 456	89 654		89 654
Myanmar	30 198	58 729	88 927		88 927
Tajikistan	30 198	29 964	60 162		60 162
The former Yugoslav Republic of Macedonia	30 198	29 964	60 162		60 162
Vanuatu	30 198	29 964	60 162		60 162
Venezuela	95 627	184 294	279 921	1 200	281 121
Total Group C	910 973	1 051 894	1 962 867	1 200	1 964 067
GROUP D (cf.note)					
Angola	30 198		30 198		30 198
Azerbaijan	30 198		30 198		30 198
Bolivia	234		234		234
Brunei Darussalam	30 198		30 198		30 198
Chile	79 957		79 957		79 957
Cuba	1 506		1 506		1 506
Egypt	3 367		3 367		3 367
Guatemala	762		762		762
Guyana	30 198		30 198		30 198
Indonesia	115 625		115 625		115 625
Lithuania	15 099		15 099		15 099
Morocco	43 728		43 728		43 728
Mozambique	2 000		2 000		2 000
Panama	30 198		30 198		30 198
Philippines	2 719		2 719		2 719
Saint Kitts and Nevis	30 198		30 198		30 198
Serbia and Montenegro	30 198		30 198		30 198
Tunisia	554		554		554
Uzbekistan	30 198		30 198		30 198
Total Group D	507 135		507 135		507 135
former Socialist Federal Republic of Yugoslavia *		510 882	510 882		510 882
TOTAL	2 381 073	12 240 180	14 621 253	12 420	14 633 673

Note (1) : States which had not met their obligations according to the terms of their agreements at 31 December 2003.

Group A : These States have concluded agreements with the Council to liquidate their arrears over a period of years.

Group B : States with contributions in arrears of three full years or more which have not concluded agreements with the Council to liquidate their arrears.

Group C : States with contributions in arrears for less than three full years.

Group D : States with contributions outstanding only for the year 2003.

* The devolution of the amount owing by the former Socialist Federal Republic of Yugoslavia is to be ascertained.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME GENERAL FUND
CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2003

(in United States dollars)

Australia	818 100
Bahamas	2 797
Brazil	1
Canada	1 131 200
Croatia	30 198
Honduras	587
Hungary	240
Ireland	3 800
Peru	4 777
Senegal	22 893
Slovakia	1 199
Sudan	291
United States	26
	<hr/>
	<u>2 016 109</u>

INTERNATIONAL CIVIL AVIATION ORGANIZATION
SPECIAL ACCOUNTS/ FUNDS
SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

	Air Navigation Cost-Recovery Account	Air Transport Cost-Recovery Account	Conference and Other Facilities Fund	Electronic Publishing Account	English Standard Language Project Account	Incentive for Settlement of Awards	Information and Communication Technology (ICT) Fund	Language Services Account	Preparatory Commission of the International Registry	Special Public Information Projects Account	TCB Special Reserve Fund	TOTAL		
												2003	2002 (1)	
INCOME AND EXPENDITURE														
INCOME														
Contributions									150 000			150 000	38 915	
Interest		1 064	3 563	1 957	1 061	41 627	30 480		299	478		80 529	66 242	
Other Income														
Rental of facilities			755 288									755 288	382 189	
Revenue - Generating Activities	32 160	113 433		333 095				171 402		91 468		741 558	410 001	
TOTAL INCOME	32 160	114 497	758 851	335 052	1 061	41 627	30 480	171 402	150 299	91 946		1 727 375	897 347	
EXPENDITURE														
Salaries and common staff costs		14 599	274 250	42 176	104 668		349 465	9 479	91	30 176		824 904	577 445	
General operating expenses (Note 4 - Special Accounts/Funds)			301 001				1 589	199 022		23 460		485 072	445 456	
Travel				16 429	22 500			3 573				42 502	30 250	
Equipment (Note 4 - Special Accounts/Funds)			53 752	25 936			17 193	17 031		2 204		116 115	319 677	
Other (Note 3 - Special Accounts/Funds)	26 295	42 445	20 457	9 391		21 113	415	205			248 014	368 355	441 458	
TOTAL EXPENDITURE	26 295	57 044	649 460	93 932	127 168	21 113	368 662	183 310	111	55 840	248 014	1 836 945	1 814 286	
Excess (shortfall) of income over expenditure	5 865	57 453	109 391	241 120	(126 107)	20 514	(338 182)	(17 908)	150 188	36 106	(248 014)	(109 574)	(916 939)	
BALANCE OF FUNDS														
Adjustment of prior year's unliquidated obligation/expenditure		1 960	2 670	49				2 218				6 897	(341)	
Transfers to/from other funds						(746 607)						(746 607)	1 174 422	
Fund balance, beginning of period as restated (Note 3 - Special Accounts/Funds)		73 312	408 692	141 094	143 084	3 622 850	2 997 825	24 248	17 358	22 896	323 106	7 774 465	7 517 323	
BALANCE OF FUNDS, END OF PERIOD	5 865	132 725	520 753	382 263	16 977	2 895 757	2 661 851	6 340	167 546	59 002	75 092	6 925 181	7 774 465	
ASSETS, LIABILITIES AND FUND BALANCES														
ASSETS														
Cash and term deposits		114 589	361 327	197 535	38 514	3 897 341	2 647 084	7 077	147 546	51 546		7 462 660	4 335 930	
Accounts receivable (Note 3 - Special Accounts/Funds)		13 108	326 800			3 346		55 115				398 369	157 857	
Due from other funds	5 865	13 247		201 127		42 797	28 468	1 875	20 000	10 000	75 092	398 471	4 062 997	
TOTAL ASSETS	5 865	140 944	688 127	398 663	38 514	3 943 484	2 675 552	64 067	167 546	61 546	75 092	8 259 500	8 556 784	
LIABILITIES														
Unliquidated obligations		5 321	9 300	7 856	4 773			970				28 220	138 738	
Accounts payable			89 576	1 266				372				91 214	161 535	
Due to other funds		2 898	68 498	7 278	16 864	1 046 727	13 691	56 385		2 544		1 214 885	482 046	
TOTAL LIABILITIES		8 219	167 374	16 400	21 637	1 046 727	13 691	57 727		2 544		1 334 319	782 319	
BALANCE OF FUNDS														
Represented by:														
Cumulative Surplus	5 865	132 725	520 753	382 263	16 977	1 841 567	2 661 851	6 340	167 546	59 002	75 092	5 859 991	7 774 465	
Reserved Surplus						1 055 190						1 055 190		
TOTAL BALANCE OF FUNDS	5 865	132 725	520 753	382 263	16 977	2 895 757	2 661 851	6 340	167 546	59 002	75 092	6 925 181	7 774 465	
TOTAL LIABILITIES AND BALANCE OF FUNDS	5 865	140 944	688 127	398 663	38 514	3 943 484	2 675 552	64 067	167 546	61 546	75 092	8 259 500	8 556 784	

(1) Refer to Note 4 - Special Accounts/Funds and Note 6b - AOSCF

INTERNATIONAL CIVIL AVIATION ORGANIZATION

JOINT FINANCING FUNDS
 SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
 FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

	Danish Joint Financing Agreement Fund	Icelandic Joint Financing Agreement Fund	TOTAL	
			2003	2002
INCOME AND EXPENDITURE				
Income				
User charge revenues	5 025 703	21 142 468	26 168 171	22 066 147
Assessments on contracting Governments	387 767	48 181	435 948	236 585
Interest	3 441	9 154	12 595	19 407
Exchange adjustments				
TOTAL INCOME	5 416 911	21 199 803	26 616 714	22 322 139
Expenditure				
Estimated service costs for current year	6 446 720	20 572 086	27 018 806	23 260 599
Settlement of service costs for prior year	(106 580)	1 118 194	1 011 614	(2 239 397)
Other expenses		182	182	89 882
Exchange adjustments	209 310		209 310	8 429
TOTAL EXPENDITURE	6 549 450	21 690 462	28 239 912	21 119 513
Excess (shortfall) of income over expenditure	(1 132 539)	(490 659)	(1 623 198)	1 202 626
ASSETS, LIABILITIES AND FUND BALANCES				
Assets				
Cash	586 143	842 784	1 428 927	1 358 487
Due from other funds	43 107	5 984	49 091	4 157
Assessments receivable (Schedule E.1)				998
Advances to servicing Governments		992 514	992 514	1 540 326
TOTAL ASSETS	629 250	1 841 282	2 470 532	2 903 968
Liabilities				
Due to other funds		40 850	40 850	
Credits to contracting Governments (Schedule E.1)	370 620	2 657 130	3 027 750	3 347 810
Due to servicing Governments	1 842 085		1 842 085	373 113
TOTAL LIABILITIES	2 212 705	2 697 980	4 910 685	3 720 923
Balance of Funds				
At beginning of year	(450 916)	(366 039)	(816 955)	(2 019 581)
Excess (shortfall) of income over expenditure	(1 132 539)	(490 659)	(1 623 198)	1 202 626
TOTAL BALANCE OF FUNDS	(1 583 455)	(856 698)	(2 440 153)	(816 955)
TOTAL LIABILITIES AND BALANCE OF FUNDS	629 250	1 841 282	2 470 532	2 903 968

INTERNATIONAL CIVIL AVIATION ORGANIZATION

SCHEDULE OF ASSESSMENTS, BALANCES RECEIVABLE AND CREDITS TO CONTRACTING GOVERNMENTS
IN RESPECT OF DANISH JOINT FINANCING AGREEMENT
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in Danish Kroner)

	Balances at beginning of period Receivable/(Credits)	Assessments for 2003	Contributions received	Transfer from Icelandic Joint Financing Agreement	Balances at end of period Receivable	Credits
Belgium		22 159		22 159		
Canada	(454 565)	177 125				277 440
Cuba	(5 042)	(1 092)				6 134
Denmark	(28 515)	13 560				14 955
Egypt	(10 587)	2 566				8 021
Finland	(34 017)	3 589				30 428
France	(104 822)	177 417		72 595		
Germany	(328 663)	222 037				106 626
Greece	(46 612)	11 742				34 870
Iceland	(74 241)	53 789				20 452
Ireland	(26 032)	56 888		30 856		
Italy	(5 070)	80 082		75 012		
Japan	(76 578)	14 869				61 709
Kuwait	(19 706)	4 883				14 823
Netherlands	(3 253)	76 212	72 959			
Norway	(14 242)	11 955				2 287
Russian Federation	(101 692)	5 843				95 849
Slovakia		98		98		
Spain	(1 780)	17 061		15 281		
Sweden	(35 007)	18 446				16 561
Switzerland	7 484	98 306		105 790		
United Kingdom	(1 078 470)	385 070				693 400
United States	(2 069 380)	1 129 149				940 231
	<u>(4 510 790)</u>	<u>2 581 754</u>	<u>72 959</u>	<u>321 791</u>		<u>2 323 786</u>
Equivalent in U.S. dollars	<u>(601 439)</u>	<u>387 767</u>	<u>29 008</u>	<u>127 940</u>		<u>370 620</u>

INTERNATIONAL CIVIL AVIATION ORGANIZATION

**SCHEDULE OF ASSESSMENTS, BALANCES RECEIVABLE AND CREDITS TO CONTRACTING GOVERNMENTS
IN RESPECT OF ICELANDIC JOINT FINANCING AGREEMENT
FOR THE PERIOD ENDING 31 DECEMBER 2003**

(in United States dollars)

	<u>Balances at beginning of period Receivable/(Credits)</u>	<u>Assessments for 2003</u>	<u>Contributions received</u>	<u>Transfer to Danish Joint Financing Agreement</u>	<u>Balances at end of period Receivable</u>	<u>Credits</u>
Belgium	(16 100)	8 312		3 279		4 509
Canada	(243 588)	11 952				231 636
Cuba	(4 321)	839				3 482
Denmark	(16 837)	2 156				14 681
Egypt	(5 769)	714				5 055
Finland	(20 898)	1 835				19 063
France	(128 364)	(7 955)		11 278		125 041
Germany	(213 252)	(5 396)				218 648
Greece	(23 172)	(832)				24 004
Iceland	(51 454)	(470)				51 924
Ireland	(32 618)	(5 468)		4 758		33 328
Italy	(44 405)	(5 065)		11 138		38 332
Japan	(24 051)	(445)				24 496
Kuwait	(8 382)	340				8 042
Netherlands	(5 664)	13 890	8 226			
Norway	(15 906)	787				15 119
Russian Federation	(38 594)	6 364				32 230
Slovakia		(13)		13		
Spain	(20 977)	1 471		2 274		17 232
Sweden	(28 721)	1 301				27 420
Switzerland	(56 433)	(3 748)		15 548		44 633
United Kingdom	(520 566)	12 441				508 125
United States	(1 225 301)	15 171				1 210 130
	<u>(2 745 373)</u>	<u>48 181</u>	<u>8 226</u>	<u>48 288</u>		<u>2 657 130</u>

INTERNATIONAL CIVIL AVIATION ORGANIZATION

UNITED NATIONS DEVELOPMENT PROGRAMME
SCHEDULE OF THE STATUS OF FUNDS
FOR THE PERIOD ENDING 31 DECEMBER 2003

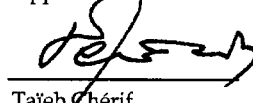
(in United States dollars)

	<u>2003</u>	<u>2002</u>
OPERATING FUND		
Fund balance at beginning of year	(22 598 468)	(30 620 848)
Add:		
Cash drawings from UNDP	19 860 000	24 200 000
Inter-office vouchers, on hand	1 647 877	11 302 092
Other charges/credits (net)	(7 434 353)	(6 780 720)
Miscellaneous income and exchange adjustments	261 398	102 046
Miscellaneous items charged/refunded to UNDP	<u>(75 827)</u>	<u>4 638</u>
	<u>14 259 095</u>	<u>28 828 056</u>
	<u>(8 339 373)</u>	<u>(1 792 792)</u>
Deduct:		
Expenditure during the year (Schedule F.1)		
For projects		
Disbursements	6 745 598	13 735 196
Unliquidated obligations	372 344	5 602 296
Support costs	<u>520 916</u>	<u>1 215 421</u>
	7 638 858	20 552 913
Support Services for Policy and Programme Development	42 385	252 763
	<u>7 681 243</u>	<u>20 805 676</u>
Fund balance at end of year	<u>(16 020 616)</u>	<u>(22 598 468)</u>
REPRESENTED BY:		
Cash in banks, on hand and in transit	1 690 141	276 143
Due from other funds	3 705 952	2 543 672
Accounts receivable and sundry debit balances	<u>2 604 180</u>	<u>7 961 658</u>
	<u>8 000 273</u>	<u>10 781 473</u>
Less:		
Due to other funds	2 593 387	15 526
Accounts payable and sundry credits balances	21 055 158	27 762 119
Unliquidated obligations - current year	<u>372 344</u>	<u>5 602 296</u>
	<u>24 020 889</u>	<u>33 379 941</u>
Fund balance at end of year	<u>(16 020 616)</u>	<u>(22 598 468)</u>

Certified:


 Salleppan Kandasamy
 Chief, Finance Branch

Approved:


 Taïeb Chérif
 Secretary General

INTERNATIONAL CIVIL AVIATION ORGANIZATION

UNITED NATIONS DEVELOPMENT PROGRAMME
EXPENDITURE BY COUNTRY AND REGION
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

COUNTRY

Botswana	1 265
Colombia	1 085 885
Democratic Peoples Republic of Korea	183 496
Ecuador	1 399 199
Ethiopia	7 900
Indonesia	453 743
Iran, Islamic Republic of	51 016
Lebanon	307 147
Libyan Arab Jamahiriya	39
Peru	84 392
Republic of Korea	3 136
Somalia	3 059 972
Venezuela	(3 172)
Country Total	6 634 018

REGION

Latin American and the Caribbean	483 924
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SUB-TOTAL 7 117 942

Support costs 520 916

GRAND TOTAL 7 638 858

INTERNATIONAL CIVIL AVIATION ORGANIZATION

TRUST FUNDS AND MANAGEMENT SERVICE AGREEMENTS
SCHEDULE OF INCOME, EXPENDITURE AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

Fund	Balance as at 01.01.2003	Income		Expenditure		Transfer from or to Other Funds	Refund of Contributions	Balance as at 31.12.2003
		Contributions	Interest and Other Income	Project Costs	Administrative Overhead			
AFGANISTAN (DFID) MSA*	(2 420)		91	(293)	(21)		(16)	(2 031)
AFGANISTAN MSA*	(87 000)	341 966	295	157 282	6 933	10 500		101 546
ARGENTINA MSA *	6 581	2 616 142	16 894	1 706 903	162 779		(797 005)	(27 070)
ARGENTINA (DA)	58 276	141 724	2 064					202 064
BAHAMAS (DCA)	71 395		773					72 168
BANGLADESH	14 569		158					14 727
BARBADOS	197 650		1 513	113 211	14 717			71 235
BELGIUM (ASSOCIATE EXPERTS SCHEME)	48 836		219	53 720	6 446		11 111	
BOLIVIA	191 160	1 982 458	1 851	1 447 680	125 020		(36 119)	566 650
BOSNIA AND HERZEGOVINA	353 465	1 200 952	17 718	422 311	26 463		(97 437)	1 025 924
BRAZIL (CART) MSA *	539 067	(12 392)	9 279	38 449	87	(384 070)		113 348
BRAZIL (SSA) MSA *	123 548		16 864	(6 936)	(589)	(7 596)		140 341
BRAZIL (DAC) MSA *	578 470	6 017 562	135 252	3 480 780	112 663	(181 840)		2 956 001
BRAZIL (DEPV) MSA *	1 911 622	3 017 585	451 531	2 954 816	98 055	(400 780)		1 927 087
BRAZIL (ITCM) MSA *	(41 913)		80 995	1 114 952	11 166	974 286		(112 750)
CHINA	39 584		428	7 179	933			31 900
COCESNA	9 134	18 630	223	(714)	(70)	(127)		28 644
COMMISSION OF THE EUROPEAN COMMUNITIES	12 997		141					13 138
COSCAP (NA) EC GRA MSA*		160 275	1 386	7 363	515			153 783
COSCAP (SA) EC GRA MSA*	180 702	96 568	1 242	238 263	23 826			16 423
COSCAP (SEA) EC GRA MSA*	24 322		151	28 798	2 880			(7 205)
COSTA RICA	13 170	613	133	9 695	969			3 252
CZECH REPUBLIC MSA *	37 690	130 112	17 870	130 868	6 543			48 261
DEM. REPUBLIC OF CONGO MSA*		1 221 180	7 633	452 973	228 781			547 059
DOMINICAN REPUBLIC MSA *	428 897	44 828	7 741	145 671	27 067			308 728
ECUADOR		16 480	19	7 440	744			8 315
EAST AFRICAN COMMUNITIES (REG.EIB) MSA*		950 022	7 342	4 121	536			952 707
EAST AFRICAN COMMUNITIES (KENYA) MSA*		107 050	12					107 062
EQUATORIAL GUINEA MSA*	29 726		134	28 825	2 882			(1 847)
FIJI MSA*	16 170		164	550	55			15 729
GERMANY (ASSOCIATE EXPERTS SCHEME)		101 076	297	40 873	4 905			55 595
GHANA MSA*	14 214	5 975	138	5 656	568			14 105
GREECE MSA *	922 998	724 522	8 870	656 917	72 208			927 265
GUATEMALA MSA *	291 169		2 943	225 348	26 218			42 546
GUYANA (EC)	925	69 507	5	54 658				15 779
GUYANA (GTV)	16 559		161	687	5 535			10 498
HAITI	45 094	67 770	406	60 000	7 800			45 470
INDIA MSA*	93 427	25 990	1 032	14 160	1 416			104 873
IRAQ MSA *			250	17 890	1 789	55 985		36 556
IRAQ	39 020							39 020
ITALY (ASSOCIATE EXPERTS SCHEME)	59 204		382	94 401	4 720			(39 535)
LAOS PEOPLE'S DEMOCRATIC REPUBLIC MSA*	18 200		197					18 397
LATVIA	34 479		389	2 249	292			32 327
LEBANON MSA *	493 555		4 519	80 036	9 204		(314 800)	94 034
LESOTHO	20 516		206	7 799	1 014			11 909
LESOTHO (CAD)	96 875		1 551					98 426
LIBERIA MSA*	19 607		210	10 813	1 081			7 923
LIBYAN ARAB JAMAHIRIYA		77 663	94					77 757
MACAU	105 969		1 096	550	72	(18 607)		87 836
MALDIVES	24 355		246			(6 678)	(1)	17 922
MEXICO	6 128	22 215	69	22 336	2 889			3 187
MEXICO MSA*	5	51 975		54 072	2 700			(4 792)
MONGOLIA	15 729		170					15 899
MOROCCO (ONDA)	79 563		685	18 650	2 424			59 174
NIGERIA MSA*	11 616		126					11 742

