

FINANCIAL STATEMENTS

AND

REPORTS OF THE EXTERNAL AUDITOR

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012



DOCUMENTATION
for the 38th Session of the Assembly in 2013

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for the financial year ended 31 December 2012***

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**FINANCIAL STATEMENTS AND
REPORTS OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2012**

INTERNATIONAL CIVIL AVIATION ORGANIZATION

FINANCIAL STATEMENTS AND REPORTS OF THE EXTERNAL AUDITOR

FOR THE YEAR ENDED 31 DECEMBER 2012

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PART I: PRESENTATION BY THE SECRETARY GENERAL

INTERNATIONAL CIVIL AVIATION ORGANIZATION

PART I: PRESENTATION BY THE SECRETARY GENERAL

1. INTRODUCTION

1.1 The International Civil Aviation Organization (ICAO) is a specialized agency of the United Nations and was created with the signing in Chicago, on 7 December 1944, of the *Convention on International Civil Aviation*. ICAO is the permanent body charged with the administration of the principles laid out in the Convention. It sets the standards for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection, and encourages their implementation.

1.2 ICAO's membership comprises 191 Member States. Its headquarters are in Montreal and it has regional offices in Bangkok, Cairo, Dakar, Lima, Mexico City, Nairobi and Paris.

1.3 ICAO has a sovereign body, the Assembly, and a governing body, the Council. The Assembly, composed of representatives from all Member States, meets every three years, reviews in detail the complete work of the Organization, sets policy for the coming years and approves financial statements issued since the last Assembly. It also decides on the triennial budget. The Assembly last met in October 2010.

1.4 The Council, composed of representatives from 36 States, is elected by the Assembly for a three-year term and provides continuing direction to the work of ICAO. The Council is assisted by the Air Navigation Commission, the Air Transport Committee, the Finance Committee, the Committee on Unlawful Interference, Human Resource Committee, the Committee on Joint Support of Air Navigation Services and the Technical Co-operation Committee.

1.5 The Secretariat has five main divisions: the Air Navigation Bureau, the Air Transport Bureau, the Technical Co-operation Bureau, the Legal Affairs and External Relations Bureau, and the Bureau of Administration and Services. The Finance Branch and Evaluation and Internal Audit Office are also part of the Secretariat and report to the Secretary General. The regional offices, working under the Secretary General's direction of Headquarters, are primarily responsible for maintaining liaison with States to which they are accredited and with other appropriate organizations, regional civil aviation bodies and the United Nations Regional Economic Commissions. The regional offices promote implementation of ICAO policies, decisions, Standards and Recommended Practices (SARPs) and regional air navigation plans and provide technical assistance when requested.

1.6 In accordance with Article 12.4 of the Financial Regulations, I have the honour to submit to the Council for consideration and recommendation to the Assembly the financial statements of ICAO for the year ended 31 December 2012. As required by Article XIII to the Financial Regulations, the External Auditor's opinion and his report on the 2012 financial statements are also submitted to the Council and Assembly as well as my comments (reflected in the Secretary General's Comments) thereon.

1.7 Unless otherwise indicated, the financial statements and the accompanying note disclosures, which form an integral part of these financial statements, and this report, are presented in thousands of Canadian Dollars (CAD).

2. FINANCIAL REPORTING AND BUDGET PERFORMANCE HIGHLIGHTS

Adoption of International Public Sector Accounting Standards (IPSAS)

2.1 As reported in Note 1 to the financial statements, ICAO has continued to fully apply IPSAS in 2012. These standards have been adopted by the United Nations organizations to replace the United Nations System Accounting Standards (UNSAS). IPSAS are a set of independently developed accounting standards, which require adoption of accounting on a “full accrual” basis. Full accrual is considered best accounting practice by international organizations for the public as well as for the private sector. IPSAS include detailed requirements and guidance, which provide support for financial statements’ consistency and comparability.

2.2 ICAO adopted all applicable standards issued by the IPSAS Board. ICAO was not required to adopt all these standards during 2010 and 2011 as some of these standards have their corresponding effective dates falling in 2011 and 2013. Nonetheless, those standards were also applied prior to their effective date for increased accountability. The IPSAS Board, the body that issues IPSAS, encourages early adoption of these standards.

Financial Statements

2.3 The following financial statements have been prepared in accordance with IPSAS:

- Statement I: Financial Position;
- Statement II: Financial Performance;
- Statement III: Changes in Net Assets;
- Statement IV: Cash Flow; and
- Statement V: Comparison of Budget and Actual Amounts.

2.4 Also in accordance with IPSAS, the financial statements include Notes that provide narrative descriptions and disaggregation of items disclosed in the financial statements and information about items that do not qualify for recognition in the statements. The Notes also include the presentation of major activities of ICAO by segment as required by IPSAS. Two segments are included in the audited financial statements. The first segment covers on-going regular activities of the Organization, such as the Regular Programme, the revenue generating activities and the administration and support of the technical co-operation programme. The second segment covers the activities of all technical co-operation projects, generally conducted by ICAO at the request of individual States.

2.5 Tables are not part of the audited financial statements. However, since these tables offer more detailed information and support the combined figures to the audited financial statements, they are included in Part IV of this document.

2.6 The following paragraphs summarize the key information on the financial situation and performance of the Organization for 2012.

2.7 **Statement I** presents the financial position of the Organization. Assets totalling CAD 279.2 million at 31 December 2012 are mainly composed of cash and cash equivalents amounting to CAD 246.4 million and of assessments and other amounts receivable totalling CAD 24.7 million. Total liabilities amounts to CAD 324.0 million, of which an amount of CAD 208.8 million represents advance receipts mostly for technical co-operation projects, and a long-term liability of CAD 90.2 million for employee benefits recognized on this statement since 2010 with the application of IPSAS.

2.8 This statement also shows an accumulated deficit of CAD 44.8 million, caused by the need to record the employee benefit liabilities under IPSAS. Nonetheless, since current assets exceed current liabilities by an amount of CAD 33.9 million, it is not foreseen that additional funding will be necessary on a short term basis to cover the accumulated deficit.

2.9 **Statement II** presents the financial performance for the year 2012. There were significant changes made to this statement since 2010 to comply with IPSAS. Revenue from project agreement previously recorded on a cash basis is now recognized on the basis of services rendered and goods delivered to technical co-operation projects. Sales of publications are also recorded on the accrual basis of accounting, when publications are delivered. There is also a temporary adjustment made to assessed contributions revenue for an amount of CAD 0.3 million during 2012 to take into account the impact of the recognition of long-term receivables at fair value as required by IPSAS. Total 2012 deficit amounts to CAD 7.5 million. Table A shows the deficit by Fund or Group of Funds for regular activities. Expenses include an amount of CAD 7.3 million recorded in the Revolving Fund to recognize employee benefits expense (ASHI, annual leave and repatriation benefits) on an accrual basis. Before the adoption of IPSAS in 2010, most of these benefits were recorded on a cash basis. In 2012, CAD 2.7 million was paid for those benefits and this amount is presented in the Revolving Fund as a funding source from other Funds. The difference of CAD 4.6 million between benefits accrued and benefits paid is included in the deficit for the year for that Fund. Explanations on the financial results and deficit of the General Fund of the Regular Programme (CAD 2.2 million) and surplus of the AOSC Fund (CAD 1.2 million) are provided in the following paragraphs.

2.10 With regard to the net deficit of other Funds (CAD 1.9 million), the main reason is a deficit of CAD 1.7 million in the Ancillary Revenue Generation Fund (details in paragraph 3.21 below) and a timing difference in the recognition of revenue and expenses. Under IPSAS, under certain conditions, revenue may be recognized before the related expenses are incurred, particularly with regard to revenue from non-exchange transactions such as voluntary contributions and donations. Also, capital expenditure and intangible assets financed by the General Fund of the Regular Programme Budget presented in the Capital Fund will be recognized as operating expenses in future years through depreciation and amortization which do not require additional funding. The 2012 deficit in other funds of the Regular Activities segment were funded by surplus recognized in prior years and therefore will not require additional funding.

2.11 With regard to the Technical Co-operation Projects segment, there is no annual surplus or deficit for the year 2012 because revenue is recognized based on the stage of completion of projects, which is generally determined based on the costs incurred in each project. In 2011 and 2012, this process was refined to match more closely the percentage of completion of projects worth USD 100 thousand or more. The cost of administration, operation and support to these projects is recognized in each project and the recovery of these administrative fees is recognized as revenue in the AOSC Fund.

2.12 **Statement III** provides changes in net assets during the year. The balance of Net Assets including reserves at the beginning of the year amounted to a net accumulated deficit of CAD 30.0 million. The balance of the net accumulated deficit at the end of 2012 was CAD 44.8 million. The increase to the accumulated deficit for 2012 is mainly caused by the deficit for the year (CAD 7.5 million) and the actuarial loss on ASHI (CAD 7.3 million).

2.13 **Statement IV** gives the breakdown of the variation of cash flow from CAD 193.4 million at 31 December 2011 to CAD 246.4 million at 31 December 2012. As permitted by IPSAS, the indirect method is used which is also the method adopted by ICAO in previous years.

2.14 **Statement V** shows a comparison between the budget (Regular Programme) and actual amounts. This statement is required under IPSAS because the approved budget and the financial statements are not prepared on the same basis as explained in Note 4 to the financial statements. This Statement also reflects the status of appropriations required by Financial Regulation 12.1.