INTERNATIONAL CIVIL AVIATION ORGANIZATION
TRUST FUNDS AND MANAGEMENT SERVICE AGREEMENTS
SCHEDULE OF INCOME, EXPENDITURE AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

Fund	Balance as at 01.01.2003	Income		Expenditure		Transfer from cr to Other Funds	Refund of Contributions	Balance as at 31.12.2003
		Contributions	Interest and Other Income	Project Costs	Administrative Overhead			
NIGERIA (FAAN) MSA *	174 673		1 943	1 774	231			174 611
NIGERIA (NAMA) MSA *	320 155		3 327	62 492	6 249			254 741
NIGERIA (NCAT)	13 855		150					14 005
NORWAY (ASSOCIATE EXPERTS SCHEME)	26 891		291					27 182
OMAN	414 828	379 780	5 629	528 216	52 800			219 221
PANAMA		1 439 980	3 186	1 182 994	77 415			182 757
PANAMA MSA*	(11 798)	11 235 970	7 288	11 151 229	266 609			(186 378)
PANAMA (CAD) MSA *	(30 708)	30 809		101				
PANAMA (DGAC) MSA *	255 607	760 926	2 008	517 216	47 855		(72 219)	381 251
PERU MSA*	457 190	4 805 882		3 923 563	323 336		(8 652)	1 007 521
PERU (MEE) MSA*	67 311	32 500	152	59 992	8 294		(21 100)	10 577
PHILIPPINES	348 646	433 270	4 672	411 213	53 381		(70 500)	251 494
PHILIPPINES MSA *	23 092		232	3 484	453			19 387
PHILIPPINES (DAVAO) MSA *	27 223		273	18 880	2 454			6 162
PHILIPPINES (TRAINAIR) MSA *	93 761		994	17 106	2 224			75 425
QATAR MSA*	10 344		6				(10 350)	
REGIONAL MSA*		180 700	707	101 651	10 163		(37 285)	32 308
REGIONAL (AIRBUS) MSA*		44 990	238	40 152	4 015			1 061
REGIONAL (ASIA)	239 986	493 622	3 675	322 750	32 272			382 261
REGIONAL (AFRICA) MSA*	195 024		1 796	112 637	11 263			72 920
REGIONAL (BOEING)	77 047	49 990	1 084	49 255	4 926			73 940
REGIONAL (BOEING) MSA*	50 236	50 000	1 022	46 994	4 699			49 565
REGIONAL (CAFAC) MSA*		193 340	1 574	126 467	16 406		(406)	51 635
REGIONAL (CASP-SA&SEA)		93 779	359			6 678		100 816
REGIONAL (COSCAP) UEMOA MSA*		139 689	206					139 895
REGIONAL (DPKO)	103 036		638	59 403	5 940			38 331
REGIONAL (EGNOS)		111 781	521	80 926	6 042	26 479		51 813
REGIONAL (LATIN AMERICA)	564 163	473 051	6 570	238 746	24 440			780 598
REGIONAL (REDDIG)		497 059	1 447	89 669	6 439			402 398
REGIONAL (SOUTH ASIA) (COSCAP)	367 136	401 882	6 013	59 376	7 719	50 000		757 936
REGIONAL (SOUTH EAST ASIA) (COSCAP)	356 083	224 950	3 962	255 361	33 197			296 437
REGIONAL (SOUTH AMERICA)	13 742		651					14 393
REGIONAL (UEMOA)	20 060		130	16 708	2 172			1 310
REGIONAL (WORLD BANK W.AFRICA) MSA*		28 390	60	24 560	2 456			1 434
REGIONAL (WFP) MSA *	84 489		648			(55 985)		29 152
ROMANIA MSA*		39 990	42					40 032
SAUDI ARABIA	103 067			1 575 038	23 614	1 666 000		170 415
SAUDI ARABIA MSA *	8 892 014	3 626 667	643 926	3 680 630	367 891	(1 666 000)	(126 692)	7 321 394
SINGAPORE	146 102	70 075	1 334	71 217	7 122			139 172
SOMALIA	1 958	3 677 306	2 398				(2 977 541)	704 121
SRI LANKA	300 054		2 981	16 436	2 137	(50 000)	(16 339)	218 123
SUDAN	25 834		280					26 114
SWEDEN MSA*		23 960	26	16 485	1 648			5 853
SYRIAN ARAB REP. (AL-MEZZAH AIRPORT) MSA *		149 941	99	65 245	6 524			78 271
SYRIAN ARAB REPUBLIC (DGCA) MSA *	114 796	455 757	1 519	237 811	23 779			310 482
THAILAND (MTC)	85 732		769	35 283	4 587			46 631
THAILAND MSA*	30 607	4 081 958	19 335	313 442	31 273		(27 421)	3 759 764
THAILAND (THAI AIRWAYS) MSA*		149 090	146					149 236
UGANDA	51 491		337	9 868	1 283		(36 969)	3 708
UNMIK-KOSOVO MSA*		808 390	3 535	272 628	27 242			512 055
UNITED ARAB EMIRATES MSA *	208 355	299 923	4 149	275 156	27 515			209 756
UNITED REP. OF TANZANIA MSA*	10 478	5 540	152	15 165	1 512		(507)	12 756
VIETNAM	12 619		137					12 756
VIETNAM MSA *	41 855	99 790	665	112 615	11 260			18 435
YEMEN	15 075		162					15 237
LUMP-SUM CONTRACTS (Note 1.1 - Other TCP Funds)	1 841	558 534	1 418	342 339	34 203		(35 371)	149 880
OTHER TRUST FUNDS **	115 819	4 990	1 158	15 313	1 870		(8 852)	95 932
TOTAL	21 584 674	55 352 699	1 550 178	40 468 588	2 591 123	18 245	(4 683 964)	30 762 121

* Management Service Agreements

** Summary of forty-two Funds with either year end balances or transactions during the year of less than ten thousands dollars.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

CIVIL AVIATION PURCHASING SERVICE FUNDS
SCHEDULE OF INCOME, EXPENDITURE AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

Fund	Balance as at 01.01.2003	Income		Expenditure		Transfer from or to Other Funds	Refund of Contributions	Balance as at 31.12.2003
		Contributions	Interest and Other Income	Project Costs	Administrative Overhead			
AFGHANISTAN	45 216		586	3 800	380	(10 500)		31 122
AUSTRIA	40 132		234	1 857	120		(38 389)	
BANGLADESH	211 680		2 291					213 971
BOLIVIA		49 563	60	41 447	2 538			5 638
BRAZIL	(295)	3 111 711		3 081 624	30 848			(1 056)
CAPE VERDE	148 638		2 983	5 616	550			145 455
CUBA	29 483		178	(742)	(66)	(26 352)		4 117
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA	202 719		778	16	2		(200 000)	3 479
EGYPT	41 945		249		35 338			6 856
INDIA	17 360	166 699	522	166 026	7 258			11 297
LESOTHO	141 858		1 532	2 228	222			140 940
LIBYAN ARAB JAMAHIRIYA		48 669	64	312	31			48 390
LIBYAN ARAB JAMAHIRIYA (CAD)	15 830		171					16 001
LIBYAN ARAB JAMAHIRIYA (CAHI)	27 358		293	15 434	991			11 226
LIBYAN ARAB JAMAHIRIYA (LAA)	24 942		264	5 984	598			18 624
MACAU		68 185	281	82 603	4 929	18 607		(459)
MALDIVES	5 159		56					5 215
MOZAMBIQUE	35 370		383					35 753
MYANMAR	844 330		10 500	182 561	9 529			662 740
NIGERIA (NAMA)	39 569		428					39 997
PAKISTAN	19 588		212					19 800
PERU	56 421	740 049	4 567	711 721	30 852			58 464
REGIONAL CAEP ET STUDY		241 577	1 253	85 482	13 072			144 276
SIERRA LEONE	15 108		163					15 271
SURINAME	22 078		115				(20 819)	1 374
SYRIAN ARAB REPUBLIC **	571 322	29 574 183	171 255	35 233 655	1 081 814		(11 840)	(6 010 549)
TRINIDAD AND TOBAGO	66 368	1 476 171	16 861	963 725	35 760			559 915
UGANDA	6 542		72					6 614
UNMIK KOSOVO		10 589 778	11 800	10 251 044	258 948			91 586
UNITED REPUBLIC OF TANZANIA	12 732		137					12 869
VIETNAM (Note 4 - Other TCP Funds)	(1 825 291)	1 300 000	543 593	18 830			528	
YEMEN	30 846		302	9 108	907			21 133
OTHER CAPS FUNDS *	5 625		97	36				5 686
TOTAL	852 633	47 366 585	772 280	50 862 367	1 514 621	(18 245)	(270 520)	(3 674 255)

* Summary of six Funds with either year end balances or transactions during the year of less than five thousands dollars.

** The funds to cover the deficit in the project were received in January 2004.

INTERNATIONAL CIVIL AVIATION ORGANIZATION
 AVIATION SECURITY TRUST FUND
 SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
 FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

	AVIATION SECURITY PLAN OF ACTION										OTHER EARMARKED AVSEC FUNDS			TOTAL	
	EARMARKED TRAINING PROGRAMME	ENHANCED MECHANISM	FRANCE IPO	FRANCE PROTCOCLE EXPERT	KOREA EXPERT	NETHERLANDS	UNITED KINGDOM	UNITED STATES	GENERAL	SUB-TOTAL	FRANCE PROTCOCLE COOPERATION	NATIONAL PROJECTS	STANDARDIZED TRAINING PROGRAMME	2003	2002
INCOME AND EXPENDITURE															
INCOME															
Contributions - Unearmarked (Note 4 - ICAO Mechanisms)		1 999 956								1 999 956				1 999 956	2 113 305
Contributions - Earmarked (Note 4 - ICAO Mechanisms)		1 163 079	104 300	228 400	253 000	69 995	90 000	131 021		2 039 795				2 039 795	1 697 279
Other Income															
Interest	6 151	42 082	298	703		727		614	1 295	52 070	359	2 544	4 930	59 903	49 242
Other	42 875	260 000								302 875				302 875	273 290
TOTAL INCOME	49 026	3 465 117	104 598	229 103	253 000	70 722	90 000	131 835	1 295	4 394 696	359	2 544	4 930	4 402 529	4 133 116
EXPENDITURE															
Salaries and common staff costs	10 800	906 366	55 996	120 287		56 377	107 122	161 363	15 000	1 433 311			14 105	1 447 416	735 304
Travel on official business	21 875	880 150		4 000		4 000			335	906 360	15 957			922 317	416 133
Equipment		53 967								53 967			34 435	88 402	10 227
Other	42 564	77 490	10	20					519	120 603				133 976	95 760
TOTAL EXPENDITURE	75 239	1 917 973	56 006	120 307		60 377	107 122	161 363	15 854	2 514 241	29 330		48 540	2 592 111	1 257 424
Excess (shortfall) of income over expenditure	(26 213)	1 547 144	48 592	108 796	253 000	10 345	(17 122)	(29 528)	(14 559)	1 880 455	(28 971)	2 544	(43 610)	1 810 418	2 875 692
BALANCE OF FUNDS															
Adjustment to prior year's unliquidated obligation/expenditure	332	10 428							450	11 210	5 161			16 371	
Transfers to/from other funds (Note 3 - ICAO Mechanisms)	26 034	1 185 557							(99 880)	1 111 711		(56 521)		1 055 190	
Fund balance, beginning of period	542 633	3 526 325		32 332		53 344	29 977	107 129	113 989	4 405 729	41 684	192 785	525 019	5 165 217	2 289 525
BALANCE OF FUNDS, END OF PERIOD	542 786	6 269 454	48 592	141 128	253 000	63 689	12 855	77 601		7 409 105	17 874	195 329	424 888	8 047 196	5 165 217
ASSETS, LIABILITIES AND BALANCE OF FUNDS															
ASSETS															
Cash and term deposits	569 540	5 127 064	55 103	151 904		72 631	27 657	88 431	104 304	6 196 634	25 428	195 329	424 888	6 842 279	4 136 808
Due from other funds	11 508	1 432 791			253 000					1 697 299	3 886			1 701 185	1 739 520
Accounts receivable															127 532
TOTAL ASSETS	581 048	6 559 855	55 103	151 904	253 000	72 631	27 657	88 431	104 304	7 893 933	29 314	195 329	424 888	8 543 464	6 003 860
LIABILITIES															
Due to other funds	33 573	79 411	6 511	10 776		8 942	9 607	10 830	103 883	263 533	10 160			273 693	542 131
Contributions received in advance		14 222								14 222				14 222	19 766
Accounts payable		1 452							421	1 873				1 873	113 003
Unliquidated obligations	4 689	195 316					5 195			205 200	1 280			206 480	153 743
TOTAL LIABILITIES	38 262	290 401	6 511	10 776		8 942	14 802	10 830	104 304	484 828	11 440			496 268	836 643
BALANCE OF FUNDS															
Represented by:															
Cumulative Surplus	542 786	6 269 454	48 592	141 128	253 000	63 689	12 855	77 601		7 409 105	17 874	195 329	424 888	8 047 196	5 165 217
TOTAL BALANCE OF FUNDS	542 786	6 269 454	48 592	141 128	253 000	63 689	12 855	77 601		7 409 105	17 874	195 329	424 888	8 047 196	5 165 217
TOTAL LIABILITIES AND BALANCE OF FUNDS	581 048	6 559 855	55 103	151 904	253 000	72 631	27 657	88 431	104 304	7 893 933	29 314	195 329	424 888	8 543 464	6 003 860

INTERNATIONAL CIVIL AVIATION ORGANIZATION
 ICAO UNIVERSAL SAFETY OVERSIGHT AUDIT PROGRAMME FUND
 SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
 FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

	FRANCE	GERMANY	UNITED STATES	GENERAL	TOTAL	
					2003	2002
INCOME AND EXPENDITURE						
Income						
Contributions						18 568
Interest	53	935		242	1 230	1 915
TOTAL INCOME	53	935		242	1 230	20 483
Expenditure						
Salaries and common staff costs						16 134
Travel on official business						
Equipment						
Miscellaneous		6 730	182	3 840	10 752	161
TOTAL EXPENDITURE		6 730	182	3 840	10 752	16 295
Excess (shortfall) of income over expenditure	53	(5 795)	(182)	(3 598)	(9 522)	4 188
ASSETS, LIABILITIES AND FUND BALANCES						
Assets						
Cash and term deposits	18	84 792		25 063	109 873	118 505
Due from other funds						
Accounts receivable			18 568		18 568	18 568
TOTAL ASSETS	18	84 792	18 568	25 063	128 441	137 073
Liabilities						
Due to other funds		708			708	
Accounts payable			17 025		17 025	16 843
Unliquidated obligations						
TOTAL LIABILITIES		708	17 025		17 733	16 843
Balance of Funds						
At beginning of year	10 594	89 879	1 725	18 032	120 230	116 042
Transfer to/from other funds	(10 629)			10 629		
Excess (shortfall) of income over expenditure	53	(5 795)	(182)	(3 598)	(9 522)	4 188
At end of year	18	84 084	1 543	25 063	110 708	120 230
TOTAL LIABILITIES AND BALANCE OF FUNDS	18	84 792	18 568	25 063	128 441	137 073

INTERNATIONAL CIVIL AVIATION ORGANIZATION
 ICAO OBJECTIVES IMPLEMENTATION MECHANISM FUND
 SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
 FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

	SPAIN					TOTAL	
	Aeronautical Technical Training (A16-7)	Technical Co-operation Fellowships (AECI)	Technical Co-operation Officer (AECI)	Trainair (AECI)	Technical Co-operation Training (AENA)	2003	2002
INCOME AND EXPENDITURE							
Income							
Contributions					75 573	75 573	34 990
Interest	111		3	149	778	1 041	2 121
TOTAL INCOME	111		3	149	76 351	76 614	37 111
Expenditure							
Salaries and common staff costs			4 926		23 521	28 447	17 929
Personnel costs (experts)							10 723
Training					36 105	36 105	37 333
Equipment			(1 484)	(9 941)	1 884	(9 541)	28 718
Administrative overhead			(193)	(651)	4 333	3 489	9 502
Miscellaneous		1		11	13 879	13 891	265
TOTAL EXPENDITURE		1	(1 677)	(5 655)	79 722	72 391	104 470
Excess (shortfall) of income over expenditure	111	(1)	1 680	5 804	(3 371)	4 223	(67 359)
ASSETS, LIABILITIES AND FUND BALANCES							
Assets							
Cash and term deposits	10 310	269	411	6 247	78 697	95 934	131 857
Due from other funds			4	118		122	
Accounts receivable					2 483	2 483	2 483
TOTAL ASSETS	10 310	269	415	6 365	81 180	98 539	134 340
Liabilities							
Due to other funds				27	32 089	32 116	53 612
Accounts payable			1 680		31 126	32 806	31 543
Unliquidated obligations					7 076	7 076	23 947
TOTAL LIABILITIES			1 680	27	70 291	71 998	109 102
Balance of Funds							
At beginning of year	10 199	270	(2 945)	3 454	14 260	25 238	92 597
Refund of contributions				(2 920)		(2 920)	
Excess (shortfall) of income over expenditure	111	(1)	1 680	5 804	(3 371)	4 223	(67 359)
At end of year	10 310	269	(1 265)	6 338	10 889	26 541	25 238
TOTAL LIABILITIES AND FUND BALANCES	10 310	269	415	6 365	81 180	98 539	134 340

INTERNATIONAL CIVIL AVIATION ORGANIZATION
INTERNATIONAL FINANCIAL FACILITY FOR AVIATION SAFETY FUND
SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

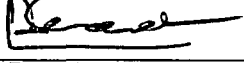
INCOME AND EXPENDITURE	2003	2002
INCOME		
Contributions	304 991	222 709
Other Income		
Interest	3 596	3 435
TOTAL INCOME	308 587	226 144
EXPENDITURE		
Salaries and common staff costs	38 537	
General operating expenses	49 828	
Other	9 276	
TOTAL EXPENDITURE	97 641	
Excess of income over expenditure	210 946	226 144
BALANCE OF FUNDS		
Transfers to/from other funds (Note 3 - IFFAS)	1 055 190	
Fund balance, beginning of period	226 144	
BALANCE OF FUNDS, END OF PERIOD	1 492 280	226 144
 ASSETS, LIABILITIES AND FUND BALANCES		
ASSETS		
Cash and term deposits	1 518 150	226 144
TOTAL ASSETS	1 518 150	226 144
LIABILITIES		
Due to other funds	25 870	
TOTAL LIABILITIES	25 870	
BALANCE OF FUNDS		
Represented by:		
Cumulative Surplus	1 492 280	226 144
TOTAL BALANCE OF FUNDS	1 492 280	226 144
TOTAL LIABILITIES AND BALANCE OF FUNDS	1 518 150	226 144

Certified



Salleppan Kandasamy
Chief, Finance Branch

Approved:



J.-C. Bugnet
Secretary, IFFAS Governing Body

INTERNATIONAL CIVIL AVIATION ORGANIZATION
OTHER FUNDS
SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003
(in United States dollars)

	Administrative Fee for Joint Financing Agreements	Arabic Language Services Fund	Chinese Language Services Fund	Edward Warner Award Fund	France Associate Experts Scheme	Germany Associate Experts Scheme
INCOME AND EXPENDITURE						
Income						
User charge/ administrative fee revenues	435 207					
Contributions				1 417		
Interest	3 551	778	1 072	65	105	97
TOTAL INCOME	438 758	778	1 072	1 482	105	97
Expenditure						
Estimated service costs for current year						
Settlement of service costs for prior year						
Salaries and common staff costs	299 988	31 666	21 220		87 092	(39)
Travel on official business	27 155	5 252			27 213	
Equipment						
Administrative overhead					7 674	(5)
Miscellaneous	153 423				462	
TOTAL EXPENDITURE	480 566	36 918	21 220		122 441	(44)
Excess of income over expenditure (expenditure over income)	(41 808)	(36 140)	(20 148)	1 482	(122 336)	141
ASSETS, LIABILITIES AND FUND BALANCES						
Assets						
Cash and term deposits	407 972	51 390	87 581	6 052		
Credits from servicing Governments						
Due from other funds	14 847			1 417		
Accounts receivable	17 916					
TOTAL ASSETS	440 735	51 390	87 581	7 469		
Liabilities						
Due to other funds	321 173				42 342	
Credits to servicing Governments						
Accounts payable	43 666				18 099	
Unliquidated obligations		4 530	30		12 221	
TOTAL LIABILITIES	364 839	4 530	30		72 662	
Balance of Funds						
At beginning of year	117 704	83 000	107 699	5 987	49 674	15 291
Refund of Contributions						(15 432)
Excess of income over expenditure (expenditure over income)	(41 808)	(36 140)	(20 148)	1 482	(122 336)	141
At end of year	75 896	46 860	87 551	7 469	(72 662)	
TOTAL LIABILITIES AND BALANCE OF FUNDS	440 735	51 390	87 581	7 469		

SCHEDULE M
(continued)

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INTERNATIONAL CIVIL AVIATION ORGANIZATION
OTHER FUNDS
SCHEDULE OF INCOME, EXPENDITURE, ASSETS, LIABILITIES AND FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2003

(in United States dollars)

	ICAO ANC Laurel Award Fund	Japan Junior Professional Officers Fund	Netherlands Associate Experts Scheme	North Atlantic Height Monitoring System Fund	Republic of Korea Junior Professional Officers Fund	TOTAL	
						2003	2002
INCOME AND EXPENDITURE							
Income							
User charge/ administrative fee revenues				2 338 345		2 773 552	2 903 356
Contributions			71 295			72 712	339 453
Interest	28	3 415	410	35 648	97	45 266	63 816
TOTAL INCOME	28	3 415	71 705	2 373 993	97	2 891 530	3 306 625
Expenditure							
Estimated service costs for current year				2 168 298		2 168 298	2 541 983
Settlement of service costs for prior year				(262 953)		(262 953)	(60 006)
Salaries and common staff costs		53 816	48 852		1 158	543 753	575 147
Travel on official business		1 800	325	824		62 569	51 452
Equipment							
Administrative overhead		6 674	6 709		139	21 191	44 089
Miscellaneous	10		6 731			160 626	190 565
TOTAL EXPENDITURE	10	62 290	62 617	1 906 169	1 297	2 693 484	3 343 230
Excess of income over expenditure (expenditure over income)	18	(58 875)	9 088	467 824	(1 200)	198 046	(36 605)
ASSETS, LIABILITIES AND FUND BALANCES							
Assets							
Cash and term deposits	2 598	292 685	44 970	3 444 844	8 749	4 346 841	4 070 631
Credits from servicing Governments				472 662		472 662	28 796
Due from other funds				22 874		39 138	102 147
Accounts receivable						17 916	
TOTAL ASSETS	2 598	292 685	44 970	3 940 380	8 749	4 876 557	4 172 778
Liabilities							
Due to other funds		6 943	12 406	378 037	2 887	763 788	253 256
Credits to servicing Governments							28 796
Accounts payable						61 765	
Unliquidated obligations		142	325			17 248	39 584
TOTAL LIABILITIES		7 085	12 731	378 037	2 887	842 801	321 636
Balance of Funds							
At beginning of year	2 580	344 475	23 151	3 094 519	7 062	3 851 142	3 887 747
Refund of Contributions						(15 432)	
Excess of income over expenditure (expenditure over income)	18	(58 875)	9 088	467 824	(1 200)	198 046	(36 605)
At end of year	2 598	285 600	32 239	3 562 343	5 862	4 033 756	3 851 142
TOTAL LIABILITIES AND BALANCE OF FUNDS	2 598	292 685	44 970	3 940 380	8 749	4 876 557	4 172 778

INTERNATIONAL CIVIL AVIATION ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS

ALL FUNDS OF THE ORGANIZATION

1. The Organization

The International Civil Aviation Organization (ICAO) is a specialized agency of the United Nations system established by the Convention on International Civil Aviation signed on 7 December 1944. Its aims and objectives are to develop the principles and techniques of international air navigation and to foster the planning and development of international air transport.

1.1 Purpose and Financing of Funds

Funds are established as the Assembly, the Council or the Secretary General deem necessary and are administered in accordance with the Financial Regulations of the Organization unless otherwise provided.

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - ALL FUNDS

a) Financial Statement Presentation

The financial statements are presented in United States (U.S.) dollars and are in accordance with the provisions of the ICAO Financial Regulations. Unless otherwise indicated, the financial statements are presented in compliance with the United Nations System Accounting Standards (UNSAS) which provide a framework for accounting and financial reporting in the United Nations system.

The results of the ICAO operations presented in Statements I and II are shown at a summary level by general type of activity as well as on a combined basis after the elimination of all interfund balances and administrative overhead charges. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since resources of one fund may not be utilized for the purposes of another fund.

ICAO Funds comprise the General Fund, the Working Capital Fund, the Administrative and Operational Services Cost Fund (AOSCF) and Special Accounts/Funds. For presentation purposes, the General Fund and the Working Capital Fund of the Regular Programme are combined in Statements I through III.

b) Income Recognition

Income is recorded on an accrual basis except for sales of publications, user charges and contributions received for Trust Funds and Management Service Agreements, Civil Aviation Purchasing Services Funds, Aviation Security Trust Fund, ICAO Universal Safety Oversight Audit Programme Fund, Other Funds, and amounts billed in accordance with agreements which are recorded on a cash basis. The treatment is in line with the UNSAS in all cases other than for the sales of publications and user charges.

c) Expenditure Recognition

Expenditure

Expenditure includes amounts for goods supplied and services rendered in the financial period as well as amounts for legal obligations of the financial period. Expenditures are recorded on an accrual basis except for equipment, which is on the basis of purchase orders or signed contractual agreements issued to the end of the year and for certain employee benefits.

Unliquidated Obligations

Unliquidated obligations represent amounts for orders placed, contracts awarded, services received and other transactions which involve a charge against the resources of the current financial period and which require payment during a future period.

d) **Translation of Currencies**

Transactions are carried out in a number of currencies. Transactions during the year are recorded in U.S. dollars at the United Nations operational rate of exchange (UNORE) effective at the time of the transactions.

Monetary balances at the end of the year are expressed in U.S. dollars at the UNORE effective 31 December.

e) **Contributions in Kind**

The Organization does not record contributions in kind in the accounts. The estimated value of contributions in kind are disclosed in the notes of the Funds receiving such contributions.

f) **Employee End of Service and Post-retirement Benefits**

The Organization's employees are entitled, under their conditions of employment, to payment for unused annual leave, as well as termination and repatriation benefits based on the number of years of service. In addition, the Organization provides certain health care benefits to eligible retirees. In accordance with United Nations Common System practice, ICAO has not recognized in its financial accounts the liabilities for after-service health insurance costs or for other types of end-of-service payments payable to staff members when they leave the Organization. Therefore, ICAO has not created any reserve to fund these liabilities. Such expenses are budgeted for in the annual budget and the actual costs incurred in each financial period, when staff members separate, are reported as current year expenditure.

REGULAR PROGRAMME

1. The Regular Programme comprises the following funds, which are administered in accordance with Financial Regulation 7.3:

a) **General Fund**

The General Fund was established by the Assembly. Its purpose is to meet the Regular Programme expenditures through appropriations approved by the Assembly. The General Fund is financed by contributions from Contracting States according to the scale of assessment determined by the Assembly, by miscellaneous income, and by any advances made from the Working Capital Fund.

b) **Working Capital Fund**

The Working Capital Fund was also established by the Assembly. It can be utilized to make advances as necessary to the General Fund to finance budgetary appropriations pending receipt of contributions from Contracting States. The Working Capital Fund was established by the Assembly and is financed by assessed advances from Contracting States according to the scale of assessment determined by the Assembly. The authorized level of the Fund has remained at \$ 6.0 million since 1994, subject to increase during a triennium for the advances assessed on new Contracting States.

The amounts advanced are reimbursed as soon as funds are available in the General Fund. Interest earned from investment of funds in the Working Capital Fund is recorded as income in the General Fund.

Advances from the Working Capital Fund can be made as necessary to the relevant Joint Financing Fund for the operation of projects under agreements concluded under Chapter XV of the Convention, for the purpose of defraying expenses pending receipt of contributions assessable to participating States by virtue of these agreements, the balance of sums advanced not to exceed \$ 100 000 at any time and to be reimbursed as soon as receipts from participating States are available.

Advances may also be made to finance appropriations approved by the Council under Financial Regulation 5.2 b), to the relevant special fund created under Regulation 8.4 subject to the limit specified therein.

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - REGULAR PROGRAMME

a) Appropriations

Transfers between Programmes

Annual appropriations voted by the Assembly and supplementary appropriations approved by the Council remain available for twelve months following the end of the financial year to which they relate to the extent that they are required to discharge obligations incurred during that year. In accordance with Financial Regulation 5.10, the Secretary General may effect transfers from one Major Programme to another, up to an amount not exceeding 10 per cent per appropriation for each of the Major Programmes involved in the transfer. Above this percentage, the Secretary General may effect transfers between Major Programmes with the prior approval of the Council, after obtaining the advice of the Finance Committee.

Carry-over during a triennium

Financial Regulation 5.6 provides that the Secretary General may effect transfers of up to 10 per cent per appropriation for each Major Programme and, above this percentage, the Council, irrespective of its authority under Regulation 5.10, to effect transfers between Major Programmes, may determine that any unobligated balance of appropriations in any financial year during the period between normal triennial sessions of the Assembly be carried over to the following year. The total of obligated and carried over appropriations shall not exceed the Total Authorized Appropriation plus amounts carried over from the previous year. Any balance of unobligated appropriations shall be cancelled.

Carry-over to the next triennium

Financial Regulation 5.11 provides that the Secretary General may defer implementation of specific elements planned for the third financial year of a triennium to the first year of the next triennium. With the approval of the Council, that part of the appropriation relating to the deferred activity shall remain available for obligation for twelve months following the end of the financial year for which it was approved and for a further period of twelve months, to the extent that they are required to discharge unliquidated obligations incurred in respect of the preceding twelve months.

Appropriations carried over to the following year are reserved from cumulative surplus.

b) Assessed Contributions

Income from assessed contributions represents a legal obligation of Contracting States, which is recognized as income in the year in which it becomes due and payable. No provision is made for delays in the collection of assessed contributions.

Assessments on Contracting States are established and payable in U.S. dollars and such payments are recorded in U.S. dollars at the UNORE effective on the date of receipt. The Organization may accept payment in other currencies to the extent needed. In accordance with ICAO Financial Rules, the dollar equivalent of contributions paid in currencies other than U.S. dollars is calculated at the most favorable rate of exchange effective on the date of payment and available to ICAO (normally the market buying rate). Payments received from Contracting States are applied first to advances due to the Working Capital Fund and the balance against outstanding assessments for the General Fund beginning with the earliest.

c) Cancellation of Prior Year's Obligations

Any unliquidated obligation remaining twelve months after the end of the financial period of its establishment, and which is no longer valid, is cancelled and credited to surplus.

d) Forward Currency Purchase Contract

The Organization enters into derivative financial instruments in the form of forward currency contracts to manage the foreign exchange rate exposure of the Canadian dollars so as to stabilize costs at the budgeted rate of exchange. The difference between the UNORE and the forward purchase contract rate is charged to expenditure.

e) **Allocation of Expenditures Between the Regular Programme and the AOSCF**

Prior Assemblies approved the recommendation of the Council to integrate the Technical Co-operation Bureau into the Organization's structure and that the Regular Programme budget would support the Technical Co-operation Programme. As a result, some staff costs were transferred to the Regular Programme and certain other costs such as rental and maintenance of premises previously shared between the two Programmes have been fully absorbed by the Regular Programme. The 33rd Session of the Assembly confirmed the actions taken towards a new policy on technical co-operation in A33-21.

f) **Acquisitions of Non-Expendable Property**

The cost of non-expendable property, which includes furniture, vehicles, computers and other office equipment, is charged to expenditure in the year that the expenditure is incurred. Non-expendable property is defined as any item having a cost of \$ 1 500 or more and whose life expectancy is five years or longer.

3. **PRIOR PERIOD ADJUSTMENT**

A payment of \$ 28 060 received in 1999 from a Contracting State did not clearly indicate the purpose of the payment. It was applied towards Regular Programme assessments instead of to the AOSC Fund to offset a payment made to UNDP for a project funded by the Contracting State. The correction was made in 2003. Accordingly, the assessed contribution receivable for 2000 has been increased by \$ 25 893 and the receivable for 2001 has been increased by \$ 2 167 whilst the offset was made to the AOSC Fund via the interfund. The effect has been to reduce cash surplus of the Regular Programme for 2002 by the full amount of \$ 28 060 in Statement V and increase the assessments receivable for 2002 in Statement II.

4. **ASSESSED CONTRIBUTIONS RECEIVABLE FROM CONTRACTING STATES**

Assessed contributions receivable from Contracting States for the General Fund amounted to \$ 14 621 253 as at 31 December 2003 compared to \$ 15 271 775 (restated) at the end of 2002. Outstanding assessments from Group B States, those with arrears equivalent to the three preceding years or more, which have not concluded agreements with the Council to liquidate their arrears, amounted to \$ 5 285 292 compared to \$ 4 708 921 at 31 December 2002.

The aging of assessed contributions receivable as at 31 December 2003 and 2002 is summarized as follows:

<u>Years</u>	<u>2003</u>	<u>2002</u>
1974-96	\$ 7 108 138	\$ 7 651 365
1997	1 022 772	1 054 489
1998	647 544	653 675
1999	512 352	521 310
2000	557 266	621 379
2001	961 742	1 731 644
2002	<u>1 430 366</u>	<u>-</u>
Previous years	12 240 180	12 233 862
Current year	<u>2 381 073</u>	<u>3 037 913</u>
	<u>\$ 14 621 253</u>	<u>\$ 15 271 775</u>

5. **EXPENSES RECOVERABLE FROM AND DUE TO THE REGIONAL BODIES OF AFCAC, ECAC AND LACAC (STATEMENT II)**

ICAO provides secretariat services for the African Civil Aviation Commission (AFCAC), the European Civil Aviation Conference (ECAC) and the Latin American Civil Aviation Commission (LACAC). The costs are met initially from the General Fund and the expenses are recoverable from the respective Regional Bodies.

The net amounts recoverable from or due to the Regional Bodies for all transactions effected on their behalf by ICAO is shown below:

	<u>RECOVERABLE FROM</u>			<u>DUE TO</u>
	<u>AFCAC</u>	<u>LACAC</u>	<u>TOTAL</u>	<u>ECAC</u>
Balance due from (to) at 31 December 2002	1 643 949	101 697	1 745 646	(379 047)
Add: Payments made in 2003	286 272	138 064	424 336	2 363 424
Less: Amounts received in 2003	<u>(336 603)</u>	<u>(181 770)</u>	<u>(518 373)</u>	<u>(2 342 301)</u>
Balance due from (to) at 31 December 2003	<u>1 593 618</u>	<u>57 991</u>	<u>1 651 609</u>	<u>(357 924)</u>

6. CASH AND TERM DEPOSITS

As at 31 December 2003, the term deposits had an average interest rate of 1.07% (1.32% in 2002) and an average term maturity of 51 days (30 days in 2002).

7. FORWARD PURCHASE OF CURRENCY

In 2001, the Organization entered into forward purchase contracts for Canadian dollars to cover the requirements of the Regular Programme and the AOSCF. A total value of CAD\$ 151 212 000 was forward purchased for delivery during the period of 4 January 2002 to 1 December 2004. During 2003, CAD\$ 50 281 000 were received at an actual cost of U.S.\$ 32 304 730. Canadian dollars of \$ 50 710 000 will be purchased in 2004 at the contracted forward purchase rates for the U.S. dollar equivalent of \$ 32 596 041.

Canadian dollar disbursements are reflected at the forward rate rather than at the UNORE. Differences between the forward rate and the UNORE in respect of Canadian dollars forward purchased amounted to a credit of \$ 3 464 494 in 2003 (a debit of \$ 258 541 in 2002). Of the total amount, a credit of \$ 2 884 045 (debit of \$232 687 in 2002) is reflected in the expenditure of the Regular Programme and a credit of \$ 320 449 (debit of \$ 25 854 in 2002) relates to the AOSC Fund, prorated on the basis of utilization of Canadian dollars forward purchased. A credit of \$ 260 000 (\$ 250 000 in 2002) was transferred to AVSEC in accordance with Resolving Clause 4 of A33-23A.

8. CONTRIBUTIONS IN KIND

Under separate agreements between the Governments of Canada, Egypt, France, Mexico, Peru, Senegal and Thailand and the Organization, these Governments undertake to bear all or part of the costs of the rental of the premises located in their respective countries. The Government of Canada also bears the major part of the cost of operations and maintenance of the Headquarters premises. These are treated as contributions in kind.

The estimated value of the contributions in kind, based on the lease contracts or on the estimated market value when there is no lease, is shown below:

	<u>2003</u>	<u>2002</u>
Canada	\$ 9 900 000	\$ 7 220 000
Egypt	113 000	103 000
France	553 000	487 000
Peru	89 000	101 000
Senegal	11 000	9 000
Thailand	<u>331 000</u>	<u>347 000</u>
	<u>\$10 997 000</u>	<u>\$ 8 267 000</u>

The Government of Mexico provides a cash contribution towards the rental and utilities costs of the Regional Office in Mexico City. The contribution in 2003 amounted to U.S.\$ 113 000 (\$ 134 000 in 2002). Included in the contribution from Canada is an amount equivalent to U.S.\$ 1 205 000 from the Government of Quebec towards provision of premises in the Bell Tower office for the Headquarters in Montreal. The Government of Thailand provided a new conference building to the Regional Office in Bangkok, which was completed in December 2003 and inaugurated in January 2004; the value of the contribution will be reflected in future years.

9. END OF SERVICE AND POST-RETIREMENT BENEFITS

a) End of service benefits

Separation payments and termination indemnity in respect of the Regular Programme staff are estimated at \$ 13.7 million as at 31 December 2003 (\$ 13.2 million as at 31 December 2002). The estimate for leave and termination indemnity is based on historical experience over the last 6 years. The other estimates for separation payments are based on the actual entitlements for professional staff at 31 December 2003, valued at the average historical cost of the benefit.

End of service benefits, comprising termination indemnity, repatriation grant, removal of personal effects, travel on separation, and accrued leave paid in the current year amounted to \$ 791 699 (\$ 641 243 in 2002).

b) Post-retirement benefits

The contingent liability resulting from the after-service health insurance that the Organization may have to pay to its staff members in future years has been determined by actuarial valuation. The actuarial valuation of the contingent liability for health benefits in future years (including both health and dental care) is estimated at \$ 28.2 million (\$28.1 million in 2002). The liability covers all ICAO staff.

Health insurance coverage is available to qualified retired employees. The Regular Programme paid \$ 567 000 in the current year for health care benefits in respect of all eligible retirees (\$ 477 000 in 2002).

10. LONG-TERM LEASE COMMITMENTS

As at 31 December 2003, the Organization had an average commitment of approximately U.S.\$ 3.3 million (equivalent to CAD\$ 4.3 million) per annum for 13 years, for a total commitment of U.S.\$ 42.9 million (equivalent to CAD\$ 55.9 million), relating to its share of the basic rent and operating and maintenance costs of the Headquarters premises.

In August 2000, the Organization entered into a five year lease for a PBX telephone system and a fax server with scanners. The lease provides for monthly payments of per month U.S.\$ 10 300 (equivalent to approximately CAD\$ 13 493) until May 2005. As at 31 December 2003, the annual commitments in U.S. dollars were:

2004	\$ 123 600
2005	<u>51 500</u>
	<u>\$ 175 100</u>

11. DISTRIBUTION OF CASH SURPLUS

11.1 Definition of Cash Surplus and its Disposition

Financial Regulation 6.2 defines cash surplus as follows: "To the extent that the total income actually collected under a), b), c) and d) of Regulation 6.1 and contributions in arrears actually collected in a given financial year exceed the obligations, including unliquidated obligations, of that year, this surplus shall be designated as cash surplus. The cash surplus may be used to meet obligations. Any balance of cash surplus at the end of the year prior to the year in which the Assembly is held shall be disposed of in the manner to be decided by the Assembly, this balance having been adjusted to become the difference between total surplus shown in the financial statements under balance of funds and assessments receivable from Contracting States". The cash surplus presented in Statement V reflects the elements noted above, as well as adjustments made to surplus.

Resolving Clause 2 of Assembly Resolution A26-23 provides "that a scheme of incentives be implemented effective 1 January 1987 to encourage timely payment of assessed contributions, whereby amounts of realized surplus* in each of the three financial years preceding the year of the Assembly, up to a maximum equivalent to the Organization's interest earnings on investments in each of these years would be distributed to Contracting States according to a weighted scale on the basis of the dates and amounts of current year contributions paid-in as well as the share of undistributed surpluses accrued from previous years' budgets".

* Replaced by "cash surplus" effective 1 January 1993.