3. BUDGET PERFORMANCE AND FINANCIAL HIGHLIGHTS

Appropriations for Regular Programme

3.1 The 37th Session of the Assembly in 2010, under Clause C of Resolution A37-26, voted appropriations in the amount of CAD 93 052 thousand for the year 2012. Details of appropriations, transfers, actual expenditure and unobligated balances of appropriations by Strategic Objective and Supporting Implementation Strategies are given in Statement V.

3.2 The budgetary result for 2012, in thousands of Canadian dollars, is summarized as follows:

Original Appropriations	93 052
Carried over from 2011	<u>10 196</u>
Approved Revised Appropriations	103 248
2012 Outstanding Commitments	(5 212)
Decrease in Appropriation	(557)
Carried over to 2013	<u>(3 307)</u>
Revised 2012 Appropriations	<u>94 172</u>

3.3 **Carry-over from 2011.** In accordance with Financial Regulation 5.6 and 5.7, an amount of CAD 10 196 thousand was approved by the Secretary General to supplement the 2012 appropriations, financed by savings from 2011, primarily for outstanding commitments and for mandatory and other mission-critical activities that were not budgeted for in 2012.

3.4 **2012 Outstanding Commitments.** The value of obligations entered into in 2012 but delivery against which is only expected in 2013, is CAD 3 752 thousand. Employee entitlements in an amount of CAD 1 460 thousand consisting primarily of accrued leave and repatriation grants are foreseen to be paid to staff separating from ICAO in 2013. Therefore, an amount of CAD 5 212 thousand (also see Figure 1, column (e)), has been reserved and carried forward to 2013, pursuant to Financial Regulation 5.7 to clear legal obligations incurred during 2012.

3.5 **Decrease in Appropriation.** The amount of CAD 557 thousand was decreased (also see Figure 1, column (f)) because this is the amount not reimbursed to the Regular Programme by the AOSC Fund. This is the difference between the amount approved by the Council in C-DEC 197/2 (CAD 1 202 thousand) for the cost recovery in 2012 and the amount approved by the Assembly (Annex 4 of Doc 9955).

3.6 **Transfers.** In compliance with Financial Regulation 5.9, the Secretary General authorized transfer of the appropriations between one Strategic Objective (SO) or Supporting Implementation Strategy (SIS) to another up to 10 per cent of the annual appropriation for each of the SO or SIS to which the transfer is made.

3.7 **Carry-over to 2013.** Under Financial Regulation 5.6, the Secretary General authorized to carry over unspent appropriations, not exceeding 10 per cent per appropriation for each SO or SIS. The amount of CAD 3 307 thousand is within this limit. The amount being carried over will be used to fund primarily programme activities and to a lesser extent, activities under Management and Administration. Programme activities being funded include additional language costs for CAEP, AT Conference and Legal

Committee Meetings, and Market-Based Measures of the Environment Programme. Management and Administration activities include additional Human Resources posts (as recommended by the external auditors), additional resources for EAO, Ethics Officer, and an electronic voting system for the upcoming Assembly.

3.8 As a result of the increases and transfers outlined in the preceding paragraphs, the final approved revised appropriation for the year amounted to CAD 94 172 thousand.

3.9 Figure 1 provides a comparison between Budget and Actual amounts for the Revenue and Expenses of the Regular Programme:

FIGURE 1

	<u>2012</u> <u>Budget</u> ¹	<u>Actual</u> ²	<u>Budget</u> <u>Exchange</u>	<u>Actual</u> <u>at Budget Rate</u> ³	<u>2012</u> <u>Outstanding</u> <u>Commitments</u>	<u>Decrease in</u> <u>Appropriation</u> ⁴	<u>Total</u>	<u>Difference</u>
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
				= (b)+(c)			= (d)+(e)+(f)	= (g) - (a)
REVENUE								\$
Assessed Contributions	84 256	84 205	399	84 604			84 604	348
Other Revenue								
ARGF	4 688	4 688		4 688			4 688	-
Miscellaneous	1 300	457		457			457	(843)
Reimbursement from AOSC	1 758	1 202		1 202			1 202	(557)
Transfer from Incentive Scheme Account	1 049	1 049		1 049			1 049	-
	93 051	91 601	399	92 000	-	-	92 000	(1 051)
EXPENSES								
Staff salaries and employment benefits	79 579	73 683	337	74 020	3 758	557	78 335	(1 243)
Supplies, consumables and others	408	359	3	362	5		367	(41)
General operating expenses	16 904	13 619	35	13 654	1 446		15 100	(1 803)
Travel	4 624	4 508	13	4 521			4 521	(104)
Meetings	1 246	1 049	7	1 056	3		1 059	(186)
Other expenses	488	371	4	375			375	(113)
Currency exchange difference		184		184			184	184
	103 248	93 773	399	94 172	5 212	557	99 941	(3 307)

¹2012 Budget-Expenses include carry over (and commitments) from prior year of \$10,196 thousand.

²From Table A, Financial Statements

³Includes Budget Exchange loss of \$0.4 million due to impact of US dollar transactions budgeted at USD1.00=CAD1.038

⁴From Statement V, Financial Statements: appropriation (budget) decreased due to difference in AOSC reimbursement.

3.10 **Explanation of Differences – Revenues.** The overall budget of CAD 93 051 thousand (column (a) above) refers to the five main funding sources of the Regular Programme Budget for 2012: Assessed Contributions, ARGF Surplus, Miscellaneous Income, Reimbursement from AOSC Fund and Transfer from Incentive Scheme for Long-Outstanding Arrears account. For the *Assessed Contributions*, the difference of CAD 0.3 million pertains to the discounted amount of the long-term contributions receivable. For *Miscellaneous Revenue*, the lower receipt of CAD 0.8 million than expected was mainly due to continuing low interest rates which resulted to a much lower interest income earned.

3.11 **Explanation of Differences – Expenses.** The overall budget of CAD 103 248 thousand (Figure 1, column (a)) includes the 2012 original appropriations of CAD 93 052 thousand and carried over from 2011 of CAD 10 196 thousand. Savings (unutilized appropriations) from 2012 will be carried over to 2013.

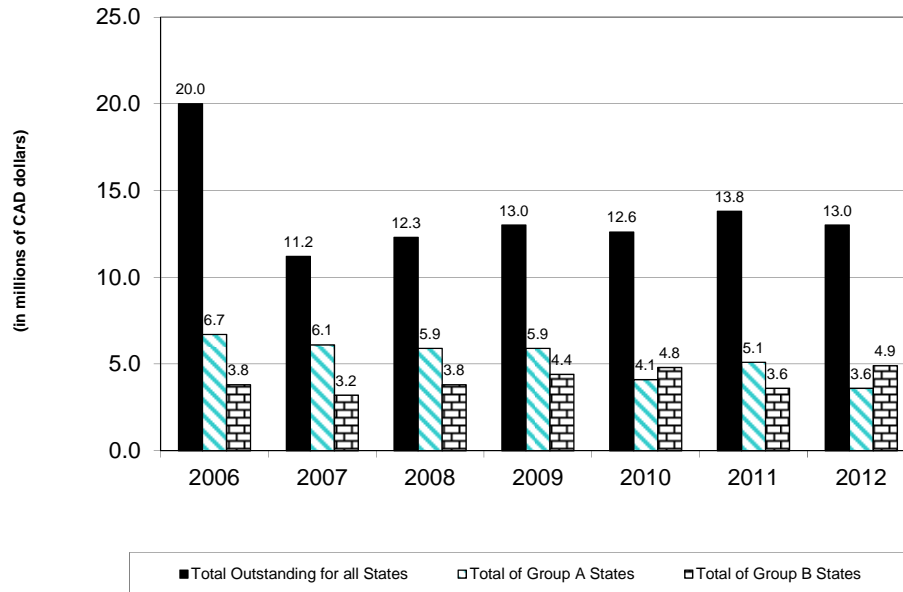
3.12 **Budget Exchange.** Since 2010, Member States are being invoiced partly in USD and partly in CAD. The USD/CAD exchange rate on 1 January 2012 (the date when invoices were raised in USD) was lower than the rate used in developing the 2012 budget causing a reduction to total assessed contributions of CAD 399 thousand (Figure 1 column (c)). This difference has been allocated to actual expenditure in order to restate it to the budget exchange rate. The total expenditure restated at the budget rate is shown in Figure 1, column (d)). In this manner, the budgetary savings i.e. difference between budget and actual expenses, have been appropriately adjusted (reduced), as shown in Figure 1, column (h)).

Assessment and Reporting Currencies

3.13 Assessments on Member States and other estimated sources of revenue were established in Canadian dollars for 2008 and for 2009. In 2010 a split assessment was introduced with about three quarters payable in Canadian dollars and one quarter payable in U.S. dollars. To ensure consistency and comparability between the approved budgets and the Accounts and Funds of the Organization, transactions are reflected in Canadian dollars and the financial statements are presented in Canadian dollars from 2008 onwards. This change is applicable to most of the Funds of the Organization for regular activities presented in Segment 1, while Funds presented in Segment 2 related to Technical Co-operation Projects (TCP) are recorded in U.S. dollars, but presented in Canadian dollars in the financial statements. During 2012 the fluctuation of the Canadian dollar against the U.S. dollar was CAD 1.024 at the beginning of the year and CAD 0.993 at the end of the year.