11.2 Disposition in Accordance with A33-23B

Assembly Resolution A33-23B approved the disposition from cash surplus of the following:

- a) the amount of \$ 1 000 000 as credits to Contracting States in respect of the incentive scheme on 1 January 2002 in accordance with Assembly Resolution A26-23;
- b) the amounts of \$ 763 000, \$ 1 052 000 and \$ 2 062 000 to be allocated to the Universal Safety Oversight Audit Programme (Remainder of continuation and Expansion) on 1 January 2002, 1 January 2003 and 1 January 2004 respectively; and
- c) the amounts of \$ 1 496 000, \$ 1 748 000 and \$ 3 567 000 to finance some of the Regular Programme budget for the years 2002, 2003 and 2004 in order to minimize the assessments on Contracting States.

The movement in the amounts reserved for purposes designated by Assembly Resolution A33-23B is detailed below, in thousands of U.S. dollars:

	<u>2003</u>	<u>2002</u>
Balance of Reserved Cash Surplus at beginning of year	\$ 8 429	\$ -
Amount reserved in accordance with Resolution A33-23B	-	11 688
Distribution of cash surplus, 1 January 2002	-	(1 000)
Transfer to cumulative Surplus during the year		
Allocated to Universal Safety Oversight Audit Programme	\$ (1 052)	(763)
Utilized to minimize assessments for the year	<u>(1 748)</u> <u>(2 800)</u>	<u>(1 496)</u> <u>(2 259)</u>
Balance of Reserved Cash Surplus at end of year	<u>\$ 5 629</u>	<u>\$ 8 429</u>

11.3 Status of Cash Surplus

The Organization had a cash deficit of \$ 232 015 as at 31 December 2003 (\$1 105 733, restated, for 2002) and there is no cash surplus available for distribution under Financial Regulation 6.2 and Assembly Resolution A26-23.

12. PARTICIPATION IN THE UNITED NATIONS JOINT STAFF PENSION FUND (UNJSPF)

ICAO is a member organization participating in the United Nations Joint Staff Pension Fund which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. At the time of this report the United Nations General Assembly has not invoked this provision.

The payments made to UNJSPF relating to the contributions of the participants and the Organization for 2003 amounted to \$ 14 324 130 (\$ 13 381 737 in 2002).

13. RESTATEMENT OF PRIOR YEAR

The method of allocating the gains and losses on exchange from the forward purchase currency contracts has been changed from the method used in 2002. In prior years, the net exchange amount was charged to Other expenditure. In 2003, the exchange difference has been distributed to each expenditure category based on the Canadian dollar expenditure incurred. The 2002 expenditures in Statement I have been restated accordingly.

ADMINISTRATIVE AND OPERATIONAL SERVICES COST (AOSC) FUND

1. The Administrative and Operational Services Cost Fund (AOSCF) was established under the provisions of Article IX of the ICAO Financial Regulations. The AOSCF is utilized to meet the costs of administration and operation of technical co-operation programmes. This Fund is primarily financed from administrative overhead charges to the United Nations Development Programme (UNDP), Trust Funds and Management Service Agreements, and Civil Aviation Purchasing Service Funds.

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - AOSC FUND

a) Budgetary Estimates

The annual indicative budgetary estimates for AOSC, approved by the Assembly and subsequently adjusted by the Council in accordance with Article IX of the Financial Regulations, remain available for twelve months following the end of the financial year to which they relate to the extent they are required to discharge obligations incurred during the year. The Council may under certain circumstances approve the carry over of any unobligated balance of the budgetary estimates to the following year.

b) Administrative Overhead Income

The administrative overhead earned is reflected under Other Income.

Administrative overhead is charged to the UNDP Fund on a basis determined in co-ordination with the UNDP and beneficiary countries. Handling charges for the Trust Funds and Management Service Agreements are negotiated with funding sources. Administrative overhead charged to the Civil Aviation Purchasing Service Funds is calculated in accordance with the scale of charges established by the Council for the CAPS Agreements.

c) Allocation of Expenditures Between the Regular Programme and the AOSCF

The allocation of expenditures between the Regular Programme and the AOSCF are commented on in Note 2(e) of the Regular Programme.

3. END OF SERVICE AND POST-RETIREMENT BENEFITS

a) End of service benefits

End of service benefit entitlements accrued to AOSCF staff are estimated at \$ 3.4 million as at 31 December 2003 (\$3.4 million as at 31 December 2002). The actual amount paid for the year ended 31 December 2003 was \$ 43 766 (\$ 92 994 for 2002).

b) Post-retirement benefits

Refer to Note 9 - Regular Programme.

4. FORWARD PURCHASE OF CURRENCY

As indicated in Note 7 of the Regular Programme, as a result of the differences between the UNORE and the forward rate, an amount of \$ 320 449 is included as a credit to the 2003 expenditures of the AOSCF compared to a debit of \$ 25 854 in 2002.

5. VIET NAM CAPS-SHORTFALL OF REIMBURSEMENT FROM THE GOVERNMENT OF VIET NAM

The AOSC Fund results of 2003 include an unusual expenditure item of \$ 0.54 million which relates to a settlement signed in 2002 by Tripal, ICAO and in 2003 by the Government of Viet Nam in the arbitration proceedings of Tripal Systems Pty. vs. ICAO, which commenced in 1992 and involved a Civil Aviation Purchasing Service (CAPS) project in Viet Nam. Under the settlement, an amount of \$ 1.3 million was paid by ICAO to Tripal, on behalf of itself and of Viet Nam, in settlement of a claim. In exchange, a full release from all claims and demands arising from the dispute was provided by Tripal in relation to ICAO and Viet Nam. ICAO had incurred related costs of \$ 1.84 million in relation to the case, including the \$ 1.3 million settlement, and the total amount was considered an advance to Viet Nam. In September 2003, Viet Nam reimbursed ICAO \$ 1.3 million in full settlement of the amount owed. The resulting shortfall of reimbursement from the Viet Nam Government of \$ 0.54 million was funded by the AOSC Fund and is reflected as an unusual expenditure in Statement I.

a) **Accounts Receivable**

Refer to Note 3 - Regular Programme for the description of the nature of the prior period adjustment. The adjustment reduced the accounts receivable and increased the interfund balance of the Statement II for the AOSC Fund by \$ 28 060.

b) **TCB Reserve for Efficiency and Effectiveness**

The special reserve from AOSC surplus for improving the Technical Co-operation Bureau's efficiency and effectiveness is being reported in Special Accounts/Funds. The accounts for 2002 have been restated accordingly.

SPECIAL ACCOUNTS/FUNDS1. **Purpose and Financing of the Special Accounts/Funds**

1.1 The **Air Navigation Cost Recovery Account** was established in 2002 by the Secretary General of ICAO in accordance with Regulation 7.2 for the sale of services and publications relating to Air Navigation.

1.2 The **Air Transport Cost Recovery Account** was established by the Council in 2001 to finance income and expenditures relating to specific services provided by the Air Transport Bureau to Contracting States and others.

1.3 The **Conference and Other Facilities Fund** was established in 1999 to account for the income and the costs of administration, operation and refurbishment relating to the rental of the conference, garage and cafeteria facilities.

1.4 The **Electronic Publishing Account** was established in 2002 by the Secretary General of ICAO in accordance with Financial Regulation 7.2 for the production and sale of electronic publications.

1.5 The **English Standard Language Project Account** was established for the enhancement of communication procedures in civil aviation.

1.6 The **Incentive for Settlement of Arrears Account** was established by Resolving Clause 2 of Assembly Resolution A32-27, and the continuation of the scheme was confirmed by the 33rd Assembly in Resolution A33-27. Resolving Clause 3 of Resolution A33-27 provides that "payments from Contracting States with arrears of three full years or more will be retained in a separate account to finance expenditure on aviation security activities, and new and unforeseen projects related to aviation safety, and/or to the enhancement of the efficient delivery of ICAO programmes." Funds are provided from transfers of the Regular Programme surplus.

1.7 The **Information and Communication Technology (ICT) Fund** was established in 2001 by Assembly Resolution A33-24 to facilitate the modernization of ICAO's financial systems, the enhancement of ICAO's Web sites and consolidation of file servers.

1.8 The **Language Services Account** for the provision of interpretation, translation and printing services was established by the Council in 2001 to administer the income and the expenditure related to the provision of such services to other international organizations, government agencies and national delegations.

1.9 The **Preparatory Commission of the International Registry Account** was established by the Council in 2001. At the 161st Session of the Council held in December 2001, the Council accepted the responsibility of guiding and supervising the work of the Preparatory Commission of experts to perform the preliminary work regarding the establishment of the Authority of the International Registry and to administer the funds to be made available for the Preparatory Commission. The International Registry is a self-funding mechanism through user fees on a cost recovery basis in accordance with Article XX(3) of the Aircraft Protocol. Funding for the work of the Preparatory Commission is provided by voluntary contributions from States and from other interested private parties.

1.10 The **Special Public Information Projects Account** was established in 2002 by the Secretary General of ICAO in accordance with Financial Regulation 7.2, relating to self-financing activities of the External Relations and Public Information Office of ICAO.

1.11 The **TCB Reserve Fund** was established in the 155th Session of the Council, for the use of a portion of the AOSCF annual surplus of the preceding year on improving Technical Co-operation Bureau's efficiency and effectiveness.

2. **SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - SPECIAL ACCOUNTS/FUNDS**

The applicable policies are described in Significant Accounting and Financial Reporting Policies - All Funds.

3. **PRIOR PERIOD ADJUSTMENT TO AIR TRANSPORT RECOVERY ACCOUNT**

An invoice for the Air Transport Recovery Account amounting to \$ 6 293 was incorrectly charged to other expenditure instead of to the receivable account in the year 2002. Statement II for 2002 has been restated by reducing the accounts receivable for 2002 by \$ 6 293 and increasing other expenditure in Statement I for 2002 by the same amount, resulting in a reduction of net income for 2002 of \$ 6 293.

4. **RESTATEMENT OF PRIOR YEAR**

a) **Conference and Other Facilities Fund**

In the Conference and Other Facilities Fund in Schedule D - Special Accounts/Funds, the presentation of the cost of equipment rented for conferences has been changed from the practice followed in previous years. For the accounts of the year 2003, the amount of \$ 42 254, which was classified in 2002 as cost of equipment, has been reflected in general operating expenses. The 2002 figures are therefore reclassified, increasing the general operating expenses by \$ 42 254 and reducing equipment cost by \$ 42 254, with no effect on the balance of funds or assets and liabilities for 2002.

b) **Reclassification of IFFAS**

In accordance with the decision of the Governing Body of IFFAS, a separate schedule has been prepared in 2003 for the International Financial Facility for Aviation Safety Fund (IFFAS). The IFFAS accounts have been removed from Schedule D - Special Accounts/Funds and the amounts for 2002 have been restated accordingly.

5. **INCENTIVE FOR THE SETTLEMENT OF ARREARS ACCOUNT**

As indicated in Note 1.6 above (Special Accounts/Funds), payments from Contracting States with arrears of three full years or more are retained in a separate account. The table below summarizes the movement in the account since its inception.

	<u>2003</u>
Total payments towards arrears credited to the account	\$ 5 111 727
Interest earned	41 897
<i>Expenditure relating to safety oversight audits approved by the Council at the 160th Session (maximum of \$ 425 000)</i>	(146 487)
Action taken in accordance with A34-1:	
Transferred to AVSEC Fund	(1 055 190)
Transferred to IFFAS Fund	(1 055 190)
Held in reserve for enhancement and delivery of ICAO programmes	<u>(1 055 190)</u>
Balance in cumulative surplus as at 31 December 2003	1 841 567
Less unspent authorised amount approved by Council at the 160th Session	<u>(278 513)</u>
Surplus available as at 31 December 2003	<u>\$ 1 563 054</u>

6. IMPROVING EFFICIENCY AND EFFECTIVENESS OF THE TECHNICAL CO-OPERATION BUREAU

The Council at its 155th Session in 1998 approved the proposal to use up to 20 per cent of the annual surplus in the AOSC Programme Budget of the preceding year on improving the Technical Co-operation Bureau's efficiency and effectiveness, as required (C-DEC 155/7).

The status of the surplus set aside for this purpose is shown below:

Balance, 1 January 2003	\$ 323 106
Provision for 2002 (deficit of \$ 633 000)	-
	<u>323 106</u>
Less: expenditures incurred in 2003	<u>248 014</u>
Balance, 31 December 2003	<u>\$ 75 092</u>

JOINT FINANCING FUNDS

1. Based on the principles laid down in Chapter XV of the Convention on International Civil Aviation, a number of governments adhered to the Danish and Icelandic Joint Financing Agreements to jointly support the costs of certain air navigation facilities and services provided by the Governments of Denmark and Iceland. These include air traffic services, meteorological services, aeronautical and meteorological telecommunication services, and radio navigation aids. Currently, twenty-three governments are adhering to these joint financing agreements.

1.1 The Governments of Denmark and Iceland are reimbursed for 95 per cent of the actual costs. Of the 95 per cent actual costs, the costs allocable to civil aviation are recovered through user charges, the remaining costs are shared by the contracting governments, in proportion to the number of crossings between Europe and North America, any portion of which lies north of the 45th parallel North and between the meridians of 15° West and 50° West performed by their civil aircraft.

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - JOINT FINANCING FUNDS

a) Basis of Accounting

The accounts are kept to reflect the terms of the joint financing agreements. The United Nations system accounting standards are followed except for user charge revenue which is recorded on a cash basis.

b) User Charge Revenues

User charges are billed to commercial or private aircraft flying in the service area, by the United Kingdom on behalf of Denmark and Iceland. The collections by the United Kingdom, net of an administrative fee not to exceed 5 per cent, are remitted directly to Denmark and Iceland. These remittances are treated as income in ICAO's financial statements for the year in which they are received by Denmark or Iceland.

c) Assessed Contributions

Contracting Governments may be assessed, by the Council, amounts to cover the excess of estimated service costs over estimated user charge revenues which is adjusted for prior years settlements of costs and user charge revenues approved in the current year. The assessments are established in accordance with the terms of the agreements and are recorded in the year for which they are levied.

d) Service Costs

Costs for the current year are estimated by the Governments providing the services and approved by the Council. Adjustments to estimated service costs are approved by Council for a given year and are accounted for in the year of settlement.

e) Translation of Currencies

i) Icelandic Joint Financing Agreement Fund:

- Assessments on contracting Governments are levied in U.S. dollars.
 - User charge revenues received from the United Kingdom in Pounds Sterling are converted into U.S. dollars at the rate of exchange effective on the first banking day of the month of the collection by Iceland.
 - Service costs are recorded in U.S. dollars.
- ii) Danish Joint Financing Agreement Fund:
- Assessments on contracting Governments are levied in Danish kroner.
 - User charge revenues received from the United Kingdom in Pounds Sterling are converted into Danish kroner at the spot rate of exchange.
 - Service costs are recorded in Danish kroner.
 - For financial statement presentation, transactions during the year in Danish kroner are converted to U.S. dollars at the average of the monthly UNORE for the year and current balances at the end of the year are expressed in U.S. dollars at the UNORE effective 31 December.

3. BALANCE OF JOINT FINANCING FUNDS

The balance of funds is as follows:

	Danish Fund	Icelandic Fund	Total	
			2003	2002
Operating deficit	\$ (1 671 447)	\$ (1 091 214)	\$ (2 762 661)	\$ (1 127 050)
Reserved accumulated interest	\$ 87 992	\$ 234 516	\$ 322 508	\$ 310 095
	<u>\$ (1 583 455)</u>	<u>\$ (856 698)</u>	<u>\$ (2 440 153)</u>	<u>\$ (816 955)</u>

The reserved accumulated interest is applied to cover certain expenses of the Organization that are not incurred annually or are not incurred for the day-to-day activities of administering these agreements.

4. USER CHARGES RECEIVABLE FROM THE UNITED KINGDOM

In accordance with the terms of the financing agreements, the balance of user charges receivable from the United Kingdom are not reflected in these accounts, and amount to approximately U.S.\$ 4.6 million as at 31 December 2003 (U.S.\$ 4.7 million as at 31 December 2002).

UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP) FUND

1. Under the UNDP arrangements, the execution or implementation of projects related to civil aviation, financed by or through the UNDP, may be delegated to ICAO.

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - UNDP FUND

a) **Legislative Authority and Financial Presentation**

In addition to complying with the ICAO Financial Regulations, the transactions must also comply with the UNDP requirements. Schedules F and F.1 have been prepared in accordance with the format and directives prescribed by the UNDP.

b) **Expenditure Recognition**

Expenditure

Expenditures are recorded as stated in Note 2(c) of All Funds of the Organization. In addition, for sub-contracts, expenditures are recorded on the basis of the payment schedule included in the contract with the sub-contractor. Expenditure for projects includes disbursements and unliquidated obligations for which funds have been provided in approved project budgets in the current year. Programme support costs are calculated on project expenditure on a basis determined by the UNDP and beneficiary countries.

Forward Commitment

A forward commitment is an engagement entered into in the current year which commits resources of future periods; these are not reflected in the current year expenditure.

3. **COMMITMENTS AGAINST FUTURE FINANCIAL PERIODS**

Forward commitments as at 31 December 2003 for internationally recruited and national staff amounted to \$ 257 918.

OTHER TECHNICAL COOPERATION PROGRAMME (TCP) FUNDS

1. **Trust Funds, Management Service Agreements (MSA), and Civil Aviation Purchasing (CAPS) Funds**

Governments and other contributors may request ICAO to provide technical co-operation for specific projects relating to civil aviation. A specific Trust Fund is established for each agreement concluded between ICAO and a government or a contributor. While the Trust Fund and Management Service Agreements are designed to cover a broad range of technical co-operation services, the CAPS Agreement is designed to provide procurement services. These projects are financed by funds provided in trust and are administered by ICAO.

1.1 **Lump Sum Contracts**

ICAO enters into Technical Cooperation agreements referred to as Lump Sum Contracts with Contracting States. These contracts differ from MSA and Trust Fund agreements in that they are for a short duration and for a fixed contract amount. The administrative charge is recognized when expenditure is incurred. Where necessary, adjustments are made at the end of the contract to reflect the over or under recovery of actual expenditure.

2. **SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - OTHER TCP FUNDS**

a) **Income Recognition**

Contributions are recorded on a cash basis and provide for project implementation in the current and future periods.

b) **Expenditure Recognition**

Expenditure

Expenditures are recorded as stated in Note 2(c) of All Funds of the Organization. In addition, for sub-contracts, expenditures are recorded on the basis of the payment schedule included in the contract with the sub-contractor. Expenditure for projects includes disbursements and unliquidated obligations for which funds have been provided in approved project budgets in the current year.

Forward Commitment

A forward commitment is an engagement entered into in the current year which commits resources of future periods; these are not reflected in the current year expenditure.

c) **Administrative Overhead**

Administrative overhead for Trust Funds is charged on current year expenditure on a basis determined in co-ordination with the UNDP and beneficiary countries. In the case of Management Service Agreements, handling charges are negotiated with funding sources.

Administrative overhead for CAPS is calculated in accordance with the scale of charges established by the Council for the Civil Aviation Purchasing Service Agreements.

The overhead is reflected as expenditure.

d) **Hedging Policy for CAPS**

Purchase Orders pertaining to CAPS Agreements are sometimes denominated in currencies other than US dollars. In order to limit exposure to currency fluctuations, a policy on hedging was adopted in 2003 whereby funds are purchased in the currency of the commitment at the time that the Purchase Order is issued, in those cases where currency fluctuation could have a material impact on the financial position. An exchange gain or loss is recognized equivalent to the difference between the UN rate of exchange and the spot rate in effect on the date that the funds are purchased.

3. **COMMITMENTS AGAINST FUTURE FINANCIAL PERIODS**

During the year, commitments were entered into against future financial periods for the following:

- a) Brazil CAPS for a total of \$ 12 312 506;
- b) Brazil MSA (DAC) for a total of \$ 117 523;
- c) Brazil MSA (DECEA) for a total of \$ 402 143;
- d) East Africa Community MSA for a total of \$ 785 358;
- e) ICAO Environment Protection Study CAPS for a total of \$ 113 947; and
- f) Regional Latin America MSA for a total of \$ 1 098 504.

These Purchase Orders are not accrued in the accounts of the current period.

Commitments relating to international and national staff as at 31 December 2003 for the Trust Funds and MSAs amounted to \$ 2 874 220.

4. **VIET NAM CAPS -SHORTFALL OF REIMBURSEMENT FROM GOVERNMENT OF VIET NAM**

Further to the information presented in Note 5 of the Administrative Overhead and Service Cost (AOSC) Fund, it should be noted that the amount funded by the AOSC Fund, which is the difference between the \$ 1.84 million advanced by ICAO to cover litigation and the amount reimbursed by Viet Nam of \$ 1.3 million, amounting to \$ 0.54 million, is reflected as Other Income of the Viet Nam CAPS project in Schedule H.

5. **IMPACT OF HEDGING FOR CAPS**

During 2003, a total value of EURO 11 370 750 and CAD\$ 1 400 000 was hedged to cover certain Purchase Orders. The exchange loss recognized as a result of the hedge amounted to U.S.\$ 38 126. Due to the hedge, these commitments will not be subject to further gains or losses caused by currency fluctuation.

ICAO MECHANISMS

1. **Purpose of Funds**

1.1 **Aviation Security Trust Fund**

1.1.1 The Aviation Security (AVSEC) Trust Funds have been established to receive voluntary contributions from Contracting States to fund activities under the Aviation Security Programme. In 2002, the Council approved the Aviation Security Plan of Action (ASPA), comprising 13 projects to be financed from funds within the Aviation Security Trust Funds. Activities relating to the ASPA projects are funded from general as well as earmarked funds from within the Aviation Security Trust Funds. The ASPA includes:

- i) an Aviation Security Trust Fund - established pursuant to a Council decision in 1989, for the purpose of providing technical, financial and material assistance to States in the field of aviation security (AVSEC);
- ii) specific funds established prior to 2001 to accommodate contributions received from Contracting States for specific (earmarked) activities; and

- iii) enhanced AVSEC Mechanism Fund - established in 2001 pursuant to Assembly Resolution A33-1, which urges all Contracting States to make contributions in the form of financial or human resources to ICAO's AVSEC mechanism to support and strengthen the combat against terrorism and unlawful interference in civil aviation and directs the Council to develop proposals and take appropriate actions for a more stable funding of ICAO action in the field of aviation security.

1.1.2 Administrative costs and support costs arising from the implementation of activities under the AVSEC Trust Funds, where not provided for in the Trust Funds, are charged to the Regular Programme.

1.2 ICAO Universal Safety Oversight Audit Programme Fund

1.2.1 The ICAO Universal Safety Oversight Audit Programme (USOAP) Fund was originally established in 1995 to account for voluntary contributions by States to conduct civil aviation safety oversight assessments in States that voluntarily request such assessment. As a consequence of Assembly Resolution A32-11, the voluntary aspects of the safety oversight programme were changed to that of regular mandatory safety audits, and the programme was renamed the ICAO Universal Safety Oversight Audit Programme as of 1 January 1999. For the period from 1999 to 31 December 2002, the Trust Fund was a source of financial support to the programme, in the form of voluntary contributions from States donated specifically to finance safety oversight posts in the Secretariat, and to finance the operation of the programme or for specific activities. The Trust Fund was administered in conjunction with the Regular Programme and operates separately from the Technical Co-operation Programme without any overhead charges on the projects implemented. Cost of administrative services are borne by the Regular Programme.

1.2.2 The 33rd Session of the Assembly (A33-8, Operative Clause 8) requested the Secretary General to study the expansion of the programme, in particular to the conduct of audits of the core elements of Annex 13 - *Aircraft Accident and Incident Investigation*. In March 2002, the Council approved that, subject to meeting any conditions specified by the donor governments, the funds remaining in the USOAP Fund were to be utilized to finance the preparatory work and the expansion of the audits to all provisions of Annex 13, and that such work would commence in 2003.

1.3 ICAO Objectives Implementation Mechanism Fund

1.3.1 The 31st Session of the Assembly endorsed the new policy on technical co-operation which included the establishment of a funding mechanism the purpose of which is to provide additional resources for technical co-operation which could be applied to activities identified as required to support the implementation of Standards and Recommended Practices (SARPs) and Air Navigation Plans (ANPs). Administrative overhead charges are negotiated with the donors.

1.3.2 The Council at its 148th Session (C-DEC 148/5) endorsed the consolidation of the Aeronautical Technical Training Fund, which was established by Assembly Resolution A16-7, into the ICAO Objectives Implementation Mechanism Fund.

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - ICAO MECHANISMS

The applicable policies are described in Significant Accounting and Financial Reporting Policies - All Funds.

3. TRANSFER FROM INCENTIVE FOR SETTLEMENT OF ARREARS

In accordance with Assembly Resolution A34-1, an amount of \$ 1 055 190, inclusive of interest of \$ 8 523, was transferred from the Incentive for Settlement of Arrears Account to the Aviation Security Plan of Action to finance aviation security activities of a general nature and intended to benefit all or a substantial number of Contracting States.

4. RESTATEMENT OF PRIOR YEAR

For presentation in the 2003 year, the contributions to the Aviation Security Plan of Action for 2002 have been reclassified in Schedule I - Aviation Security Trust Fund to distinguish between earmarked and unearmarked contributions. There is no impact on the financial results presented.

5. CONTRIBUTIONS IN KIND

Below is the value of in-kind contributions provided by States for each group of funds:

	<u>2003</u>	<u>2002</u>
Aviation Security Trust Fund	464 459	275 000
ICAO Universal Safety Oversight Audit Programme Fund	120 000	103 500

INTERNATIONAL FINANCIAL FACILITY FOR AVIATION SAFETY (IFFAS) FUND

1. The IFFAS fund was established by the Council in 2002, in accordance with the principles and guidelines contained in Assembly Resolution A33-10, with the objective of financing safety-related projects for which States cannot otherwise provide or obtain the necessary financial resources. At the 4th meeting of the 167th session in December 2002, the Council approved the Administrative Charter of IFFAS. IFFAS operates within the existing legal framework of ICAO, and in accordance with the principles of the IFFAS Administrative Charter and the Assembly Resolution A33-10 (*Establishment of an International Financial Facility for Aviation Safety*).

2. SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - IFFAS FUND

The applicable policies are described in Significant Accounting and Financial Reporting Policies - All Funds.

3. TRANSFER FROM INCENTIVE FOR SETTLEMENT OF ARREARS

In accordance with Assembly Resolution A34-1, an amount of \$ 1 055 190, inclusive of interest of \$ 8 523, was transferred from the Incentive for Settlement of Arrears Account to the IFFAS Fund to finance IFFAS-related activities involving the establishment, operation and administration of IFFAS, including pilot projects, in whole or in part, which are to be carried out under the auspices of IFFAS for the benefit of a specified group or groups of States at the regional or sub-regional level, but in no case to be made available to any single State as a sole borrower or grantee under IFFAS.

OTHER FUNDS

1. Purpose and Financing of these Funds

- a) The **Administrative Fee for Joint Financing Agreements** was established by the Council (C-DEC 136/22) to recover, through an administrative fee, the full costs incurred by ICAO for facilities and services provided for the administration of the Danish and Icelandic Joint Financing Agreements.
- b) The **Arabic Language Services Fund** reflects the financial contributions received from certain Contracting States towards the cost of extension of Arabic language services in ICAO.
- c) The **Chinese Language Services Fund** reflects the balance of funds remaining from the financial contribution made by the Government of the People's Republic of China to assist in the financing of the Chinese language unit in ICAO.
- d) The **Edward Warner Award Fund** was established to defray the cost of awards to individuals or institutions who have made an outstanding contribution to the development of international civil aviation.
- e) The **France Associate Experts Scheme Fund** was established in 1979 under the Expert Scheme Programme of Technical Co-operation as a result of an agreement signed with the Government of France to provide and fund Associate Experts.

- f) The **Germany Associate Experts Scheme Fund** was established in 1981 under the Expert Scheme Programme of Technical Co-operation as a result of an agreement signed with the Government of Germany to provide and fund Associate Experts.
- g) The **ICAO Air Navigation Commission (ANC) Laurel Award Fund** was approved by the Council in 1999 for the ANC Laurel Award established by the ANC. The award is to be given every two years to an individual or group having significantly contributed to the work of the ANC, through its panels, study groups, worldwide meetings or any other appropriate manner.
- h) The **Japan Junior Professional Officers Fund** was established in 1988 as a result of an agreement by which the Government of Japan provides and funds Junior Professional Officers for appointment with ICAO.
- i) The **Netherlands Associate Experts Scheme** was established in 1999 under the Expert Scheme Programme of Technical Co-operation as a result of an agreement signed with the Government of Netherlands to provide and fund Associate Experts.
- j) The **North Atlantic Height Monitoring System Fund** was established in 1995 to account for the financial transactions made under the provisions of the Arrangement on the Joint Financing of a North Atlantic Height Monitoring System signed between ICAO and six Contracting Governments. The purpose of that fund is to account for the operation and maintenance costs defined in the Arrangement and for their recovery through user charges on all civil aircraft making crossings of the North Atlantic as defined in Article VII of the Danish and Icelandic Joint Financing Agreements.
- k) The **Republic of Korea Junior Professional Officers Fund** was established in 1991 as a result of an agreement by which the Government of the Republic of Korea provides and funds Junior Professional Officers for appointment with ICAO.

2. **SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES - OTHER FUNDS**

North Atlantic Height Monitoring System Fund

a) **Basis of Accounting**

The accounts are kept to reflect the terms of the joint financing arrangement. The United Nations system accounting standards are followed except for user charge revenue which is recorded on a cash basis.

b) **User Charge Revenues**

User charges are billed to commercial or private aircraft flying in the service area, by the United Kingdom on behalf of Canada, Iceland, Ireland, Portugal and the United Kingdom. The collections by the United Kingdom, net of an administrative fee not to exceed 5 per cent, are remitted directly to ICAO for distribution to the parties involved. These remittances are treated as income in the financial statements for the year in which they are received by ICAO.

c) **Service Costs**

Costs for the current year are estimated by Canada, Iceland, Ireland, Portugal and the United Kingdom. Adjustments to estimated service costs for a given year are accounted for in the year of settlement.

d) **Translation of Currencies**

User charge revenues received from the United Kingdom in Pounds Sterling are converted into U.S. dollars at the spot rate of exchange.

Service costs are recorded in U.S. dollars.

Other Funds, excluding the North Atlantic Height Monitoring System Fund

- a) The applicable policies are described in Significant Accounting and Financial Reporting Policies - All Funds.

3. USER CHARGES RECEIVABLE FROM THE UNITED KINGDOM

The balance of user charges receivable from the United Kingdom pertaining to the Arrangement on the Joint Financing of a North Atlantic Height Monitoring System was approximately U.S.\$ 395 000 as at 31 December 2003 (U.S.\$ 548 000 as at 31 December 2002). The amounts are not reflected in these accounts.

**REPORT OF THE EXTERNAL AUDITOR TO THE ASSEMBLY
ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE
INTERNATIONAL CIVIL AVIATION ORGANIZATION
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER
2003**

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INTRODUCTION

1. This report contains the results of the external audit of the International Civil Aviation Organization (ICAO) that my Office conducted on my behalf as External Auditor of the Organization.
2. The report includes observations and recommendations arising from our audit of the Organization's financial statements, our compliance audit of its transactions, and our performance audits of certain programmes and activities.
3. We prepared this report and the audit opinion in English. We audited the English version of ICAO's financial statements.

SCOPE OF THE AUDIT

The scope of the audit was determined in compliance with ICAO's Financial Regulations.

4. The scope of the audit was determined in compliance with Article XIII of the ICAO Financial Regulations and with the additional terms of reference governing the external audit, which are contained in the Annex to those regulations.

5. The audit was carried out in accordance with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, and with international auditing standards.

6. The present report includes only those audit matters of governance interest that have come to our attention as a result of the audit which is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We regularly follow up on the observations and recommendations of our previous audits.

7. We present the results of the follow-up of the observations and recommendations that we made in 2000 on Human Resources Management and Modernization of Financial Information Systems (Information Technology). In addition, we also examined the extent to which human resource needs are identified and addressed, and the extent to which training is used to address current and future requirements.

Scope of this year's performance audit.

8. We examined some important regional office performance issues that we had identified in previous long-form reports in the Western and Central Africa Office (DAKAR). We also reviewed the work programme of the Office for Programmes Evaluation, Audit, and Management Review to assess whether its mandate had been appropriately fulfilled.

FINANCIAL STATEMENTS AND AUDIT OPINION

The audit opinion on the 2003 financial statements is without reservation.

9. The financial statements for the year ending 31 December 2003 were submitted to us by the Secretary General for audit in accordance with ICAO Financial Regulation 12.4. The audit opinion on the 2003 financial statements was issued without reservation.

10. The United Nations System Accounting Standards (UNSAS) allow organizations to provide for delays in the collection of outstanding assessed contributions. In accordance with ICAO's accounting policy, no provision is made for delays in the collection of assessed contributions. The Secretariat believes that its present accounting policy is appropriate in the circumstances.

ICAO should reconsider its accounting policy to include a provision for longstanding delays in the collection of assessed contributions.

11. The financial statements disclose the problem of delays in the collection of amounts receivable and recoverable and the impact of those amounts on the Organization's financial situation. We understand that delays in the collection of amounts receivable remain a significant concern in the United Nations common system. We encourage ICAO to reconsider its accounting policy to include a provision for longstanding delays in the collection of assessed contributions in its accounts to truly reflect the financial situation of the organization.

23 out of 33 Contracting States were not in compliance with the terms of their agreement to liquidate their contribution arrears.

12. In 2003, ICAO received approximately \$1 927 183 from the group of Contracting States (Group A in Schedule B) that had agreements with the Council to liquidate their arrears over a specified number of years. There has been a noticeable increase compared with 2002 when approximately \$768 295 was received from Contracting States in Group A. We encourage the Organization to continue its efforts to recover more of these amounts. A total of 23 out of 33 Contracting States (70 percent) were not in compliance with the terms of their agreements as at 31 December 2003. For the year 2002, 30 out of 34 Contracting States (88 percent) were not in compliance with the terms of their agreements.

Value of non-expendable items still not disclosed in 2003 financial statements.

13. In 2000, we recognized the Organization's efforts in complying with UNSAS's requirement for disclosure either in the financial statements or in the notes to the financial statements of the value of non-expendable items. An inventory control system was installed during 2000 and further verification of the system for accuracy and completeness of data was completed by the Office for Programmes Evaluation, Audit, and Management Review (EAO) in the Spring of 2002 and 2004. This year again, efforts were made to provide an inventory count. However, internal controls are still lacking, which affected the accuracy and completeness of the inventory count.

Recommendation

14. ICAO needs to reconcile the physical count of its inventory with the database, establish an audit trail for all changes to the database, and complete an independent check of the count.

No write-off was submitted for our examination.

15. Financial Regulation 11.4 states that the Secretary General, with the prior approval of the Finance Committee, may write off losses of cash, stores and other assets for individual write-off actions exceeding \$20 000 in original value, provided that a statement of all such accounts written off are submitted to the external auditors with the annual accounts. No write-off was submitted to us for 2003.

FINANCIAL STATEMENTS AND AUDIT OPINION

FOLLOW-UP OF OUR 2000 REPORT

HUMAN RESOURCE MANAGEMENT

Introduction

16. The objective of this audit was to follow up on the findings from our last audit of human resources management in 2000 and to examine related areas of risk. Specifically, the audit examined the progress that has been made to improve the human resources planning and recruitment processes in ICAO, and the extent to which these processes support ICAO's strategic and operational objectives, in a timely and cost-effective manner.

17. As part of our audit, we examined the extent to which the necessary information and systems are in place to support human resources planning decisions. We also examined the extent to which human resource needs are identified and addressed, and the extent to which training is used to address current and future competency requirements.

18. Finally, we examined the changes undertaken to improve the recruitment process since 2000, and the impact these changes have had on the recruitment process.

Observations

Human Resources Planning

19. Human resources planning is the process of forecasting human resource needs so that steps can be taken to ensure that future job requirements and organizational goals and objectives are met.

A review of human resources planning practices is timely.

20. In light of the continued financial constraints facing ICAO as it prepares for its next triennial programming cycle (2005-2007), a review of the organization's human resources planning practices is timely. ICAO will need to ensure that it has the staff and competencies necessary to meet its challenges.

21. In our audit of human resources management in 2000, we examined ICAO's human resources planning practices and noted that improvements were needed. These included the need to develop a planning framework appropriately linked with the strategic direction of the organization, the need for information on staff competencies, and the need for a long-term approach to human resources planning. In our opinion, ICAO has made little progress in improving its human resources planning practices since our last audit. It must be emphasized that our observations on human resources planning are not directed at the Personnel Branch, but should be considered more broadly, as a global organization-wide commentary.

Human resources planning at a corporate level remains inadequate.

22. The human resources planning process generally consists of five steps: project future human resource supply; forecast human resource needs; compare forecasted needs with projected supply; plan policies and programmes to meet human resource needs; and evaluate human resource planning effectiveness. We examined the extent to which steps have been taken to develop a human resources planning process at the corporate level that is linked to the strategic and operational priorities of the organization.

23. We found that ICAO has not taken steps since our last audit to improve human resources planning practices at a corporate level. Senior managers told us that corporate planning is still largely ad-hoc, and linked more to the budget process than to the strategic priorities of ICAO. We found no evidence of an ongoing, systematic process of forecasting human resource needs and supply at a corporate level, in order to determine human resource requirements and to develop programmes to address these requirements.

Staff costs as a portion of budget are both significant and increasing.

24. As with other knowledge based organizations, the majority of ICAO's budget is consumed by staff costs, since its people and their intellectual capital are what drive organizational performance.

25. We note that staff costs as a portion of budget have continued to rise since 1999. In part, staff costs as a portion of the budget have continued to rise because the Organization has tried to make cuts in its non-staff areas. In 1999, staff costs represented 78.5 percent of ICAO's total budget. In 2004, staff costs now represent 83.2 percent of the budget and are expected to rise to more than 84 percent over the next triennium (2005-2007). As ICAO is generally guided by salary increases granted in the UN Common System, its salary envelope as a portion of the overall budget is likely to continue to increase, without major organizational restructuring.

Staff reductions are an inevitable outcome of budget constraints.

26. To deal with the financial situation facing ICAO, a number of budget reduction scenarios were proposed for the next triennium. As about 83 percent of the budget is made up of staff costs, reductions in staff were identified as the main method to achieve the proposed reductions.

27. A reduction in staff costs is critical to ICAO staying within its financial resources, and indeed, finding funds to invest in other critical areas such as systems and new programmes. Given the importance of staff costs, reduction must be well managed to achieve organizational objectives.

A global review of the organization is necessary for longer-term effectiveness

28. We acknowledge that the budget reduction exercise was still in progress at the time of writing this report, and how and where cuts will be made had not been finalized. However, we nonetheless had concerns about how staff reductions were being approached to achieve the proposed budget reductions.

29. Firstly, the use of natural attrition to reduce staff levels may be problematic as retirements, the expiration of temporary appointments, and other sources of natural attrition do not always occur in the areas of least priority for the organization. For example, a number of retirements are expected in professional and higher-category posts over the next triennium and cannot be left unfilled.

30. Secondly, a programme by programme approach to budget reductions naturally creates pressure for bureaus to defend their respective programmes and activities. We observed some evidence of this in a preliminary budget proposal exercise whereby each programme manager was directed to identify high- and low-priority posts that are vacant or will become vacant over the next triennium. The result was that bureaus identified the majority of posts as high priority. This makes it difficult for senior management to make the right decisions about which posts should be maintained and which posts should be abolished.

31. Thirdly, if budgets are equally reduced across each bureau, smaller bureaus or programmes may be more adversely affected than larger bureaus or programmes. This could force them to cut in areas of priority to the organization, whether posts or meetings or missions, in order to achieve the proposed reductions. Moreover, as staff costs have been identified as the main source of reductions, bureaus whose budgets comprise significant and fixed non-staff costs could also be forced to cut priority posts to achieve the reductions proposed.

32. A review of best downsizing practices revealed that over time, reductions not anchored to changes in structure and work processes, or to decisions to abandon or transfer activities, are not successful in the long term.

33. In our opinion, to achieve needed reductions in staff costs, the senior management team must conduct an organization-wide (versus programme by programme) review of ICAO's current activities and programmes, based on strategic and operational priorities. From this review, it will need to decide what programmes the organization can and can no longer support within current funding limits, and then develop an implementation strategy, action plan and timeframe.

Demographic data are collected and maintained.

34. In order to forecast the current and future human resource requirements of an organization, information on the composition of its current and future workforce is needed. This information is necessary to determine the policies and programmes required to ensure that the organization has the skills and competencies needed to achieve its goals and objectives.

35. We found that ICAO collects, analyzes, and maintains demographic information to plan for anticipated departures that arise from natural attrition. The Personnel Branch has currently forecast anticipated departures due to retirements to the year 2010. This information is particularly important to ICAO, given the average age of its current workforce (about 48 years in 2003), and the high number of retirements that it experiences each triennium. A total of 106 retirements (61 from professional or higher categories, and 45 from the GS category) are expected over the next triennium (2005-2007), representing about 13 percent of ICAO's total workforce as at 31 December 2003.

Information on staff competencies is not systematically collected or maintained.