Assessments and Other Voluntary Contributions

3.14 During the year 2012 assessments totalling CAD 80 186 thousand were received and a balance of CAD 3 721 thousand remained outstanding at the year-end against the current year's assessments. At the beginning of the year, CAD 13 784 thousand was receivable from States in respect to 2011 and prior years; payment of CAD 4 504 thousand was received, leaving a balance outstanding of CAD 9 280 thousand. The assessments receivable for all years totalled CAD 13 001 thousand as at 31 December 2012 (including the Working Capital Fund). Details are provided in Table C of Part III to this document. The percentage of receipts of contributions for the last four years in relation to the amount assessed averaged 95 per cent. Figure 2 shows the status of the assessed contributions receivable at the end of each year since 2006.

FIGURE 2**Assessments Receivable from Member States as at 31 December**

3.15 Of the total outstanding contributions of CAD 13 001 thousand at 31 December 2012 (CAD 12 996 thousand excluding the Working Capital Fund), CAD 218 thousand pertained to States represented on the Council. The following figure provides detail of the assessments receivable in thousands of CAD, by group of States.

FIGURE 3

	<u>Number of States</u> <u>2012</u>	<u>Amount outstanding as at 31 December</u> <u>2012</u>	<u>Number of States</u> <u>2011</u>	<u>Amount outstanding as at 31 December</u> <u>2011</u>
Group A: States that have concluded agreements with the Council to liquidate their arrears over a period of years	14	3 644	17	5 096
Group B: States with contributions in arrears of three full years or more that have not concluded agreements with the Council to liquidate their arrears	14	4 890	11	3 652
Group C: States with contributions in arrears for less than three full years	28	3 341	33	3 079
Group D: States with contributions outstanding only for the current year	20	625	26	1 456
Sub-total	76	12 500	87	13 283
The Former Socialist Federal Republic of Yugoslavia	-	501	-	501
Total Outstanding Contributions	76	13 001	87	13 784

3.16 As at 31 December 2012, 14 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 year's arrears. The note on Table C of Part IV to this document, indicates the States that had not complied with the terms of their agreements at 31 December 2012.

3.17 Major contributions (*) received for the Regular Programme and other Funds in Segment 1 for 2012 are summarized in thousands of CAD below.

FIGURE 4

Member State	<u>Assessment Received</u>	<u>Contributions In-Kind (Premises)</u>	<u>Contributions in Cash and In Kind AVSEC</u>	<u>Total</u>
Canada	2 138	21 528	725	24 391
United States	20 964	-	1 397	22 361
Japan	7 614	-	264	7 878
Germany	5 501	-	5	5 506
France	4 126	664	370	5 160
United Kingdom	4 763	-	159	4 922
China	3 405	-	38	3 443
Italy	2 952	-	-	2 952
Spain	2 071	-	9	2 080
Republic of Korea	2 021	-	-	2 021
Thailand	419	1 307	10	1 736
Netherlands	1 551	-	-	1 551
Total	<u>57 525</u>	<u>23 499</u>	<u>2 977</u>	<u>84 001</u>

(*) Twelve highest contributions

3.18 Total expenses in 2012, including those for seconded staff and premises provided without charge, by Strategic Objective and Strategic Implementation Strategy (SIS) and for other activities are shown in thousands of CAD below:

FIGURE 5

	<u>Safety</u>	<u>Security</u>	<u>Environment</u>	<u>SIS</u>	<u>Other</u>	<u>Total</u>
Regular Budget	27 041	11 538	11 305	43 889	-	93 773
Voluntary Funds	1 530	4 153	231	17 338	4 459	27 711
Premises	-	-	-	24 198	-	24 198
Seconded Staff (in-kind) (1)						
Canada	-	289	-	-	-	289
China	734	38	-	598	-	1 370
Colombia	181	3	-	-	-	184
France	398	370	-	264	-	1 032
Germany	94	5	125	-	-	224
Italy	-	-	-	207	-	207
Saudi Arabia	47	9	-	113	-	169
Singapore	511	201	-	-	-	712
Sweden	94	-	-	-	-	94
United States	-	85	-	-	-	85
Others	437	497	-	507	-	1 441
Sub-total Seconded Staff	<u>2 496</u>	<u>1 497</u>	<u>125</u>	<u>1 689</u>	<u>0</u>	<u>5 807</u>
Total Expenses	<u>31 067</u>	<u>17 188</u>	<u>11 661</u>	<u>87 114</u>	<u>4 459</u>	<u>151 489</u>

(1): 10 highest contributions by alphabetical order

Cash Surplus

3.19 The cumulative surplus excluding reserves in Net Assets for the Regular Programme Budget at 31 December 2012 reflected in Table A of Part IV to this document amounted to CAD 10.4 million. Cumulative surplus less the Working Capital Fund balance of CAD 6.0 million and assessments receivable from Member States of CAD 13.0 million resulted in a cash deficit of CAD 8.6 million at 31 December 2012, noting that an amount of CAD 8.5 million is recorded as a reserved surplus to finance 2012 outstanding commitments and appropriations carried over to 2013.

Ancillary Revenue Generation Fund (ARGF)

3.20 The surplus achieved by ARGF in 2012 is CAD 3 966 thousand. This is before payment of the required contribution of CAD 4 688 thousand to the Regular Programme and payment of CAD 977 thousand made from the cumulative surplus to further finance regular activities including the E-Commerce platform development.

3.21 A summary of the ARGF revenue and expenses by business activities for 2012 in thousands of CAD is as follows:

FIGURE 6

	Revenue	Expense	Surplus
Publications, Distribution & Printing (including Dangerous Goods Licensing)	7 696	3 588	4 108
Delegation & Conference Services & Rental & Other Activities	2 776	2 544	232
Events & Symposia	1 429	595	834
Training	817	772	45
Periodicals	655	700	(45)
Licensing Agreements & Partnerships in Statistics	493	325	168
Websites	368	230	138
ARGF Governance	65	1 579	(1 514)
Sub-total	14 299	10 333	3 966
ARGF Inter-billing Elimination	(216)	(216)	-
Total	14 083	10 117	3 966
Amount Transferred to Regular Programme	-	4 688	(4 688)
Payments made from cumulative surplus	-	977	(977)
Net	14 083	15 782	(1 699)

3.22 A budgetary comparison before contribution to the Regular Programme and payments made from the cumulative surplus is presented in the figure below in thousands of CAD.

FIGURE 7

	Actual	Budget	Variance
Revenue	14 083	16 713	(2 630)
Expense	10 117	11 649	1 532
Surplus	3 966	5 064	(1 098)

3.23 Loss due to the declining sales of printed publications and absence of new revenues as well as the continued unfavourable USD/CAD exchange in 2012 are the main reasons ARGF has only achieved 84 per cent of its budgeted revenue and 78 per cent of its budgeted surplus.

Administrative and Operational Services Cost Fund (AOSC)

3.24 The AOSC Fund is established to meet the cost of administration and operation of the Technical Co-operation Programme (TCP), and is primarily financed from support costs charged UNDP, CAPS, Trust Fund and MSA projects. The financial results for the AOSC Fund are reported in Table A of Part IV to this document. A budgetary comparison is presented in the following figure in thousands of CAD.

FIGURE 8

AOSC Fund Budget and Expenditures for 2012¹

	Submitted to the Assembly ²	Revised Budget 2012 ³	Actual Expenditure/ Income 2012	Balance of Revised Budget
Appropriation/Expenditure				
Major Programme	10 978	<u>7 875</u>	<u>7 499</u>	<u>376</u>
Income		<u>7 976</u>	<u>8 732</u>	
Excess/(Deficit) of Income over Expenditure		<u>101</u>	<u>1 233</u>	

¹ Excludes TCB Efficiency and Effectiveness Fund.

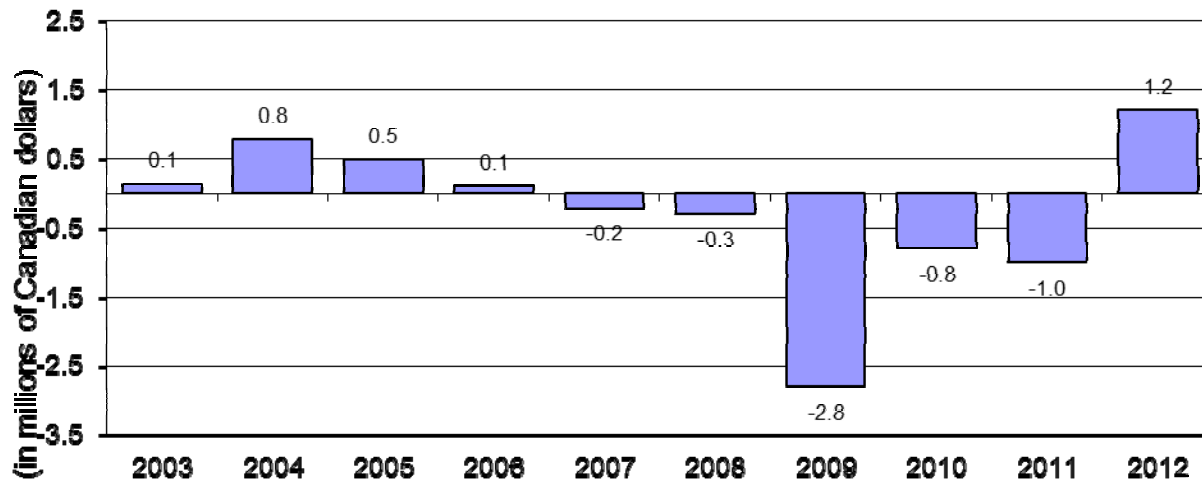
² Approved by the Assembly in 2010 (A37).

³ Noted by the Council at its 197th Session (C-WP/13883).

3.25 As indicated above, the Assembly approved the Indicative Budget Estimates (expenditure) of the AOSC Fund amounting to CAD 10 978 thousand for the financial year 2012. During the year, pursuant to Financial Regulation 9.5, the Secretary General submitted to the Council an update of the 2012 Budget Estimates (expenditure) in C-WP/13883. The revised estimated expenditures for 2012 amounted to CAD 7 875 thousand and the estimated income to CAD 7 976 thousand.

3.26 There is an excess of CAD 0.8 million in AOSC income versus budget mainly because of the slight increase in the average support cost rate applied on implementation of USD 130.9 million in TC projects in 2012. On the expenditure side, staff costs savings amount to CAD 0.4 million resulting in a total positive variance of CAD 1.2 million in income and expenditures

3.27 The following figure reports on the trend in the annual excess (shortfall) over the last ten years in millions of CAD.

FIGURE 9**AOSC Fund Surplus and Shortfall as at 31 December**

3.28 During the 37th Session of the Assembly, the Administrative Commission recommended that the question of sharing costs between the Regular Programme and the Technical Co-operation Programme be reported to the Council for review. The Council has considered this issue and based on a time survey, approved the amount of CAD 1 202 117 to be recovered annually by the Regular Programme from the AOSC Fund for Regular Programme Support directly related to projects for the remainder of the 2011-2013 triennium (i.e. 2012 and 2013).

3.29 **Technical Co-operation Programme.** The Technical Co-operation Bureau (TCB) manages the Technical Co-operation (TC) Programme, a permanent priority activity of ICAO which complements the role of the Regular Programme by supporting Member States in their implementation of ICAO regulations, policies and procedures as stated in Assembly Resolution A 36-17. Through this Programme, ICAO provides a broad spectrum of services, including assistance to States in the review of the structure and organization of national civil aviation institutions, updating the infrastructure and services of airports, facilitating technology transfer and capacity building, promoting ICAO Standards and Recommended Practices (SARPs), Air Navigation Plans (ANPs) and supporting remedial action resulting from the Universal Safety Oversight Audit Programme (USOAP) and the Universal Security Audit Programme (USAP) audits.

3.30 ICAO took steps aimed at increasing TCB's efficiency and quality of services, operational and financial controls and to improve the Bureau's working methodologies aligned with ICAO's Strategic Objectives. Commencing in 2011, TCB implemented ISO 9001 certification in its Procurement Section with its Field Operations Section and Business Support Unit in the process of being certified in 2013. The improved processes have contributed to the considerable progress in the TC Programme performance and the AOSC fund's results 2012. The whole bureau is expected to be fully certified by year 2014.

3.31 A Management Plan for TCB has been prepared in close co-ordination with the Technical Co-operation Committee, for the years 2012 to 2014, setting the goals and strategies to be followed during this period with the aim at improving the governance, efficiency and quality of ICAO Technical Co-operation Programme activities. Consequently, continued efforts are being undertaken to ensure the sustained improvement of the AOSC financial situation through a review of the TCB organizational structure, staffing levels, cost savings and efficiency measures.

3.32 Technical co-operation projects represent one of the main activities of the Organization. Projects are financed by governments and other donors and the inflows and outflows of financial resources totalled CAD 105.4 million in 2012. Tables D to F in Part IV of this document provide more detail on these projects, summarized by the following figures in millions of CAD.

FIGURE 10

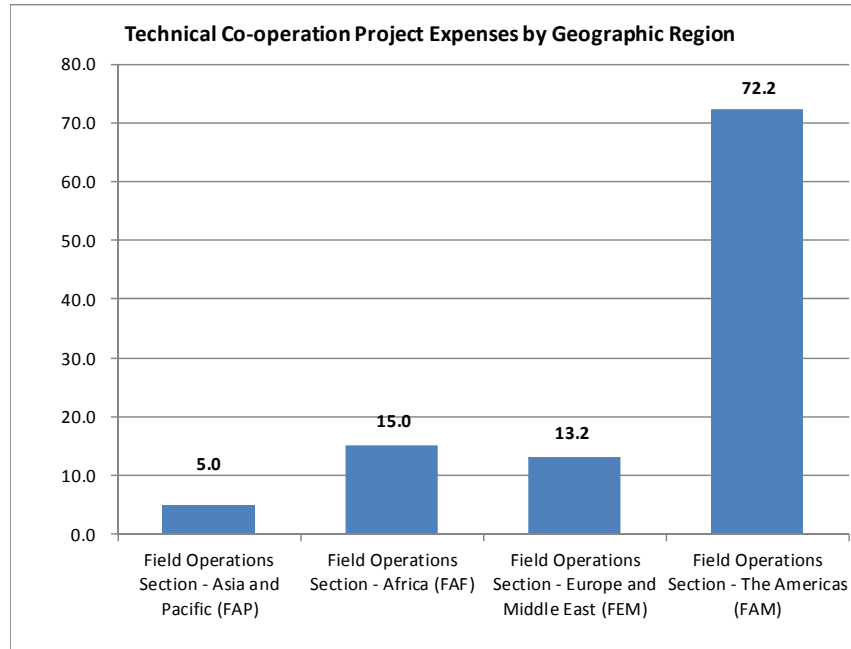
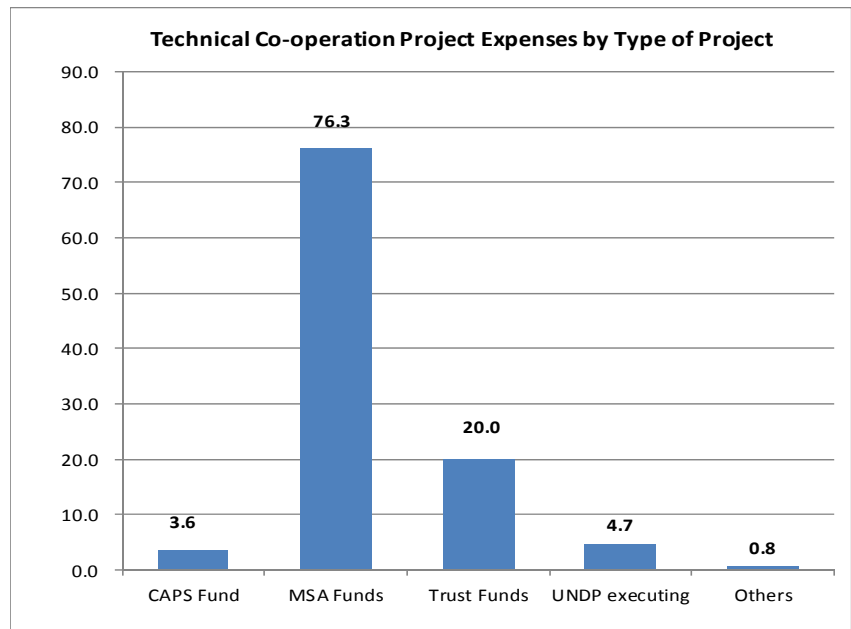


FIGURE 11



4. RESPONSIBILITY OF MANAGEMENT

The Secretary General is required by the Financial Regulations to maintain such accounting records as are necessary and to submit annual financial statements in accordance with the accounting standards adopted by the United Nations organizations. These financial statements are: Statement I – Statement of Financial Position, Statement II – Statement of Financial Performance, Statement III – Statement of Changes in Net Assets, Statement IV – Statement of Cash Flow and Statement V – Statement of Comparison of Budget and Actual Amounts. The status of appropriations (Regular Programme General Fund) and credits not budgeted for by the Assembly are reflected in this document.

Management is responsible for the preparation and integrity of the Financial Statements. These statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS), and necessarily include certain amounts that are based on management's best estimate and judgement. Financial information contained throughout this document is consistent with that in the audited financial statements. Management considers that the financial statements present fairly the financial position of the Organization, its financial performance and its cash flows and the information disclosed in this document is presented in accordance with the provisions of the ICAO Financial Regulations.

To fulfil its responsibility, the Organization maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to both internal and external audit. The External Auditor has audited the Financial Statements, including Notes, and his accompanying report indicates the scope of his audit and his opinion on the Financial Statements.

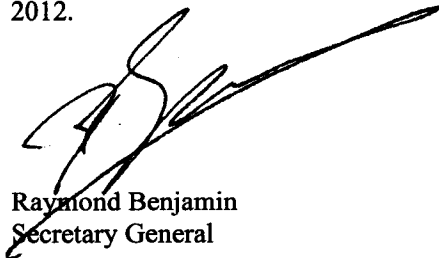
The Council has the responsibility to consider and to recommend the Financial Statements to the Assembly for approval and has the power to request amendments to these statements after issuance by the Secretary General.

As Chief, Finance Branch of the International Civil Aviation Organization, I hereby certify the Financial Statements included in this document.



Rahul Bhalla
Chief, Finance Branch

As the Secretary General of the International Civil Aviation Organization, I hereby approve and submit this financial report of ICAO, accompanied by the Financial Statements and Tables for the year 2012.