36. While demographic data can be used to help assess whether an organization has the right number of staff needed to achieve its objectives, up-to-date information on the current competencies of staff is also required to assess whether the organization has staff with the right knowledge and skills needed to achieve its objectives.

37. Personnel officials stated that steps have not been taken since our last audit to formally collect and maintain information on staff skills and competencies. While they acknowledged the importance of maintaining this information, they noted that the sources used to collect it, including performance appraisal data (only 58.6% of performance appraisals were completed in 2002) and training programme completion records, are not well developed. We noted that the knowledge and skills of staff were generally known at the bureau level. However, to our knowledge, this information has not been formally collected and consolidated at an organization-wide level for its use when making corporate human resources planning decisions.

38. This information is important when making short- and longer-term decisions about human resource requirements, and when making decisions about training, promotion, transfers, succession planning, and layoffs. Given the number of staff reductions and redeployments proposed over the next triennium, a shared understanding of staff competencies at the senior management level could help to facilitate decisions about which staff should be retained, and which staff could be redeployed or reduced. Consolidated and up-to-date information on staff competencies will also be important to improving performance management and career development practices, which are part of a broader human resources management reform effort currently in progress in the UN, and of which ICAO is a participant.

Systems to support human resources planning need to be improved.

39. To facilitate the process of collecting, analyzing, and maintaining information needed to make human resources planning decisions, organizations typically employ a human resources information system. We examined the extent to which systems are in place to support these decisions.

40. ICAO currently maintains some information that it uses to make human resources planning decisions in its Personnel (PER) System. For example, information on employee demographics and related workforce data is maintained. However, the PER System is not currently capable of collecting and maintaining information on other workforce data, such as staff competencies, which are required when making human resources planning decisions.

41. We understand that ICAO has plans to improve the information systems in place throughout the organization. The PER System is one of several systems that has been identified for improvement, as part of a broader systems integration effort. A number of functions performed by the Personnel Branch have been identified for improved automation, including human resources planning and staff development. While improved systems capability could help to improve current human resources planning practices, personnel officials told us that due to budgetary constraints, they do not expect an improved human resources management system before 2008. The lack of an integrated PER system that tracks all necessary information means that information is either not collected or manipulated manually (which requires additional time and resources).

Staff Training

Current training budget and programmes are not sufficient to address current and future competency requirements.

42. ICAO is considering redeployments as a means to address human resource requirements that will arise as a result of staff reductions. Depending on where the needs arise, staff identified for redeployment may require retraining to take on new tasks and responsibilities. We examined the extent to which training needs are identified and satisfied based on short- and longer-term corporate competency requirements.

43. Like other organizations in the UN system, ICAO does not devote sufficient financial resources to staff training. An Organizational Learning Framework that provides common standards for learning in the UN noted that 2 percent of staff costs should be devoted to learning. The total training budget for 2003 was \$132,100, representing 0.27 percent of staff costs. Of this budget, automation training comprised 45.5 percent and language training comprised 28 percent, leaving very little for formal managerial and technical training.

44. Bureau and personnel officials stated that there is a need for managerial and technical training. They explained that staff who are promoted to management levels may have the technical skills but not the managerial skills to take on their new responsibilities. Officials noted that given the evolving specialized and technical nature of ICAO's work, ongoing technical training is needed to meet current and future competency requirements. Moreover, with the possible redeployments of staff over the next triennium, technical and managerial training may be needed to assign new responsibilities to remaining staff.

45. In a survey of ICAO's training needs in 2003, specific technical training identified included courses in the air navigation and air transport fields, as well as procurement. Executive management courses from local universities were identified as possible sources for managerial training.

46. Some directors expressed concern about the current skills and competencies of their staff to achieve operational priorities. In an effort to address these needs, personnel officials told us that they proposed doubling the portion of the training budget devoted to non-automation training programmes over the next triennium, but this increase was not approved in the budget review exercise. At the time of writing this report, only \$139,000 was foreseen in the total training budget for 2005, representing a slight decrease of about 0.01 percent over the current ratio of training to total staff costs of 0.27 percent.

Informal training methods are not sufficient to keep technical skills current.

47. In the absence of formal in-house technical training programmes, bureau officials noted their use of informal methods to help maintain the skills of staff. These include seminars, discussion panels, technical journals, and free courses offered from time to time by other organizations.

48. However, officials told us that these methods alone are not sufficient to keep staff skills current and that not all staff have access to these opportunities. For example, as most of these informal methods take place at headquarters, regional office staff are often excluded from such opportunities due to the travel and related costs involved in bringing them to headquarters.

Efforts to improve staff training do not address technical needs.

49. Personnel officials noted that efforts are underway to improve some aspects of staff training at ICAO. In conjunction with the budget reductions being proposed, a study to increase the efficiency and effectiveness of the organization is also in progress. A review of staff training was included among the areas to be addressed as part of this study.

50. At the time of writing this report, proposals to improve staff training had just been submitted for consideration by Council. The two proposals submitted focus on training for senior management in the areas of performance reporting and executive management development. The proposals estimate a total cost of \$100,000 to carry out the programmes over the next triennium. While these training programmes should help to address the managerial training needs identified by bureaus in a recent survey, they do not address technical training needs, nor is there any assurance of continued investment in future triennia.

51. In our opinion, the lack of funding and programmes devoted to technical training puts ICAO at risk of not having the staff with the skills and competencies necessary to achieve both its current and future objectives.

Recruitment Practices

Review of recruitment processes and procedures.

52. In our last audit, we recommended that ICAO re-examine its recruitment practices to determine the underlying reasons for recruitment delays and to continue strengthening its procedures for assessing candidates.

53. Although recruitment may play a smaller role over the next triennium given budget constraints, some replacement hiring will be required, at a minimum, to deal with retirements and other departures of staff from priority posts.

Progress has been made to shorten the recruitment process.

54. In our 2000 audit, we noted that recruitment was a lengthy process and that the time it takes to appoint candidates, especially highly technical specialists, could discourage potential applicants. In 1999, Council had requested a review of the recruitment process with a view to shortening it. We examined the extent to which action has been taken to respond to deficiencies identified and recommendations made in previous audits, evaluations, and studies.

55. We found that ICAO has made some progress in shortening the time it takes to recruit professional and higher-category staff to the organization. In response to a resolution in 1999 to increase the efficiency of ICAO, the organization has been working on a number of internal and external measures to shorten the recruitment process. The main external measure has been reducing the time the vacancy notice is advertised from four to three months, and more recently to two months. Internal measures have focused primarily on reducing duplication of effort, improving recruitment guidelines to assist those involved in the process, and instituting deadlines at key stages of the recruitment process.

56. An analysis by the Personnel Branch of recruitment lead times indicated that these efforts appear to be having some impact. The lead times have been reduced at three stages: the time to advertise a vacancy notice (from four to two months), the time for the Personnel Branch to produce the initial long list of candidates (from 41 days in 2000 to 35.5 days in 2003), and the time from the release of the final short-list to the date of the Appointment and Promotion Board meeting (from 45 days in 2000 to 36 days in 2003).

57. In our review of a sample of recruitment files since 2000, we also noted the Personnel Branch's quick turnaround time, one to three days in most cases, to approve the classification level and post description at the start of the recruitment process.

Delays at two stages hinder efforts to shorten recruitment process.

58. Despite the efforts to shorten the recruitment process, we found the stage that takes the most time is producing an initial short list of candidates. In January 2001, a deadline of two months was established for this stage. However, despite this deadline, the time taken by reviewing officers has increased by about 25 percent since then, from 101.3 days (3.4 months) in 2001 to 126.4 days (4.2 months) in 2003.

59. To help enforce these deadlines, the Secretary General has sent memoranda to bureaus informing them of the time allotted at each stage of the recruitment process. In addition, the Personnel Branch has sent reminder letters to the reviewing officer once the allotted time to produce the short list has passed, along with a copy to the relevant Bureau Director and the Secretary General. Evidently, these measures have not proven effective. Officials told us that more severe alternatives have been considered, such as proceeding with the Appointment and Promotion Board meeting in the absence of a recommendation from the Reviewing Officer or withdrawing the vacancy notice of the concerned post; however, neither alternative has ever been taken.

60. Officials told us that in some cases the delays occur because there is an incumbent in the post while the recruitment process is in progress. They noted a number of examples of this practice, including the use of Special Service Agreements (SSAs), extensions to the retirement of existing incumbents, and the granting of Special Post Allowances (SPAs) to lower-level staff.

61. Officials explained that these practices tend to reduce the level of urgency and motivation of the reviewing officer to fill the post because the work is currently getting done. We observed evidence of these practices in our review of a sample of professional recruitment files. We also noted the challenge role played by Appointment and Promotion Board members in cases of excessive delays and the extent to which SSAs and related practices were being used in these instances.

62. The analysis of recruitment lead times also showed delays in the time it takes for appointed candidates to report to work. Personnel officials told us that appointed candidates are generally given three months to report to work from the date the letter of offer is accepted.

63. While the average time taken for appointed candidates to report to work during 2000 to 2003 was generally within three months, the averages are misleading given the range of times reported. For example, in 2001, the time taken to report to work ranged from 0 days, in cases where an SSA already filling the post was subsequently hired or an internal candidate was promoted or transferred, to 426 days (14.2 months), while some 50 percent were past the three month period. Similarly, in 2002, the time taken to report to work ranged from 0 to 284 days (9.5 months), with 37 percent over the average time. Personnel officials told us that the problem could be rectified by amending the letter of offer currently sent to appointed candidates to include a statement that the incumbent must report to work within three months of accepting the offer, or the offer will be withdrawn. We would encourage some discretion for special circumstances.

Recruitment lead times are not monitored or reported for all stages.

64. To identify and address problems in the recruitment process, it is important that all stages be systematically tracked, monitored, and reported. This permits a more thorough assessment of whether efforts to address problems are having the desired impact and, if not, what action should be taken.

65. We found that while the Personnel Branch was able to produce analysis of recruitment lead times for all stages of the recruitment process, stages outside of its control were not systematically tracked, monitored, and reported. For example, in a 2003 report to Council, the time from the date the vacancy notice was issued to the date of the Board meeting was reported, but the time required for stages falling before and after this period were not reported. This includes the time from the post becoming vacant to posting of the vacancy notice, and the time from the date of the board meeting to the date the appointed candidate reports to work.

The use of interviews in the selection process has improved.

66. In our audit of 2000, we noted that the most important limitation of the selection process was the lack of rigorous interviews to assess candidates' skills, knowledge, and experience. We examined the extent to which selection tools, such as interviews, are used where appropriate.

67. We found that ICAO has made good progress in improving its use of interviews in the selection process for staff at the professional and principal officer levels. It now requires that all short-listed candidates who are not professionally known to the reviewing officer be interviewed, either by telephone or, where possible, in person.

68. Analysis by the Personnel Branch indicated that the use of interviews has improved steadily since 2000. In 2000, interviews were conducted for 3 of 17 (17.6 percent) posts, while in 2003, interviews were conducted for 16 of 19 (84.2 percent) posts recruited, and this was at little cost to the organization. From our review of a sample of professional recruitment files over this period, we observed that in cases where interviews were not conducted, the candidates were known to the reviewing officer.

69. The bureau directors and deputy directors that we interviewed noted their satisfaction with the increased use of interviews in the selection process. They said that while there was some initial resistance by reviewing officers to interview candidates given the additional time involved, their resistance dissipated once they saw that interviews permitted a better assessment of candidates. The directors and deputy directors that we interviewed also noted their satisfaction with the guidance and assistance provided by the Personnel Branch.

70. Although we are satisfied with the efforts that have been made to improve the use of interviews in the recruitment process, we would encourage the use of interviews for all candidates being considered for a post, whether or not they are known to the reviewing officer. This would help to ensure that, in appointing its staff, ICAO measures all candidates against a uniform assessment and secures the "highest standards of efficiency, competence, and integrity", as stipulated in the ICAO Service Code.

Equitable geographic representation (EGR) has improved.

71. In addition to the efforts being made to improve the recruitment process, ICAO has also been working to improve the representation of staff from non-represented and under-represented Contracting States. These efforts were taken in response to a Council decision, which stated that external recruitment to posts subject to EGR would be made with candidates from non-represented and under-represented States in at least 50 percent of all cases. In light of this decision, we examined the extent to which actions have been taken to respond to the deficiencies identified and recommendations made on this issue.

72. We found that, since 2000, ICAO has made good progress at improving the representation of non-represented and under-represented States. From 2000 to 2003, external recruitment to posts subject to EGR from non-represented and under-represented Contracting States improved steadily, from 29.2 percent in 2000 to 66.7 percent in 2003.

Improvement in the status of women has been limited.

73. Improving the status and representation of women has been an ongoing effort for ICAO. In 1993, the Council established a base target of 20 percent for representation of women for the professional and higher categories. The expectation was that this base would be increased by at least one percent each year over the next 10 years, resulting in a base target of 30 percent by 2003.

74. We found that, over the last decade (1993 to 2003), little progress was made to improve the status of women in professional and higher categories within ICAO. In 1993, the representation in these categories was 20.7 percent. By 2002, this figure had improved to only 23.7 percent, and preliminary figures for 2003 show little improvement over 2002 levels.

75. While we recognize that improving the representation of women at more senior levels takes time, other UN organizations, including technical organizations, have made greater progress at these levels. In 2002, ICAO was ranked 26 of 30 UN organizations for its percentage of women in professional and higher categories. ICAO was also one of only five UN organizations with no women represented in the director and higher categories. Moreover, unlike most UN organizations, ICAO does not have a dedicated budget to support women's issues.

76. In our opinion, until ICAO devotes the senior management attention and the financial and human resources necessary to make meaningful improvements to the status of women in professional and higher categories, efforts to improve in these areas will continue to have little impact.

Conclusion

Planning remains ad-hoc and budget driven.

77. ICAO has not taken steps since our last audit to improve human resources planning practices at a corporate level, directed by the senior management team. Human resources planning remains ad-hoc and budget driven, and information and systems needed to support human resources planning decisions remain underdeveloped. No overall comprehensive integrated review by the senior management team has been undertaken.

78. While the Personnel Branch can help to support efforts to improve human resources planning practices by providing information, developing scenarios as well as policies and programmes, they are not responsible for making corporate-level decisions. It is the responsibility of senior management to make decisions and to direct efforts to reshape the organization so that it can fulfill its key functions as effectively and efficiently as possible.

A different approach to HR planning is needed.

79. A different approach to HR planning is needed to achieve the proposed budget reductions over the next triennium—one that bases decisions on critical functions to be continued, while eliminating others that are not sustainable.

80. We found that ICAO does not devote sufficient funding to staff training. While we acknowledge the organization's current efforts to improve managerial training, we are concerned about the lack of formal technical training provided, particularly in light of the highly technical and evolving nature of ICAO's work.

81. ICAO has been working to improve and streamline its recruitment practices since 2000. The main focus of these efforts has been to shorten the recruitment process and to improve selection procedures through a more consistent use of interviews. In our opinion, the Personnel Branch has made progress in these areas. However, greater effort is required by line managers to help shorten the recruitment process if additional efficiencies are to be realized.

Recommendations

82. We recommended the following to the Secretariat:

- Conduct an organization-wide programme and activity-based review focussed on the strategic priorities of the organization.
- Develop a shared understanding of staff competencies at the senior management level to assess whether ICAO has the right knowledge and skills needed to achieve its objectives, and if not, to develop programmes that address knowledge and skill gaps.
- Devote the necessary funding to address the technical training programmes identified in a recent survey of training needs to help ensure that ICAO has the skills and competencies needed to achieve its current and future objectives.
- Implement more stringent measures to address delays in producing an initial short-list of candidates and in appointed candidates reporting to work.
- Analyze, monitor, and report on the lead times to recruit at all stages of the recruitment process in order to identify and address problem areas.
- Reassess the representation of women in the aviation field and the targets established for ICAO. From this assessment, formulate a revised plan of action to improve the representation of women in professional and higher categories, and devote the senior management attention and dedicated resources (financial and human) required to implement the plan.

MODERNIZATION OF FINANCIAL INFORMATION SYSTEMS

Introduction

83. In April 2001, we reported on ICAO's need to renew financial information systems. This audit serves to follow up on our earlier observations and to measure the extent to which the Organization has progressed on this initiative. In conducting our audit, we met with various directors, managers and staff involved in the modernization project and reviewed reports, minutes and documents relevant to the programme.

Observations

84. Since 1990, ICAO has recognized the need to modernize its accounting system in order to meet the financial and management information requirements of management and Contracting States. Over the past several years, the organization's inability to produce detailed financial information on a real-time basis has led some bureaus to develop their own internal systems to budget and monitor their finances. These administrative systems, which vary in technical complexity, are not controlled by Finance and may be an inefficient use of the Organization's scarce financial resources.

85. Developed in the early 1970s, ICAO's central financial systems are archaic and obsolete. Beyond the difficulties of obtaining detailed and timely financial information from the existing system, several risks surrounding its ability to operate remain. Although the likelihood of a complete system failure has been significantly reduced with the migration of the application from the mainframe to a client-server environment, the programming language used by the programme is long outdated, and skills required to support and maintain the system are increasingly difficult to find. Furthermore, the increased activities of the organization will continue to place strenuous demands on system capacity.

Modernizing or replacing existing financial information system remains critical.

Some progress has been made since our 2001 review.

86. Management has adopted a relatively cautious approach to the renewal of financial information systems. We recognize that considerable effort was needed to initiate the project's launch. Since a decision was reached to modernize ICAO's accounting systems in 2001, some progress towards this goal has been achieved.

87. The following key undertakings have been completed since our last report:

- The Assembly established an Information and Communication Technology (ICT) Fund for high priority investments in information technology, which includes a dedicated US\$ 2.5 million for the modernization of financial systems.
- A full-time project manager was appointed in the Fall of 2002 to lead and focus system modernization efforts.
- The Organization conducted a comprehensive needs assessment through consultations with all bureaus and offices of the Secretariat.
- Based on the results of the needs assessment, the Organization identified and documented the major functional requirements for a new financial accounting system.
- ICAO prepared and issued a request for proposal (RFP) to potential suppliers of financial systems for competitive bids in order to determine the range of financial solutions available given the current level of funding for the project.

Extended delays could adversely affect the project's success.

88. The human and financial resources required to implement a new financial system of the magnitude under consideration should not be underestimated. We understand that progress on the financial system renewal project has been slow, in part, due to the strict financial parameters in which those leading the programme operate, the limited dedicated project management resources available, and the competing priorities of the Bureau of Administration and Services and the Finance Branch. These factors could lead to further delays in the modernization initiative.

89. Further implementation delays could have an adverse impact on the project's success, and ultimately on the organization itself. Such risks include, but are not limited to the following:

- the erosion of funding by dedicated project management resources and the limited use of consultants charged to the Information and Communication Technology Fund;
- waning support for financial system renewal by member States; and
- on-going inefficiencies stemming from the use of independent administrative systems outside the control of Finance and ICT.

Significant future risks could affect the project's success.

90. We understand that ICAO is currently exploring a variety of product alternatives as part of its financial systems renewal project. The Organization is seeking an integrated solution for all key functional areas. Given the range of IT solutions available, ICAO will soon be faced with some difficult decisions in selecting a single system best suited to the needs of the Organization. This decision will involve multiple trade-offs such as system functionality, scalability, capacity and cost. In order to be successful, the modernization project must be appropriately scoped to take into consideration the long term funding requirements of a new system and the capacity of the Organization to support and maintain such a system in the future.

91. The total cost of ownership of a new financial system is significant and often difficult to estimate over the short to medium term. Beyond the initial software and licensing fees lie significant costs related to hardware upgrades, infrastructure construction, business process redesign, user training, system maintenance, upgrades, and internal resources. The Organization would do well to note the known costs associated with the implementation of similar systems at other United Nation entities, which have far exceeded the US \$2.5 million currently budgeted by ICAO.

92. Currently, the Organization lacks a long-term, sustainable source of funding for IT projects, in particular the modernization of its financial system. This presents a significant challenge to the Organization. In the absence of well scoped out project parameters and dedicated IT funding, the likelihood of project failure is high.

93. Beyond the strict financial parameters surrounding the financial systems modernization project, there is some uncertainty about the Organization's ability to service and maintain a complex financial system going forward. The Organization does not currently have the necessary skills and human resources to support a new financial system. Inadequate in-house resources to fully support the new financial system could lead to project failure and significant financial costs.

94. As the Organization continues to explore alternatives and solutions for its financial system, we encourage management to continue formal discussions with other UN organizations to determine whether the current and long-term system needs of ICAO can be met using already established applications.