Raymond Benjamin
Secretary General

Montreal, Canada
29 March 2013

PART II: OPINION OF THE EXTERNAL AUDITOR

Cour des comptes

Le Premier président

Paris,

29 MARS 2013

To the Assembly of
the International Civil Aviation Organization

AUDIT OPINION

We have audited the financial statements of the International Civil Aviation Organisation (ICAO), for the 12 month period ended December 31st, 2012. These financial statements include a statement of financial position at December 31st, 2012, a statement of financial performance, a statement of changes in net assets, a statement of cash flow, a statement of comparison of budget and actual amounts for the period ended December 31st, 2012 and notes including a summary of the accounting principles and other information.

Within the general framework of Article 61 of the Chicago Convention and by virtue of Article XII of the ICAO Financial Regulations, the Secretary General of the ICAO is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector Accounting Standards (IPSAS). This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of financial statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

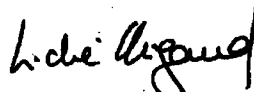
Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing (ISA). These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the financial statements are free from material misstatements.

An audit consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The design of the audit procedures is based on the external auditor's professional judgment, as well as the risk evaluation that the financial statements include significant misstatements, resulting either from frauds or errors. In the context of this risk evaluation, the auditor considers the internal control in place for the preparation and presentation of the financial statements, in order to design appropriate audit procedures and not in order to express any opinion on the internal control. An audit also consists in evaluating that the accounting method applied and the presentation of the financial statements are appropriate and that the significant accounting estimates are reasonable.

.../

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Based on our audit, the financial statements give a fair view of the financial position of the ICAO at December 31st, 2012, as well as the financial performance, the cash flow and the comparison of budget and actual amounts for the 12 month period ended December 31st, 2012 in conformity with the IPSAS.



Didier MIGAUB

PART III: FINANCIAL STATEMENTS

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT I

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

(in thousands of Canadian dollars)

	Notes	2012	2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2.1	246 379	193 393
Assessed contributions receivable from Member States	2.2	4 725	5 761
Receivables and advances	2.3	13 408	11 053
Inventories	2.4	1 121	952
Others	2.3	2 065	1 936
		267 698	213 095
NON-CURRENT ASSETS			
Assessed contributions receivable from Member States	2.2	6 116	5 581
Receivables and advances	2.3	464	496
Property, plant and equipment	2.5	3 726	3 046
Intangible assets	2.6	1 193	958
		11 499	10 081
TOTAL ASSETS		279 197	223 176
LIABILITIES			
CURRENT LIABILITIES			
Advanced receipts	2.8	208 828	149 559
Accounts payable and accrued liabilities	2.9	18 720	19 354
Employee benefits	2.10	4 669	4 060
Credits to contracting/servicing governments	2.11	1 608	1 397
		233 825	174 370
NON-CURRENT LIABILITIES			
Employee benefits	2.10	90 217	78 817
		90 217	78 817
TOTAL LIABILITIES		324 042	253 187
NET ASSETS			
Accumulated deficit	2.12	(48 487)	(43 659)
Reserves	2.12	3 642	13 648
NET ASSETS (ACCUMULATED DEFICIT)		(44 845)	(30 011)
TOTAL LIABILITIES AND NET ASSETS		279 197	223 176

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Canadian dollars)

	Notes	2012	2011
REVENUE			
Contributions for project agreements	3.2	105 132	104 776
Assessed contributions	3.2	84 205	80 657
Other revenue producing activities	3.2	13 133	13 401
Other voluntary contributions		6 755	8 339
Administrative fee revenue		211	16
Other revenue	3.2	2 014	3 144
TOTAL REVENUE		211 450	210 333
EXPENSES			
Staff salaries and employee benefits	3.3	133 575	126 016
Supplies, consumables and others	3.3	53 579	63 133
General operating expenses	3.3	17 189	16 989
Travel	3.3	8 657	8 442
Meetings		1 162	865
Training		2 553	1 020
Other expenses	3.3	2 241	1 498
TOTAL EXPENSES		218 956	217 963
DEFICIT FOR THE YEAR		(7 506)	(7 630)

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT III
 STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED 31 DECEMBER 2012
 (in thousands of Canadian dollars)

	Notes	Accumulated Deficit	Reserves	Net Assets (Net Accumulated Deficit)
Balance at 31 December 2011		(43 659)	13 648	(30 011)
Movements in fund balances and reserves in 2012				
Variation to carry forward balance	2.12	1 676	(1 676)	
Variation of actuarial gain/(loss)	2.10		(7 337)	(7 337)
Other reclassifications and transfers	2.12	1 002	(1 049)	(47)
Variation of translation adjustment	2.12		56	56
Deficit of the year		(7 506)		(7 506)
Total movements during the year		(4 828)	(10 006)	(14 834)
Balance at 31 December 2012		(48 487)	3 642	(44 845)

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT IV
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Canadian dollars)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Deficit for the year		(7 506)	(7 630)
(Increase) decrease in contributions receivable	2.2	1 036	932
(Increase) decrease in receivables and advances	2.3	(2 355)	1 526
(Increase) decrease in inventories	2.4	(169)	35
(Increase) decrease in other assets	2.3	(130)	1 024
(Increase) decrease in non-current contributions receivable (net of discount)	2.2	(535)	(1 718)
(Increase) decrease in non-current receivables and advances	2.3	32	25
Increase (decrease) in advanced receipts	2.8	59 270	(13 964)
Increase (decrease) in accounts payable and accrued liabilities	2.9	(634)	(3 110)
Increase (decrease) in short-term employee benefits	2.10	609	(552)
Increase (decrease) in credits to contracting/servicing governments	2.11	211	(131)
Increase (decrease) in long-term employee benefits	2.10	11 400	1 917
Actuarial gain (loss) reflected in reserves	2.10	(7 337)	7 091
Interest income		(741)	(697)
Depreciation and amortization		1 006	575
Foreign currency translation adjustment		56	103
NET CASH FLOWS FROM OPERATING ACTIVITIES		54 213	(14 574)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and Intangibles	2.5 & 2.6	(1 921)	(3 789)
Interest income		741	697
NET CASH FLOWS FROM INVESTING ACTIVITIES		(1 180)	(3 092)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfers from net assets to liabilities and other transfers		(47)	144
NET CASH FLOWS FROM FINANCING ACTIVITIES		(47)	144
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		52 986	(17 522)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		193 393	210 915
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		246 379	193 393

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

III-5
INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT V
REGULAR PROGRAMME GENERAL FUND
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of Canadian Dollars)

Strategic Objective / Supporting Implementation Strategy	Appropriations								Expenditures ¹			Balance
	Original A37-26	Carry-over from Prior Year ^a	2012 Appropriations Before Transfers	2012 Outstanding Commitments ^b	Decrease in Appropriation ^c	Transfers among SO/SIS ^d	Carried over to following year ^e	2012 Appropriations Revised	Total	Budget Exchange Difference ²	At budget rate of exchange	
Safety	24 414	3 367	27 781	(1 444)		1 121	(251)	27 207	27 041	166	27 207	0
Security	13 844	712	14 556	(271)		(2 599)	(54)	11 632	11 538	94	11 632	0
Environmental Protection and Sustainable Development of Air Transport	11 892	1 256	13 148	(640)		(678)	(456)	11 374	11 305	69	11 374	0
Sub-Total	50 150	5 335	55 485	(2 355)	0	(2 156)	(761)	50 213	49 884	329	50 213	0
Programme Support	21 113	2 231	23 344	(1 397)	(256)	1 029	(834)	21 886	21 859	27	21 886	0
Management & Administration	14 770	2 193	16 963	(1 098)	(289)	1 387	(1 471)	15 492	15 459	33	15 492	0
Management & Administration - Governing Bodies	7 019	437	7 456	(362)	(12)	(260)	(241)	6 581	6 571	10	6 581	0
Sub-Total	42 902	4 861	47 763	(2 857)	(557)	2 156	(2 546)	43 959	43 889	70	43 959	0
Total	93 052	10 196	103 248	(5 212)	(557)	0	(3 307)	94 172	93 773	399	94 172	0

^a Approved by the Secretary General. Financial Regulations 5.6 and 5.7.

^b Approved by the Secretary General, Fin. Regulation 5.7.

^c Approved by Council to reimburse Regular Programme \$1.2 million instead of \$1.7 million (C-DEC197/2)

^d Approved by the Secretary General, Fin. Regulation 5.9.

^e Approved by the Secretary General, Fin. Regulation 5.6.

¹ Expenditures other than Canadian dollars are reflected at the UN rate of Exchange and include currency exchange differences such as the revaluation of balance sheet items.

² Budget exchange difference due to impact of US dollar transactions budgeted at USD1.00 = CAD 1.038

Material differences between 2012 Appropriations before Transfers and Total Expenditures are explained in the Presentation by the Secretary General.

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION
Notes to the Financial Statements
31 December 2012

NOTE 1: ACCOUNTING POLICIES**Basis of Preparation**

1. The financial statements of the International Civil Aviation Organization (ICAO) have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS). These standards have been applied since 1 January 2010.
2. As permitted on the initial adoption of IPSAS, transitional provisions have been used for the initial recognition of property, plant and equipment (PP&E) (IPSAS 17) including those under finance leases acquired before 1 January 2010. These assets are not reflected on the face of the financial statements, but in the Notes to the Financial Statements for information purposes.
3. The following Accounting Standards on Financial Instruments have been adopted prior to their required implementation date: Presentation (IPSAS 28), Recognition and Measurement (IPSAS 29) and Disclosures (IPSAS 30). ICAO was not required to adopt these standards since their effective date falls in 2013. Nonetheless, these standards were applied prior to their effective date for increased accountability. The IPSAS Board, the body that issues IPSAS, encourages early adoption of these standards.
4. Except as otherwise stated in these statements, the measurement basis used in preparing the financial statements is the amortized cost.
5. The Cash Flow Statement (Statement IV) is prepared using the indirect method.
6. The reporting currency of ICAO is the Canadian dollar (CAD). The functional currency of ICAO regular activities is the CAD. The functional currency of the Technical Cooperation Projects (TCP) is the United States dollar (USD) because these activities are generally carried out in USD. Transactions in currencies other than CAD, and other than the USD for TCP, are translated at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Monetary assets and liabilities in currencies other than CAD, and other than USD for the TCP, are translated at the prevailing UNORE at year-end closing rate, which reasonably approximates the spot rate. Resulting gains or losses are accounted for in the Statement of Financial Performance except for differences arising from the translation of TCP activities into CAD for financial statement presentation purposes which are reflected in Reserves in the Statement of Financial Position.

Cash and Cash Equivalents

7. Cash and cash equivalents comprise cash on hand, cash at banks and short-term deposits.
8. Interest revenue is recognized as it accrues, taking into account the effective yield.

Financial Instruments

9. Financial instruments are recognized when ICAO becomes a party to the contractual provisions of the instrument until such time as when the rights (or the obligation) to receive (to pay) cash flows from those assets (liabilities) have expired or have been transferred (settled).
10. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Receivables include contributions receivable in cash and other receivables. Long term receivables, including assessments receivable, are stated at amortized cost using the effective interest method.

11. Except for assessed contributions received in advance, all liabilities are derived from exchange transactions. All non-derivative financial liabilities are recognized initially at fair value and, when applicable, subsequently measured at amortized cost using the effective interest method.

Inventories

12. Publications and Commissariat items on hand at the end of the financial period are recorded as inventories. Publications are valued at the lower of cost and current replacement cost and commissariat inventory is valued at the lower of cost and net realizable value.
13. The cost of publications includes purchase cost and all other costs incurred in bringing the publications to a saleable or distributable state. The cost of Commissariat items represents the purchase price. Cost is determined on the weighted average basis.
14. Publications and other documents for internal use are expensed when produced.

Receivables and Revenue

15. Assessed contributions represent a legal obligation of Member States. These contributions are revenue from non-exchange transactions recognized at the beginning of the year for which the assessments are levied. Contributions for TCP activities are revenue from exchange transactions recognized on the basis of signed agreements between ICAO and contributors and are determined by the stage of completion based on the delivery of goods or rendering of services, which ICAO may in some instances consider best estimated by the phased schedule of payments related to applicable contracts for the projects. Other voluntary contributions are generally non-exchange transactions recognized as revenue when confirmed in writing by donors, or otherwise when received.
16. Administrative fees recovered on Technical Co-operation projects are presented as revenue in the Administrative and Operational Services Cost (AOSC) Fund and as expenses in the respective projects. In accordance with IPSAS, revenue from administrative fees generated by TC projects is recognized based on the stage of completion. The stage of completion is estimated as follows:
 - Ninety per cent of the fee is progressively recognized until and when a purchase order for equipment is issued and the remaining 10 per cent is recognized upon delivery; and
 - For services, the administrative fee is recognized on the basis of cost incurred.
17. A new arrangement for sharing of interest income was introduced in 2011 under which ICAO retains fifty per cent of interest earned from deposit of project funds with an average monthly weighted balance in excess of USD 100 thousand.
18. Other revenues are exchange transactions and balances receivable are presented in receivables and advances.
19. Contributions receivable are shown net of allowances related to reductions in contribution revenue, doubtful accounts and amortization (discount):
 - allowance for reductions in voluntary contribution revenue are reductions of contributions receivable and revenue when the funding is no longer needed by the project to which the contributions was directed or is otherwise unavailable;
 - allowance for doubtful accounts on assessed contributions is based on historical experience and on events that would indicate that a Member State is not capable of discharging its obligation; and

- discounted long-term contributions receivable represent the outstanding balance of assessed contributions for which States have concluded agreements to liquidate their arrears over a period of years. Discounting is also applied to a number of other long outstanding contributions considering the probability that such agreements will be concluded to liquidate arrears. These receivables are stated at amortized (discounted) cost using the effective interest method and are therefore presented net of the cumulative discount.
20. In-kind contributions are presented at fair value. Donated goods that directly support approved operations and activities and can be reliably measured are recognized in the accounts. Services provided without charges are not recognized in the accounts, but are presented in the Notes to the Financial Statements for information purposes. These contributions include use of premises, transport and personnel.

Property, Plant and Equipment

21. PP&E are stated at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided for PP&E over their estimated useful life using the straight line method, except for land which is not subject to depreciation. The estimated useful life for PP&E classes is as follows:

<u>Classes</u>	<u>Estimated Useful Life (Years)</u>
Buildings	5-50
Information Technology (IT)	3-5
Furniture, Fixtures and Fittings	5-12
Machinery and Office Equipment	3-7
Motor Vehicles	3-10

22. Property, plant and equipment are capitalized if their cost is greater or equal to the threshold limit set at CAD 3 thousand and CAD 25 thousand in the case of leasehold improvements. The threshold level is reviewed periodically. Leasehold improvements are valued at cost and depreciated over the lesser of the remaining useful life of the improvements or the lease term.
23. Impairment reviews are undertaken for all PP&E at least annually and any impairment losses are recognized in the Statement of Financial Performance. Impairment indicators include the obsolescence and deterioration of PP&E as well as the cash flow generated by PP&E utilized to generate revenue from a commercial activity.

Intangible Assets

24. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses. Intangible asset recognition requires meeting strict criteria with respect to being identifiable, being under ICAO's control and contributing future economic benefits or service potential which can be reliably measured. Remaining useful life is also a consideration. Specific criteria were also developed to exclude items acquired below a cost of CAD 5 thousand, and CAD 25 thousand for internally developed assets due to the difficulty to measure with precision internal operational and research costs to be expensed and development costs to be capitalized. As permitted under IPSAS 31, this standard has been applied prospectively effective 1 January 2010.
25. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life for intangible asset classes is as follows:

<u>Class</u>	<u>Estimated Useful Life (Years)</u>
Software Acquired Externally	3-6
Software Internally Developed	3-6
Licenses and Rights and Other Intangibles	2-6
Copyrights	3-10

26. Licenses, rights and copyrights are amortized over the licenses, rights and copyrights periods.
27. Impairment indicators include the obsolescence and the deterioration of intangibles as well as the cash flow generated by intangibles when utilized to generate revenue from a commercial activity.

Advanced Receipts

28. Voluntary contributions received before the implementation of technical co-operation projects are recorded as advanced receipts. Revenue is recognized when contributors' requirements are fulfilled, generally when services are rendered by ICAO or when goods are delivered to the project in accordance with the terms of the agreement between contributors and the Organization.
29. Balances of unutilized contributions to be remitted to contributors and funds received before services are rendered or goods delivered by ICAO to third parties are included in advanced receipts.
30. Assessments received from Member States before the year to which they relate are presented under advanced receipts.

Employee Benefits

31. ICAO recognizes the following categories of employee benefits:
 - short-term employee benefits due to be settled within twelve months after the end of the accounting period in which employees render the related service;
 - post-employment benefits, such as after-service health insurance benefits;
 - other long-term employee benefits; and
 - termination benefits.
32. ICAO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.
33. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. ICAO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify ICAO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence ICAO has treated this plan as if it were a defined

contribution plan in line with the requirements of IPSAS 25. ICAO's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

34. ICAO recognizes actuarial gains and losses related to after-service health insurance benefits (ASHI) in a reserve account. Under IPSAS 25, actuarial gains or losses for post-employment benefits may be recognized over time using the reserve approach. Under the reserve approach, actuarial gains/losses are presented under Net Assets and not recognized as revenue or expense so as to consider the reasonable possibility that gains/losses will be revised over time. For other separation-related benefits, such as annual leave and repatriation benefits, actuarial gains and losses are recognized immediately and reflected in the Statement of Financial Performance.

Provisions and Contingent Liabilities

35. Provisions are made for future liabilities and charges where ICAO has a present legal or constructive obligation as a result of past events, when it is probable that ICAO will be required to settle the obligation and when the amount can be reliably estimated.
36. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of ICAO.