Conclusion

95. ICAO has long recognized the need to modernize its financial information system, but after three years, the Organization remains in only the preliminary stages of action. Substantial work is needed before a new system can be implemented. Extended delays in system renewal could have adverse impacts on the project's success, and inevitably on the Organization itself.

Recommendations

96. We recommended the following to the Secretariat:

- As the search for a new financial system continues, the Organization should carefully consider all those factors likely to affect the long term success of the financial system renewal project and thoroughly evaluate the impacts and risks associated with each factor at the time when a decision on system acquisition is made.
- In the absence of a commitment to long-term, sustainable funding, ICAO should give greater weight to those system solutions that best meet the immediate needs of key stakeholders and minimize known post-implementation related costs.
- ICAO should seek to ensure that the necessary skills and human resources will exist within the Organization to support the new system prior to implementation.

OBSERVATIONS ARISING FROM THE 2003 PERFORMANCE AUDIT

REGIONAL OFFICES, WITH SPECIAL REFERENCE TO THE WESTERN AND CENTRAL AFRICA OFFICE (DAKAR)

Introduction

97. This year we continued our review of ICAO's network of regional offices by auditing the Western and Central Africa (WACAF) Office, Dakar, in February 2004. This was the fourth regional office we have audited. In the previous two years we visited the Latin America-Caribbean, Asia-Pacific and European regional offices.

98. Our audit had the same objectives as previous years, except that we also audited the existence and adequacy of expected financial controls in place and whether the Organization had made progress in implementing recommendations from previous years' reports concerning human resources management, the budget and regional offices. We did not examine questions of organizational structure such as whether regional offices should exist, or where they should be located. Our three main audit objectives were the following:

- to assess processes for planning, managing and reporting on regional office work and staff, especially for air navigation and air transport matters;
- to examine progress made in implementing the "concrete steps for the enhancement of regional office performance and improved programme delivery" listed in C-WP/11466, section 4; and
- to identify issues and challenges at headquarters, such as regional co-ordination.

99. We were particularly interested in finding out whether the recommendations made as a result of other regional office visits applied here as well, and in drawing any lessons that can be applied in the current triennial budget exercise.

100. Our work included the following:

- interviewing the regional office staff, Regional Affairs Office (RAO) staff, and selected other staff at headquarters;
- reviewing Council and Assembly working papers, files, regional office reports and reports of the Office for Programmes Evaluation, Audit, and Management Review (EAO); and
- a field visit to Dakar.

101. There are seven regional offices that are co-ordinated by a small Regional Affairs Office located at headquarters. The regional offices' objectives are described in the Regional Office Manual. They are very broad, as they are based on article 44 of the Convention, which provides ICAO's overall objectives.

About the WACAF Office.

102. The Western and Central Africa Office was established in 1963. It serves 24 states, 18 of which are ranked by the United Nations as “least developed countries” (LDCs). No other region has this large a number or high a proportion of LDCs. Moreover, several countries are experiencing or have recently emerged from armed conflict. This unstable situation complicates the WACAF Office’s task of promoting safe, regular, efficient and economical air transport in Western and Central Africa in accordance with ICAO’s mission statement.

103. This table shows the approved Programme Budget and staff for the WACAF regional office.

Budget (\$ thousands)	WACAF
2002	1697
2003	1728
2004	1767
Staff (work months)	
2002	324
2003	324
2004	324

Observations

104. We recently issued our report on the financial management of the Dakar Office to the Secretary General’s staff. We concluded that the expected financial controls are in place and adequate.

Processes for planning, managing and reporting on regional office work could be improved.

105. **Planning.** As in other regional offices, we found that the guidance available to the regions in the Strategic Action Plan, Regional Office Manual, Programme Budget, and other global planning documents is so broad that a case could be made for a far greater level of effort than would ever be permitted by budget constraints. For example, the first planned regional output in the Programme and Budget is: “regional activities that provide an adequate level of involvement and support in the Organization’s work in all fields.” This is not an output but a general statement of intention and it is too vague to be measured. The words “adequate” and “in all fields” would have to be defined by headquarters before the region could be expected to report whether it achieves this output. In general, there is no explanation of the workload implications of overall priorities within which the work of the region can be positioned. The regional office receives an allocation for staff and for travel and other operational activities that is not based on workload. Within this allocation, the regional office makes an effort to plan and manage its regular work, support headquarters priorities like safety, security and CNS/ATM, and handle unforeseen events such as preparing for, or responding to, conflict situations.

106. As part of the triennial budget process, the region normally contributes information about regional priorities; however in the region's view, this information did not have an impact on overall resource allocation decisions and the setting of priorities in the organization. There is no business plan that sets out the region's view of the essential activities and resources required to fulfill its broad mandate. The lack of a plan can lead to effort spent on non-priority activities, and potentially to regions working at cross-purposes with one another and with headquarters. Furthermore, the region does not collect data on the minimum work that must be done and how much time it takes, the sort of information usually analyzed as part of a programme review. Because the planning and budgeting process requires the region to operate within available resources, no special effort is made to identify the consequences of lack of resources for example, cancelled meetings and the consequences thereof, including safety risks and potential embarrassment for ICAO.

107. In October 2003, the WACAF Office (as well as other regions) prepared a paper on future challenges and vision. It remains to be seen what impact this will have on the next triennial budget. In our opinion, this work could form the start of a business plan for the region, but it would need much additional refinement. The paper outlines some possible regional objectives, but does not clearly distinguish between State objectives (for example, achieving full VHF coverage) and ICAO's objectives (how ICAO will help achieve full coverage). It lacks specifics about how ICAO can meet its objectives - when, why, and the magnitude of the work required.

108. **Managing.** To manage the work, the WACAF Office develops a schedule of meetings and missions for the year and reviews this regularly. All staff have performance appraisal goals that cover the main recurring tasks in their post description, and over half of these have target dates. Staff know the main tasks they will have to carry out in the course of a year, and they have some idea how many and what types of special requests they will get, but not how much time they will take. Some technical staff have their own formal written work plans, and all have at least a general idea about how much time it would take to carry out important tasks. There are regular monthly professional staff meetings to review progress of tasks and to allocate new or unforeseen tasks.

There is little performance information as in other regional offices.

109. As in other regional offices, there is little performance information, for example about workload, efficiency or effectiveness. Some examples of workload statistics might be the time it takes to draft working papers, prepare for meetings or write reports. While such statistics have limitations, they would be useful for planning purposes. Some positions have a large amount of regular recurring work such as assessing and allocating radio frequencies that could be measured easily. Generally, though, we recognize that it is hard to estimate the amount of work other than the direct time participating in meetings and missions. Nevertheless, some staff we talked to were able to estimate times to prepare working papers. More effort should be devoted to estimating the time it takes to prepare for and report on meetings and missions, to help in developing realistic targets for individual work plans. Targets should have both qualitative and quantitative specifications.

110. Also missing are indicators of effectiveness, such as timely preparation of working papers, meeting records, and mission reports. There could be serious cost and time impacts if ICAO staff are late in preparing papers, reports or records of deliberations; thus, we believe that there should be formal performance targets for them and that the success rates should be measured and reported. Staff told us that there are norms for such tasks, but they are informal and are not reported. The consequences, including the efforts regional staff make to meet such informal targets, may not be recognized.

111. As in other regional offices, we noted the motivation of staff to do the best job possible with available resources. But staff seldom formally assess the value of their work. We note, for example, that the current triennial budget identifies an output for the WACAF Office (and for all other regional offices) as: "increased Regional Office productivity in servicing States." This result could be measured in part by surveying states, but it is not. Case I illustrates another example of potential for better measurement of results.

112. **Reporting.** As previously recommended, ICAO should devote more attention to identifying expected results in advance and reporting actual achievements afterward. The regional offices now report more fully than any other part of the Organization, by providing detailed monthly reports to headquarters. Unfortunately, these reports are long lists of events that contain little results information. An example of a typical result, not well reported in the monthly report, is given in Case 1, the preparations for the HADJ pilgrimage. This is singled out not because it is an exceptional achievement but because it is typical of the many activities that ICAO regions undertake each year, and its benefits are not clearly enough stated in any document publicly available or sent to headquarters or to Contracting States.

Some concrete steps have been taken to enhance regional office performance.

113. **Steps to improve programme delivery.** To be consistent with previous reports, we again asked what concrete steps were being taken to enhance regional office performance and improve programme delivery. The 10 steps presented to the Council in November 2000 in C-WP/11466, section 4 are still not monitored by headquarters. Stated priorities such as upgrading computer networks, networking with States, and providing training, receive little attention from headquarters through resources, senior management support or monitoring. In addition, the office accommodation and meeting facilities in Dakar are a concern that could easily detract from regional performance.

114. Nevertheless, we acknowledge the regional office's efforts to manage staff and budget with due regard for economy and efficiency, including the following:

- planning for meetings and missions to take advantage of cost reductions and services offered by States;
- negotiating memoranda of understanding for free services; and
- carrying out multipurpose missions, in which technical officers follow up or carry out work on behalf of other disciplines when they visit a State.

115. We also discussed with regional staff some ideas from other regions that might be considered for application there.

The regional office has made efforts to co-ordinate with headquarters and other regional offices.

116. **Co-ordination.** Our interviews indicated that the regional office has made efforts to co-ordinate with headquarters and with other regional offices. There are some complications because email is not universally available or reliable in the region and because the states of Africa are divided among three ICAO regional offices. These complications are beyond the power of the regional office to solve.

Case 1: Seasonal HADJ pilgrimage

Every year, heavy air traffic takes place to and from Jeddah and other cities in Saudi Arabia at the time of the Islamic feast of 'Eid Al-Adha' to allow millions of visitors from all over the world to take part in what is known as the HADJ pilgrimage. The date is based on the lunar calendar and advances about 11 days each year. Hundreds and perhaps thousands of charter flights occur within a two-month period, and the volume appears to be increasing each year. When the HADJ coincides with Christmas, New Year Celebrations, or any other festival or holiday, the volume of traffic increases significantly and the workload for the various agencies increases proportionately.

The main impact, of course, falls on the service providers which by some estimates may face a doubling in workload, but ICAO plays a leading co-ordinating role. ICAO regional offices in Dakar, Cairo and Bangkok are involved in co-ordinating the establishment and activation of routes, monitoring the implementation of procedures, and dealing with other concerned parties such as Saudi Arabia and the states that are involved, the service providers and IATA MID Regional Office in Amman. They may also get involved in developing Aeronautical Information Publication Supplements. In addition, ICAO takes a leading role in discussions to develop some of these seasonal routes to permanent capability although this has not happened yet. ICAO's workload can generally be predicted in advance and thus planned for, unless there are special problems such as route closures, environmental disturbances or air incidents.

In Africa, there are some special problems. The main regular air traffic flow is north-south-north, so for a short period of time there is very heavy traffic across the normal flow, and many of the flights pass through regions where communications have not always been reliable. Seasonal east-west-east HADJ air traffic routes are established to ensure that the north-south-north traffic flows continue to operate safely. These involve, for example, routes from Algeria, Tunisia, Morocco, Libya and Egypt in the northern part of the continent, and others from countries in West Africa like Senegal and Nigeria that funnel through Niger, Chad and Sudan. Because of the special concerns in Africa, we enquired about the workload for HADJ preparation and were told that it generally started at least 6 months prior to the event and involved scheduling several informal meetings, preparing publications and providing States with assistance in the implementation process. It involves primarily CNS, ATM and AIS officers.

This case illustrates that ICAO generally plays a leading co-ordinating role in an important event.

The HADJ work is mentioned as an activity in the WACAF contribution in the Annual Report to the Council. The results are not stated, but in recent years there have not been any serious incidents or other operational problems during the roughly three-month period when special procedures are in effect. In addition to safety interests, these seasonal routes save flight time for passengers and money for the operators.

So far, the HADJ has apparently not caused a significant increase in the work of the MID or Asia-Pacific offices. There have, however, been incidents that may have involved flights taking part in the HADJ pilgrimage.

This is but one example of many special traffic flow peaks that occur regularly each holiday season and periodically, for example when the Olympic Games take place. Each of these events may require planning, and ICAO generally plays an important role in ensuring all the necessary authorities, service providers and other parties are involved appropriately so they can take place successfully. In this case, even though the HADJ is a regular annual event, there are new factors to consider each year, although eventually the plans may become routine. Such similar events involve a multitude of States and several ICAO regions. So far, the results of the collaboration appear to have been successful, in that no serious problems have been reported to date. But this is something ICAO has not measured in previous years, and does not plan to measure in the future. The ultimate goals should be measured, such as the number of incidents or delays, even if ICAO's specific contributions to safety and efficiency cannot be measured precisely. ICAO should also report these results, as well as necessary qualifications such as the fact that many other organizations and factors help achieve these goals. In addition, ICAO should identify and report any specific results it achieves, such as direct benefits from corrective action or lessons learned from past experience initiated or promoted by ICAO.

ICAO needs to measure against its goals and report any specific results it achieves.

Conclusion

117. We found that most of the same observations we made about other regional offices we have visited also apply here: a need for better results information, work planning and more systematic reporting about the results of work. We also found that the regional offices are taking steps to manage with due regard for economy and efficiency. We noted that our findings are consistent with those of the EAO audit of the Mexico Office.

118. Having audited five out of seven regional offices, we believe we now have a wide enough base of experience to comment on the system as a whole and that, in effect, these findings are valid for all regional offices.

119. On this basis we now put forward three general conclusions about the regional office network:

- The role of ICAO regional offices in promoting implementation of Air Navigation Plans (ANPs) needs to be defined and developed in more detail.
- ICAO has not developed useful results statements for the regions.
- Performance reporting in the regions needs to be improved.

Findings apply generally to all regional offices.

The role of ICAO regional offices in helping implement ANPs needs to be defined and developed in more detail.

120. **Regional ANP implementation role.** According to the Regional Office Manual, the primary responsibility of regional offices is continuous liaison with States to promote implementation of ICAO policies, decisions, standards and recommended practices, and air navigation plans and to provide technical assistance when requested to do so. The regional offices face a serious difficulty in deciding how to translate this responsibility into action. They receive little guidance about what their priorities should be in helping to implement the current requirements of global and regional air navigation plans, as well as improvements to the plans.

121. In C-WP/12133 and other working papers, there are summaries of the work being done to modernize air navigation systems including work by each regional planning group. This amalgamation is a positive development because it permits Council members to see the whole picture, and the paper observes that the pace of implementation was “understandably slower” than originally expected. In addition, the Air Navigation Conference recognized that due importance must be attached to the development of ATM systems in States with less-developed aviation systems through the provision of technical support and financial and funding mechanisms to address imbalances in economic development.

122. Given this clear expression of need and the equally clear shortage of resources, the regional offices need help from headquarters in deciding what to do to ensure that they work on the most pressing problems and that they work together to develop seamless global systems. This is an opportunity for all regional offices, and it is up to headquarters to define priorities in the regional resource requirements of air navigation plans.

123. Regional offices now play a role in helping individual States and groups of States improve facilities and services, but they would benefit from direction and advice about priorities. For example, the WACAF Office faces a particularly difficult task in promoting the safety and security of the civil aviation system in Western and Central Africa in part because 18 out of 24 nations are LDCs. There are many problems like the breakdown in communications between states, FIRs and airports that could affect safety and need to be resolved. Although it is primarily the responsibility of the service providers to solve these, the regional offices could help in many ways, for example by providing technical advice at the planning stages of projects, by helping identify funding sources, by training staff, by developing inspection routines and standards, and in some cases by assisting directly in implementation. All these actions would build on ICAO’s technical knowledge and broad perspective. However, because they consume scarce resources, they need to be applied in specific regions, in connection with specific problems. Regional offices lack sufficient guidance from headquarters about what implementation priorities they should be promoting most strongly.

Regional offices could do more to explain their need for resources.

124. As noted in connection with business plans, the regional offices too could do more to explain and support their views of the need for resources. Nevertheless, in our view, regional offices would benefit from the development of better criteria for assessing the seriousness of problems and for deciding which ones particularly need resources and staff attention. Opportunities for headquarters to provide guidance about regional office priorities include the following:

- identifying specific results in the triennial Programme Budget for specific regions;
- suggesting specific priorities for regional business plans, annual work plans and annual meeting and mission schedules;

- suggesting agenda items and specific problem areas for attention before each PIRG meeting;
- identifying particular types of urgent deficiencies to work on that, in the view of headquarters, would have the greatest impact on safety in a particular region; and
- providing criteria for regional offices to assess the importance of incidents.

125. We note that the third meeting of all regional planning groups (ALLPIRG) was in April 1999 and the fourth meeting took place in February 2001. There has not been a meeting now in over three years. Regional office representatives have few opportunities to visit headquarters – for example they were not invited to attend the Air Navigation Conference or the 2003 meeting with IATA regional directors. Lack of headquarters direction becomes more acute as different regions or groups of States implement different standards and systems.

Recommendations

126. We recommended the following to the Secretariat:

- ICAO headquarters and regional offices should work together to set priorities that define in more detail the role of its regional offices in promoting and/or assisting particular projects that are part of regional air navigation plans, and that provide a basis for accountability; and
- ICAO headquarters should provide guidance before each regional planning group meeting about how to deal with the implications of incompatible systems and standards between States and groups of States, and should organize meetings with all regions from time to time to address global problems.

127. **ICAO has not developed useful results statements for regional offices.** We believe it is important for ICAO's budget and reports to present the results that are expected in the context of the resources to be used to produce them (the workload), thus providing information for an informed observer to assess whether they are worth the cost. All the regional plans, budgets and reports that we have seen demonstrate the need for major improvements. They do not describe what the regional offices are trying to accomplish in specific or measurable terms, and so they do not provide a basis for accountability.

128. For example, the Programme Budget lists 15 outputs for regional offices, most of which have no target dates and are vague terms like "increased activity" and "enhanced plans". In addition, there are 15 results and performance indicators, the same list for each regional office, but this information is also vague and process-oriented (phrases such as "increased progress", "increased emphasis" or "increased activity" are not results). These do not provide any baseline data or targets to tell the reader what the situation was at the beginning of the triennium, and what ICAO hopes it will be at the end of the triennium: for example producing particular guidance documents, eliminating particular deficiencies or improving the current level of compliance or safety from what it was at the beginning of the period.

Formal review of regional office plans is still needed.

129. We previously recommended (in our 2001 report, paragraph 72) that the Secretary General should institute a formal annual review of plans with each regional office. This review should involve representatives from each headquarters bureau and should focus on planned results and the expected costs required to achieve them. Such a review will enable realistic priorities to be identified and agreed upon. This has not happened.

130. The practice of public reporting on results is gradually maturing across many jurisdictions, and principles for good reporting are emerging. Key definitions are being developed, for example illustrating the differences between *activities* (such as training courses) and their *outputs* (such as the number of individuals trained or skills transferred) and the *results* (such as the ways that skills or training are put into practice). Some public sector organizations use a results chain to test their relevance. In this approach the connection between activities, outputs, results and objectives is investigated and reviewed to ensure that what people do is really going to add value to the mission of the organization. In ICAO's case, the results should be linked to the Strategic Action Plan in a plausible way, that is, the connection should be demonstrated, not just stated.

Performance reporting needs to be improved.

131. **Reporting of results.** In our report last year we identified an example of a result – EMARSSH, that affected three regional offices and had not been adequately reported. This year we describe another typical example of a regional activity that has important results – preparations for the HADJ pilgrimage. This type of activity, and the results achieved, is not identified in the budget and is not well reported in the Annual Report.

132. We are pleased to note that some recent Council documents recognize the need to evaluate the effectiveness of ICAO's work. While this may be difficult to do, it is important and we would strongly support efforts in this regard.

Recommendations

133. We recommended the following to the Secretariat:

- ICAO should develop a chain of planned outputs and results linked to its objectives to provide a better base for accountability.
- ICAO should collect statistics and carry out evaluations to identify the actual results of its work.
- Results should be reported in the Regional Office monthly reports and in the Annual Report to the Assembly.

OFFICE FOR PROGRAMMES EVALUATION, AUDIT, AND MANAGEMENT REVIEW

Objective

134. The objective of the audit was to assess whether the Office for Programmes Evaluation, Audit, and Management Review (EAO) had fulfilled its mandate described in paragraph 125. In doing so, we compared, for 2001, 2002 and 2003, the work programme (referred as “planned work”) to performance assessment reports (“work completed”), by reviewing EAO summary and detailed reports, selected working papers and/or project files and any other documents as necessary. We also conducted interviews with EAO and other ICAO staff as required. We did not audit the level of satisfaction with the EAO services to the Organization.

Limited progress made since our 1997 report.

135. We reported on the situation of EAO in our 1993, 1995 and 1997 (follow up) long form reports to the Council (Doc 9631, 9697 and 9714 respectively). We noted limited progress in three out of four recommendations made in our 1997 Report. Table 1 summarizes the key observations made and the status in 2003. For more information on our current audit of EAO, refer to the Observations section.