Segment Reporting and Fund Accounting

37. A segment is a distinguishable group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. ICAO classifies all projects, operations and fund activities into two segments: i) Regular activities and ii) Technical Cooperation Project activities. ICAO reports on the transactions of each segment during the financial period, and the balances held at the end of the period. Inter-segment charges are based on project agreements.
38. A fund is a self-balancing accounting entity established to account for the transactions relating to a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the year the consolidated position of all ICAO's funds. Fund balances represent the accumulated residual of revenue and expenditures.
39. **The Regular Activities segment** includes the General Fund and the Working Capital Fund of the Regular Programme, special accounts and funds administered for aviation safety, security, environmental and other supporting activities of the Organization. Unutilized appropriations voted for the Regular Programme Budget of the General Fund may be brought forward to the following financial year under certain conditions. Specific funds and special accounts are established by the Assembly or Council under Financial Regulation 7.1 mainly for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period. The main funding sources of this segment are assessed contributions, revenue producing activities, other voluntary contributions and administrative fees.
40. **The Regular Activities segment** includes the following Funds or groups of Funds:
 - **The Regular Budget Fund** comprises the **General Fund** financed by assessed contributions from Member States according to the scale of assessments determined by the Assembly, by miscellaneous income, by the Ancillary Revenue Generation Fund (ARGF) surplus, and by any advances made from the **Working Capital Fund**, established by the Assembly for the purpose of making (repayable) advances as necessary to the General Fund to finance

budgetary appropriations pending receipt of contributions from Member States and to other Funds in specific cases.

- **Capital Fund** established for the purpose of recording the acquisitions of property, plant and equipment and intangible assets for the regular activities.
- **Revolving Fund** established for the purpose of recording the transactions relating to After-Service Health Insurance (ASHI) including unfunded liabilities and other specific liabilities in order to present these transactions separately within the Regular Activities segment.
- **Ancillary Revenue Generation Fund (ARGF)** established to hold revenue generating and cost recovery activities in one Fund. Special Accounts and Funds within the ARGF are established by the Secretary General under Financial Regulation 7.2 to record all revenues and expenditures relating to self-financing activities. Any surplus not projected to be committed or expensed may be transferred to the General Fund and the balances may be brought forward to the succeeding financial period. The main funding sources of this segment are the sales of publications, data and services.
- **Administrative and Operational Services Cost (AOSC) Fund** established under Financial Regulation 9.4. The AOSC Fund recovers the costs of administration, operation and support of TC projects. In the event that the AOSC operation in any given year ends in a financial deficit, such deficit is first to be met from the accumulated surplus of the AOSC Fund and, as a last resort, from the Regular Programme Budget. The AOSC Fund is primarily financed from administrative overhead charges to Technical Co-operation projects including UNDP projects.
- **Aviation Security (AVSEC) Plan of Action (ASPA)** which includes earmarked funds as well as Special Accounts/Funds established to reflect Council approval of the Aviation Security Plan of Action (ASPA), comprising projects to be financed from funds within the Aviation Security Trust Funds. Activities relating to the ASPA projects are funded from general and earmarked contributions and by services in kind as indicated in Note 3.1.
- **The Comprehensive Regional Implementation Plan for Aviation Safety in Africa (AFI Plan)** established to increase ICAO leadership and accountability in programme coordination and management across the AFI Region and to ensure effective implementation to rectify safety and infrastructure deficiencies.
- **The Joint Finance Funds comprise Danish and Icelandic Joint Financing Agreements**, which reflect the transactions of the Funds established to report on ICAO supervision of the operation of air navigation services provided by the Government of Iceland, and in Greenland by the Government of Denmark, the costs of which are recovered by the service providers through user charges and assessments on Contracting governments. User charges are collected by the United Kingdom and are due and directly remitted to the Governments of Iceland and Denmark. Assessments are levied and collected by ICAO for remittance to the servicing governments. Therefore, these transactions are reflected in the accounts as assets and liabilities in the Statement of Financial Position. Also included is the **North Atlantic Height Monitoring System Fund (HMU)** to account for the financial transactions made under the provisions of the Arrangement on the Joint Financing of a North Atlantic Height Monitoring System. The operation and maintenance costs are recovered by the service providers through user charges on civil aircraft making crossings over the North Atlantic. User charges collected by ICAO are directly payable to service providers and are therefore reflected as assets and liabilities in the accounts.
- **Incentive for the Settlement of Long-outstanding Arrears Account** established to present in a separate account a portion of a payment of certain assessments in arrears from Contracting States to finance particular activities of the Organization.

- **Information and Communication Technology (ICT) Fund** established to finance improvements to information and communication systems of the Organization.
 - **Public Key Directory Fund (PKD)**, a cost-recovery fund, established by the Council to report on the activities of a project to support interoperability of electronic-enhanced machine readable passports. The operations are financed by voluntary contributions and, in accordance with the agreement, the balance of the Fund is recorded as an amount due to the participating States.
 - **Safety Fund (SAFE)**, established by the Council with the objective of improving the safety of civil aviation through the use of a performance-based approach which will limit administrative costs and will not impose any costs on the Regular Programme Budget of the Organization, while ensuring that voluntary contributions to the fund are used in a responsible, useful and timely manner.
 - **Temporary Staff Salaries Fund (TSSF)** set up to refinance the posts which were initially cut in the Triennium Budget 2008 – 2010.
 - **Other Funds.** The Administrative Fee for Joint Financing, the Universal Safety Oversight Audit Programme Fund, the Environmental Fund, the International Registry Fund and France Co-operation Fund and other Funds or special accounts are included in other Funds.
 - Under an agreement with the **European Civil Aviation Conference (ECAC)**, composed of a number of ICAO's Members States, ICAO provides certain secretariat services. Disbursements are financed initially from ECAC's revenue collected by ICAO and, when necessary from the General Fund of the Regular Programme funds, which are reimbursed to ICAO. The net amount receivable or payable for all transactions effected on ECAC's behalf is included in the amount due from or payable to regional bodies.
41. **The Technical Co-operation Project Activities segment** comprises **Technical Co-operation (TC) project funds** established by the Secretary General under Financial Regulation 9.1 to administer programmes of technical co-operation. The main funding sources of this segment are voluntary contributions for project agreements.
42. The TC projects include UNDP arrangements and projects managed under Trust Funds agreements, Management Service Agreements (MSA) and Civil Aviation Purchasing Services Agreements (CAPS). The financial transactions relating to the UNDP arrangements comply with both ICAO and UNDP directives. Trust Funds and MSAs are designed to cover a broad range of technical co-operation services and the CAPS agreements are designed to provide procurement services. ICAO also enters into Technical Co-operation agreements referred to as Lump Sum Contracts with Member States. These contracts differ from MSA and Trust Fund agreements in that they are for a short duration and for a fixed contract amount. Under or over recovery of actual expenditure is reflected in the AOSC Fund.

NOTE 2: ASSETS AND LIABILITIES

Note 2.1: Cash and Cash Equivalents

43. Funds are deposited in banks on a pooled investment basis and funds not needed for immediate requirements are invested in term deposits. Balances at 31 December are composed of:

	2012	2011
	<i>In thousands of CAD</i>	
Cash in banks	61 052	98 649
Term deposits	185 327	94 744
Total Cash and Cash Equivalents	246 379	193 393

44. As at 31 December 2012, the term deposits had an average interest rate of 0.25 per cent (0.31 per cent on 31 December 2011) and an average term maturity of 82.5 days (107 days in 2011). Cash includes USD 175 million held in investment savings accounts (USD 41 million on 31 December 2011) with an average interest rate of 0.33 per cent. Cash in banks at year end includes an amount of CAD 2 421 thousand held on behalf of ECAC.

Note 2.2: Assessed Contributions Receivable From Member States

45. The net assessed contributions receivable balances as at 31 December are composed of:

	2012	2011
	<i>In thousands of CAD</i>	
Current	4 725	5 761
Discounted non-current	6 116	5 581
Total Net Contributions Receivable	10 841	11 342

46. Current contributions receivable are for contributions that are due within twelve months while non-current contributions receivable are those that are due or foreseen to be settled after 12 months from the date of the financial statements as described in the accounting policies for Receivables and Revenue. The gross and net amounts of contributions receivable are as follows:

	2012	2011
	<i>In thousands of CAD</i>	
Assessed contributions – Regular Programme	13 001	13 784
Assessed contributions – Joint Financing Agreements	-	18
Total contributions receivable before allowances and amortization	13 001	13 802
Less:		
Allowance for doubtful accounts	(501)	(501)
Cumulative discount on long-term receivables	(1 659)	(1 959)
Total Net Contributions Receivable	10 841	11 342

47. The following table illustrates the composition of assessed contributions receivable for the Regular Programme.

Year of Assessment	2012		2011	
	<i>In thousands of CAD</i>	%	<i>In thousands of CAD</i>	%
2012	3 721	28.6	-	-
2011	2 015	15.5	4 773	34.7
2010	943	7.2	1 561	11.3
2009	748	5.8	855	6.2
2008 and earlier	5 574	42.9	6 595	47.8
Total	13 001	100.0	13 784	100.0

48. There were no movements of the allowance for doubtful accounts during 2012.

	2011	Utilization	Increase/ (Decrease)	2012
	<i>In thousands of CAD</i>			
Total allowance for doubtful accounts	501	-	-	501

The amount of CAD 501 thousand represents the full amount owing to ICAO by the former Socialist Federal Republic of Yugoslavia, the resolution of which remains under active discussion at the United Nations General Assembly where there is an expectation that successor States will cover the debt.