TABLE 1: PREVIOUS EAO REPORTS

YEAR	KEY OBSERVATIONS	STATUS
1993	<p>Need to properly staff internal oversight</p> <p>Need to establish Evaluation office, develop and strengthen integrated evaluation system</p> <p>Need to prepare long-term plan and identify necessary resources</p>	<p>Current staffing is at five for EAO.</p> <p>Periodic evaluations now done: see paragraph 148 of this report.</p> <p>Medium Term Strategy for 2001-2004 (WP/11265).</p>
1995	<p>Work plans should reflect the entire span of EAO's responsibilities and ensure the Secretary General's expectations are being met</p> <p>Internal oversight activities are limited</p> <p>Work procedures need to be improved</p>	<p>This is now the case.</p> <p>Resources are also limited; see paragraph 143 of this report.</p> <p>Some improvement noted; see Paragraph 154 of this report.</p>
1997	<p>We noted efforts made since the 1995 Report to strengthen EAO but significant progress remained to be made:</p> <ul style="list-style-type: none"> • No long-term (LT) planning; • No in-depth programme evaluation (PE); • Performance audits (PA) remain practically non-existent; and • Financial audits (FA) and training are still limited. 	<p>No LT plan exists.</p> <p>Several PE reports since.</p> <p>Several PA completed since.</p> <p>Several FA completed since. training remains limited.</p>

EAO mandate

136. EAO was created in 1993. Its mandate is referred to in several official documents of ICAO: in Assembly Resolutions A31-2 and A32-1, relevant Council Decisions, and the Statute of Internal Audit of 1992. The activities of EAO are often referred to as “internal oversight” activities and are intended to “promote the efficient and effective management of the Organization’s programmes and activities with due regard to the economic and efficient use of resources consistent with the overall objectives of the Organization as well as the established policies, plans, regulations, rules and directives.” The mandate for “internal audit” comes under the Financial Regulations (Article XI – 11.1 e).

EAO mandate is very broad and similar to other UN system organizations.

137. In addition to its regular duties, EAO also opens/reviews sealed tenders received for both the Regular and TC programmes under the procedures contained in the ICAO Procurement Code. The number of sealed tenders received was steady for the past two years at 26 (for both 2002 and 2003); however 21 tenders have already been received at the time of our audit in March 2004. The level of effort varies and is dependent on the number of firms participating in the competitive process. EAO estimates that 10 percent of three staff members’ time is spent on this activity. While EAO participation adds an element of independence over the bidding process, it reduces the amount of time available for audit work.

138. The EAO mandate does not include the capacity to pursue allegations of violations of regulations, rules or pertinent administrative issuances as in other UN organizations. Investigations are undertaken on an ad-hoc basis.

139. In summary, the EAO mandate is very broad and similar to other UN system organizations. EAO is responsible for conducting evaluations, audits and management reviews of the Organization’s operations and reporting, as appropriate, the results thereon to the Secretary General and to the Council.

EAO is a small office and its resources are limited

EAO has not reached full complement of EAO posts.

140. Most of EAO’s activities are financed under Major Programme VII of the Programme Budget as shown in TABLE 2. In practice however, EAO has not reached its full complement of seven posts in any of the past three years reviewed. Vacant or unfilled posts may be used to fund contracting services, travel, and training, although we note that expenditures have been limited in these areas as well.

There have been three incumbents to the position of Chief/EAO in the past five years.

141. Turnover of the Chief/EAO position has been very high recently. There have been three incumbents in the past five years. The position remained vacant for almost nine months in 2003, and one of the two professionals acted as Chief/EAO. Two other professional posts are currently unfilled or the incumbents have been on temporary leave or secondment since 2002. At the time of our audit, there were two support staff.

142. ICAO is considered a small regulatory agency in the UN system. While the characteristics of small agencies vary substantially from one agency to the next, most share some key features that influence the implementation of modern management practices:

- small staff complement and staff with multiple responsibilities;

- small budget size limiting the ability to reallocate resources internally and to make the changes necessary to ensure modern management practices are fully integrated into the organization;
- informal structures; and
- challenges in recruitment, training and development.

143. Small offices must deploy their limited resources effectively to the areas of highest risks in the organization. When the number of staff is limited, each member of the team becomes crucial to the overall effectiveness of the office. Any time devoted to administrative matters is time that is not available for project work. Small offices, however, are unlikely to have all the resources needed to perform the full range of services that their clients request. In our audit of EAO, we gave special attention to the following challenges the Office faces: reallocating of scarce resources in ICAO, frequent reporting to governing bodies, key decisions made from the same management group or people.

TABLE 2: EAO RESOURCES*

FINANCIAL (US 000's Dollars)	2001	2002	2003	HUMAN RESOURCES (number of posts)	2001	2002	2003
Staff	451	641	641	Establishment –posts	6	8	8
Travel	11	14	14	Incumbents			
Other	7	33	33	Chief	1	1	.30
Total: Programme Budget	469	688	688	Professionals	2	2	2
Actual Spending	526	484	407	General services	2	2	2
Recovery of costs	n/a	n/a	n/a	Other –vacant	2	2	2

* Source of data: ICAO

144. EAO faces the same challenges it reported in its 2001 IT report: very little data and system integration has been achieved in ICAO, with limited sharing of work processes. These weaknesses have constrained EAO's ability to quickly build data bases that are essential in its work.

145. The recent nomination of the former Chief/Finance to the position of Chief/EAO raised a question of whether a conflict of interest situation occurred. The former Chief/EAO took over the responsibilities of Chief/Finance in early 2003 when the incumbent left the Organization. As mentioned previously, the post of Chief/EAO remained vacant for almost nine months in 2003 and no significant work was undertaken by EAO in the area of Finance during the last three months of the year. Thus, we believe that because the post of Chief/EAO remained vacant for most of the year, an appropriate cool-off period was observed in 2003 and no conflict of interest resulted. A protocol on how work will be undertaken if similar situations occur in the future should be developed by ICAO.

Observations

Independence of EAO could be strengthened with an internal oversight committee

146. According to its mandate, EAO may examine all activities of ICAO and EAO/Chief and staff have assured us that this is the case and moreover, that they have unlimited access to any information they may require in the course of their work.

EAO mandate is described in many documents.

147. As noted, EAO's mandate is described in many documents. Responsibilities of the Chief, staff members and the Secretary General are contained in one document while the scope and internal oversight programme are described in many other documents. EAO would benefit by consolidating this information from various sources into one document –often referred to as a Charter – that could be promulgated to all staff and Contracting States. A Charter is a formal instrument setting out the terms of reference as well as the modalities to ensure operational independence and effective reporting mechanisms.

148. EAO has direct responsibilities to the Secretary General. Summary reports on EAO activities are tabled annually with the Council. But there is no internal oversight committee in ICAO, a practice that has been adopted in some UN organizations. With the recent turn-over in the position of Chief/EAO, it would be advantageous for EAO to have access to an internal oversight committee composed of some of the key senior managers of ICAO.

An interval oversight committee would be of benefit to EAO.

149. An oversight committee's main function would be to act as an advisory panel to EAO and help gain house-wide acceptance and usefulness of internal oversight. It would help EAO establish its work plans by providing it with proposals for audits and/or evaluation and needs assessment. It would also review progress in implementing action plans that have been agreed upon by the bureaus and offices. The Committee could be the main forum for participatory interaction between the bureaus/offices and EAO and ensure discussion and dissemination of important issues including elaborating EAO's long-term plans and strategy. The committee could invite external members who have expertise, such as in corporate governance, to help EAO meet the ever-increasing challenges of accountability and responsibility and to add more credibility and independence to the process.

150. **Consistent reporting of issues.** Key issues and recommendations need to be reported consistently throughout the reporting process, whereby key contents or conclusions find their way, unchanged, in the (summary) report to the Secretary General (and Council). Adopting a format or structure that is consistent in Work Programme and Performance Assessment reports would also allow for easier comparability and follow up. It should be clearly stated in the annual report to the Council that EAO information is made available unchanged to its members.

Reporting of key observations and recommendations is consistent from detailed reports to annual report to Secretary General.

151. We observed that EAO observations and recommendations are currently discussed and reported to three levels of authority and/or responsibility in ICAO: with the relevant auditee together with the detailed "project" report; with the Secretary General in EAO's annual Performance Assessment Report, which summarizes key issues and recommendations, and with the Council and the Assembly. In addition, the external auditor receives all detailed reports released by EAO and the annual Performance Assessment Report. The external auditor discusses these reports with EAO, on an annual basis, to better coordinate its own activities and avoid any unnecessary duplication.

Scope of Work Programme

Risk Assessment Study needs to be updated on an on-going basis.

Risk assessment needs to be updated annually.

152. According to its annual plans, EAO takes into account various factors in developing its work programme and priorities. Risks are discussed verbally with management of programmes and activities that are the subject of the audit or review. The 1998 Risk Assessment Study (RAS) has not been used in subsequent years to identify and evaluate the internal and external factors that could affect the achievement of the organization's operational, information and compliance objectives, as it was found not to be practical as a tool. Additional risks such as reputation, liquidity, legal and operational risks as well as risks of fraud, misappropriation of assets and unreliable financial information as well as measurable and non-measurable risks need to be addressed. Risks could also be prioritized on a programme basis. Finally, in the process of reporting its assessment of risks, EAO should "roll up" risks that it has identified so that senior management can evaluate and see the "big picture".

153. Senior management must play an important role in ensuring that the risks affecting the achievement of the Organization's strategies and objectives are continually being evaluated. EAO would benefit from discussing its assessment of risks at the senior management level. Risk management means different things, depending on whether one is an operational manager and involved with day-to-day decisions, a senior manager who is responsible for the overall achievement of goals, or a representative from Contracting States who plays an oversight role as a member of the Council. EAO may support and help ICAO develop a risk management process.

Annual Work Plan is consistent from year to year

154. We reviewed the annual Work Programme of EAO for the past three years and found that proposed projects or products for the year are reported consistently under four main captions: Programme management and Programme Review, Evaluation, Audit and Follow up.

Annual work plan needs to better link with goals of medium Term Strategy for EAO.

155. We noted some changes from year to year, perhaps reflecting turnover in the position of Chief/EAO and as a result of comments made by Council members. For instance, the details in the 1999 and 2000 Work Programmes were comparable to the information that was presented in the Programme Budget, thereby indicating annual expected results/outputs, target dates and level of priority or the projects planned. This approach was later abandoned. No risk assessment or budget is now shown for the projects that are proposed for the upcoming year.

156. While the annual Work Programme (WP) is now more concise and briefer than earlier reports, it needs to better link with the goals and strategic focus areas identified in the Medium Term Strategy (2001-2004) document. The WP could also be improved in the long term by: explicitly stating what priorities or goals EAO intends to pursue in the current year for each product line (as was the case for 1999 and 2000 WPs); elaborating on its overall strategy for the year; and listing work that is carried forward, delayed, or recurring, such as work on the certification of annual expense statements and the current efforts to staff the unit to carry out the planned work, etc.

157. Each planned internal audit and/or evaluation project should be described (in an appendix) by a short statement stating its type, the methodology to be used, the costs of the project and options in the case of evaluations, the objectives to be achieved, and the expected reporting date (date or quarter). Furthermore, EAO needs to estimate the extent of resources required to do the work and compare this with the resources available on an annual basis to identify gaps, if any, and propose actions to fill them.

Annual performance assessment report is prepared on a timely basis

158. EAO prepares an annual performance assessment report on the activities that were undertaken by the Office in the past year. This report is prepared on a timely basis, usually in February and provides for a summary of the key issues and recommendations. EAO appears to be very cautious about keeping a balance between reporting sufficient details on the issues and keeping these reports a certain length, as requested by the Council. In the end though, the ideal length of the report can only be determined by the significance of the issues and professional judgment.

2002 EAO report covered many projects completed to date.

159. The 2002 report (issued in early 2003) contained the most projects reported in all of the three years reviewed: six projects in audit, one in Information Technology and two evaluations. The report included observations on the audits of regional civil aviation bodies and a complete account of the status of implementation of EAO recommendations made in previous reports. However, we found that some of the work planned or audit reports were carried over from year to year or completed in the following year.

160. In the 2003 report, more information was provided on the extent of involvement of EAO under the caption of Programme Management and Management Review (PMMR). This latter section of the report is important, as this is where EAO reports on the Office's contribution for the past year in the area of consultation work or value-added activities provided to management and staff of ICAO. Carefully planned consultation projects or advice may actually save internal oversight's time in the long term. As more and more internal oversight efforts are directed toward assurance efforts, consultation is a way of increasing efficiency by getting involved at the front end rather than after the fact.

EAO's time is devoted to providing on-going advice to ICAO managers and staff.

161. The 2003 report was an improvement over those of previous years as it provided some indication of the advice and consultation given by EAO. For example, the Chief of EAO has participated in the recent preparation of a paper on the organization-wide study on Increasing the Efficiency and Effectiveness in ICAO. Such advice is given on an on-going basis and takes more and more of EAO's time given the complexities of the issues discussed and the fine line that EAO must observe at all times as an independent provider of services to the Organization.

162. Every year EAO reviews a number of Joint Inspection Unit (JIU) reports that it summarizes for the Organization. This is taking a fair amount of time given the limited resources available. EAO could consider presenting to the Council only key JIU observations and/or jointly reviewing other JIU reports with senior management who manage similar programmes or activities that are being reported.

Annual Report of ICAO

EAO needs to report on how it has achieved its goals or objectives.

163. We recognize that the Annual Report (AR) of the Organization does not allow for detailed reporting. But it could be used over time to close the loop in reporting performance information that is currently lacking in EAO given that annual reporting is prepared very early in the New Year. The AR could be used to discuss programme-wide issues such as financial management and control issues, rather than specific internal oversight findings, and provide additional information on completed projects since the annual Performance Assessment report which is normally tabled earlier in the year.

164. The AR is generally prepared after the books have been closed. Thus it can be a means to give an overview of where the efforts were placed in the last year, costs of projects undertaken, training undertaken, liaison with other professional bodies in the UN and locally, and efforts to staff the function. It could also provide key information on performance, costs, resources used, progress achieved against the goals set in the Programme Budget for the triennium and what actions it plans to pursue in the following year.

Improvements to project or detailed reports to auditees

165. Work is divided between the two professionals, supported by two support staff, under the close supervision of the Chief. The two professionals and/or the Chief may get involved on the same projects at hand, bringing various skills and expertise as required. Over the past three years, EAO issued reports that have addressed important issues. Some EAO projects addressed multiple objectives that may or may not always be explicitly stated and/or may have a combination of financial and performance audit objectives. This may be expected given the relative size of the Organization and the large number of diverse activities selected annually for examination by EAO. However because the conclusions on the work done do not always relate directly to the objectives or the objectives may not be stated in the project reports, it is difficult in some cases to assess whether EAO achieved its objectives. In view of the limited resources and capacity available, the scope of the performance audits could be narrowed to specifically address the tough questions on the economical use of the Organization's resources, critical but most useful information for senior management to make decisions in times of restraint.

There are delays in releasing detailed reports as much of the work is delayed.

166. **Gaps noted between planned and actual work.** We found gaps between what was planned and what was actually accomplished, in particular in the case of evaluation. We also noted many delays in releasing detailed reports as much of the work planned was carried forward from year to year. This gap can be explained by the fact that the P-5 post was vacant. In practice, one professional and one support staff were left to initiate all the work in this area with assistance from the Chief/EAO, in addition to having to complete many other tasks that are to be expected from all those in the group. Given the limited resources available, the evaluation unit did not complete more than one or two in-depth evaluations or studies per year.

167. The development of policy and methodology for a self-evaluation framework was not completed as planned. EAO believes that the need for good performance reporting comes first and this is one of the current priorities of ICAO management. It should consider using a self-assessment process to gather internal oversight evidence. However, until self-evaluation is implemented, the results from evaluation will be limited, commensurate with resources available to the subject.

Evaluations could assist senior management in making difficult choices.

168. Evaluation is an important component of good governance: it is a vehicle to assess the big picture and adjust to current realities. It can provide valuable information for decision-making and provide a basis for informed debate and discussion within and among interested parties such as member States. Evaluation needs to address important questions about the rationale and success of the organization and its programmes and is essential for a results-based programming regime to find out what is working and what is not. We encourage EAO to continue to address the question of what contribution the programme/activities are making to the overall result.

Cost recovery for some internal oversight activities could be considered

169. Some of the internal audit activities include the annual review of the expenditure statements of three commissions or conference and periodic review of the financial statements of the Commissariat. EAO considers some of this work mandatory, although we could not find where this mandate is stated. As these activities are only indirectly related to the core or essential activities of ICAO, EAO could consider this work on a cost-recovery basis.

CONCLUSION

EAO was unable to completely fulfill its mandate as planned on a yearly basis.

170. We reviewed the work planned and the work completed by EAO for the past three years. Despite limited resources and turnover in the Chief/EAO position, key annual reports to the Secretary General (and the Council), the EAO Work Programme and Performance Assessment were produced on a timely basis. However, due to vacant positions, EAO was unable to completely fulfill its mandate as planned on a yearly basis. We noted some delays in releasing detailed reports and the carry-forward of some audit projects from year to year. This resulted in a gap between the work planned and that performed or completed, particularly in Evaluation.

171. EAO faces many challenges: broad mandate, limited resources and changing environment in corporate governance. It may need to focus its work on narrower objectives, such as the economical use of resources, and provide senior management with critical information to make informed decisions. Evaluations are important sources of information in times of restraint and ICAO has too few of them completed to help in making difficult choices.

Independence of EAO could be strengthened with an internal oversight committee.

172. Independence of EAO is important. A good practice noted is that EAO ensures that reporting of issues remains the same from the detailed reports to auditees to the annual summary report to the Secretary General. We note that ICAO does not have an internal oversight committee, a practice adopted by some UN system organizations. We believe that such a committee (with some external members) would help EAO by providing a much-needed forum for discussion and promoting healthy professional skepticism in the organization.

Challenges facing EAO staff and management

173. To undertake various projects that cover many diverse disciplines and skills, including the knowledge of the civil aviation sector, EAO needs a variety of skills and competencies to play a vital role and contribute to the Organization's success. Staff will continue to need strong analytical skills and extensive knowledge of computer systems and the Internet. They will also need to be flexible, communicate effectively, work closely with management to mitigate risks, keep abreast of global workplace issues and strive for continuous improvement. Competitive pressures demand that today's organization make effective use of its resources while staff faces competing demands on their time.

EAO needs to consider alternatives to its present structure to meet the challenges ahead.

174. We have reported in the past that ICAO lacks essential information to compare the competencies of its present staff with the competencies needed now and in the future to meet its operational objectives. This is the challenge that faces EAO today as it prepares to fill two upcoming vacant positions when two of its professionals retire in the near future. It is perhaps appropriate for EAO to consider alternatives to its present structure to meet the challenges ahead. To supplement or complement its current resources, EAO could call upon external advisory services for assistance in more specialized areas where it does not have the expertise in-house. It could also consider completing some projects in partnership with programme management (and industry) whereby key resources would be loaned to EAO for the duration of the project under EAO supervision. Finally it could consider making use of exchange programmes with other UN agencies and locally, with other internal oversight bodies.

Recommendations

175. We recommend the following to the Secretariat:

- ICAO should establish an internal oversight committee to strengthen the EAO function and provide advice as required.
- EAO should update its risk assessment study on an on-going basis and seek senior management involvement in its assessment of risks.
- EAO should explore how it can use the Annual Report to inform Member States on the results achieved against goals or objectives explicitly stated in the Programme Budget, report on key indicators of its performance, note any progress, and outline future actions.
- EAO should begin all project work with clear objectives and those objectives should determine the type of work to be conducted and the standards to be followed.
- EAO should continue its efforts to build its evaluation capacity, and to develop appropriate standards and guidelines. Plans should be realistic given the current and planned resource levels.


176. We further recommend that EAO should adopt a consistent reporting format in its Performance Assessment Report and Work Programme and consider the following elements:

- Recapitulate the work planned for the year, the work done and the work carried forward.
- Identify, for each product or project the objectives, key issues and recommendations, indicating the number of recommendations made and management's comments, where relevant.
- Indicate, in the narrative section on follow up of previous EAO reports, the actual number of reports followed up and the number of outstanding recommendations;
- Express an opinion on the situation and indicate whether follow up is being done by managers and whether progress is being achieved.

- Report formally on other EAO activities, such as assisting in opening of sealed bids and providing timely advice to managers.

ACKNOWLEDGEMENT

177. We wish to express our appreciation for the co-operation and assistance extended by the Secretary General and his officers and their staff members.



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Montréal, Canada
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