49. There were no write-offs of contributions receivable during 2012. An increase or decrease in the allowance for doubtful accounts represents an expense for the period and is reported in the Statement of Financial Performance.
50. There was no balance in the allowance for reductions in contribution revenue during 2012.
51. The movements of the discounted long-term contributions receivables during 2012 are as follows:

	2011	Utilization	Increase/ (Decrease)	2012
	<i>In thousands of CAD</i>			
Discounted long-term contributions receivable	5 581	235	300	6 116

52. The discount on long-term contributions receivable represents the amount which is required to adjust the receivable balance to fair value upon initial recognition. Since the non-current portions are not due to be collected for more than one year, they are discounted at an interest rate. This amount is reflected as a reduction of the long-term receivable balance. This difference is then gradually recognized as revenue over the life of the receivable. The discount is computed by applying the rate of 4.3 per cent to the scheduled future installment payments for most of Group A States and 2.4 per cent for ten of Group B States and six of Group A States that did not fully comply with their agreement.
53. The discounted long-term contributions relate to assessments receivable from States in Group A that have concluded agreements with the Council to liquidate their arrears over a period not exceeding twenty years, without interest and States in Group B without agreements with outstanding assessments exceeding five years. Utilization of CAD 235 thousand includes the reclassification of amounts in arrears as long-term and payments received during the course of the year from States which concluded agreements with ICAO. The increase of CAD 300 thousand is the discount of the long-term accounts receivable balance which has been recognized as an increase of discounted revenue for the period ended 31 December 2012. There were no new agreements entered into during the course of the year.

Note 2.3: Receivables, Advances and Other Assets

54. Receivables and advances:

	2012	2011
	<i>In thousands of CAD</i>	
Advances to employees	953	1 255
Receivables from United Nations Agencies	3 567	3 323
Others	8 888	6 475
Total:	13 408	11 053

55. Advances to employees are for education grants, rental subsidies, travel and other staff entitlements.

56. Receivables from UN Agencies are related to other international organizations, mainly United Nations organizations.

57. Other receivables include amounts due from revenue generation activities such as the sales of publications, rental of conference rooms and space to delegations.

58. The non-current portion of Receivables is composed of an amount due from the African Civil Aviation Commission (AFCAC), a regional body. This amount results from negotiations and discussions between ICAO and AFCAC for the settlement of amounts owed by AFCAC to the Organization. Effective 1 January 2007, AFCAC assumed full responsibility for financial transactions and operations previously performed by ICAO on its behalf. The undiscounted receivable amounts to CAD 618 thousand at 31 December 2012. The discounted amount due from AFCAC reflected in the accounts totals CAD 464 thousand, which represents the non-current portion of the receivable (CAD 496 thousand as at 31 December 2011).

59. **Other Current Assets** are comprised of:

	2012	2011
	<i>In thousands of CAD</i>	
Recoverable provincial sales tax	401	465
Recoverable federal sales tax	228	296
Prepaid expenses	512	716
Recoverable United States income tax	860	422
Recoverable France sales tax	64	37
Total	2 065	1 936

Note 2.4: Inventories

60. ICAO inventories include the stock of published documents which are printed in house for sale to the worldwide civil aviation community and the stock of duty free items held by the Commissariat store for sale to individuals having diplomatic status.

61. The table below shows the total value of inventories as at 31 December.

	2012	2011
	<i>In thousands of CAD</i>	
Publications on hand–finished goods	834	700
Raw material and work in process	116	123
Total Publications	950	823
Total Commissariat Items	171	129
Total Inventories	1 121	952

62. Further detail is shown below on the reconciliation of publication and commissariat inventories to reflect the opening balance and the additions during the period reduced by the value of inventories sold and impairment allowance made during the year.

	2012	2011
	<i>In thousands of CAD</i>	
Publications Reconciliation:		
Opening Balance	823	787
Direct material	499	639
Direct labour	1 376	1 444
Indirect costs	239	239
Total inventory purchased and produced	2 937	3 109
Less: cost of publications sold	(1 843)	(2 218)
Less: impairments	(144)	(68)
Closing Balance	950	823

	2012	2011
	<i>In thousands of CAD</i>	
Commissariat Items Reconciliation:		
Opening Balance	129	200
Inventory purchased	467	373
Total inventory purchased	596	573
Less: cost of items sold	(425)	(437)
Less: Write down of damaged inventory due to flood	-	(7)
Closing Balance	171	129

63. Publications and commissariat items and quantities derived from ICAO's inventory tracking systems are validated by physical stock count.
64. Inventories are valued net of any identified impairments. During 2012, impaired publication inventory valued at CAD 144 thousand was identified and removed from the inventory records. This write-off represents an expense for the period and is included in the "supplies, consumables and others" line in the Statement of Financial Performance.

Note 2.5: Property Plant & Equipment

65. The cost of PP&E includes items held at ICAO Headquarters (HQ) in Montreal as well as those held at the seven Regional Offices. These items provide benefits or service potential to the Organization which exercises full control over their acquisition, physical location, use and disposal.

66. As noted in Note 1 and as permitted on the initial adoption of IPSAS, transitional provisions have been applied to the initial recognition of PP&E. Therefore, the following table presents PP&E acquired since 1 January 2010 and capitalized in the accounts in accordance with IPSAS.

	Opening Balance Cost 1 Jan. 2012¹	Acquisitions during the Year	Accumulated Depreciation	Closing Balance 31 December 2012
<i>In thousands of CAD</i>				
Furniture & fixtures	77	-	17	60
IT equipment	2 327	166	871	1 622
Office equipment	293	379	109	563
Motor vehicles	234	57	96	195
Leasehold improvement	563	553	226	890
Machinery	91	48	28	111
P P & E work in progress	-	285	-	285
Total	3 585	1 488	1 347	3 726

¹Before accumulated depreciation.

67. No impairment of PP&E was identified in 2012.
68. Prior to 1 January 2010, the cost of non-expendable property, which comprises furniture, vehicles, computers and other office equipment, was charged to expenditure in the year the items were ordered, in conformity with paragraph 43 of UNSAS. These assets as well as other PP&E, under finance leases, acquired before 1 January 2010 have not been capitalized and will be presented in the Statement of Financial Position during the transitional period (2012-15) as permitted under IPSAS 17. Commitments related to leases are presented in Note 6.
69. The HQ property – Maison de l'OACI was constructed in 1995 and is owned by a private sector organization. This property is leased by the Government of Canada for a duration of 20 years, until 2016. Under a Supplementary Agreement between the Government of Canada and ICAO, the property is occupied in its entirety by ICAO, which reimburses 25 per cent of the rental and operating costs to the Government of Canada. The Government of Canada assumes 75 per cent of the rental and operating costs, 100 per cent of the property taxes and has the option to purchase the building at the end of the lease term at a favourable price and, if accepted by ICAO, must transfer 25 per cent of the ownership on the basis that ICAO would reimburse 25 per cent of the cost of the purchase option. If the option is not exercised by the Government of Canada for itself, ICAO has the right to request the Government of Canada to exercise the option on its behalf and to transfer ownership of the building. This scenario requires that ICAO would reimburse 100 per cent of the cost of the purchase option and any cost associated with the transaction itself and that it would occupy the building for its own use during a minimum period of twenty (20) years. The cost of the property is estimated at CAD 116 million and the purchase option exercisable in 2016 amounts to CAD 23.45 million. As permitted by IPSAS, the portion of the rental costs charged to ICAO is expensed and the portion financed by the Government of Canada represents contributions related to services in kind as shown in Note 3.1.
70. ICAO also owns 46 per cent of the property of the EURNAT Regional Office in Paris at an original cost of CAD 1 145 thousand and the remaining 54 per cent of the property is under a nominal finance lease, which represents contributions for services in kind as shown in Note 3.1. As noted in paragraph 68, assets acquired before 1 January 2010 will be capitalized during the transitional period (2012-15). Other buildings occupied by ICAO are under operating leases or nominal leases.

71. The non-capitalized PP&E are presented at cost less the accumulated depreciation as if they were depreciated since their acquisition date. The following table presents PP&E including finance leases acquired prior to 1 January 2010, which are not capitalized in the accounts, as ICAO applies the IPSAS transitional provisions as mentioned above and in Note 1.

	Opening Balance 1 January 2012	Write-Offs	Accumulated Depreciation	Closing Balance 31 December 2012
<i>In thousands of CAD</i>				
Furniture and fixtures	35	-	9	26
IT & office equipment	98	4	63	31
Motor vehicles	90	-	40	50
Equipment under finance leases	245	-	108	137
Total	468	4	220	244

72. The minimum future annual payments from 2013 to 2014 under finance lease obligations for equipment amount to CAD 102 and 33 thousand respectively for a total minimum payment of CAD 135 thousand, less interest of CAD 5 thousand for a capital lease obligation of CAD 130 thousand. The obligations under ICAO Headquarters lease is presented in Note 6.

Note 2.6: Intangible Assets

73. The following table presents intangible assets recognized in the accounts since 1 January 2010.

	Opening Balance 1 January 2012¹	Acquisition During the Year	Accumulated Amortization	Closing Balance 31 December 2012
<i>In thousands of CAD</i>				
Software acquired	939	144	301	782
Software (WIP)	21	133	-	154
Other intangible Assets	125	156	24	257
Total	1 085	433	325	1 193

¹ Before accumulated amortization.

74. Following the review of intangibles to identify any impairment in their value, it was determined that no intangibles were impaired during the year.

Note 2.7: Financial Instruments

2.7.1 Financial Assets and Liabilities

75. Accounting policies on financial instruments are set out in Note 1. Financial assets of ICAO are categorized as loans and receivables (no derivative investments and saleable financial assets) and the balances as at 31 December are composed of:

	2012	2011
	<i>In thousands of CAD</i>	
Assessed contributions receivable (current)	4 725	5 761
Assessed contributions receivable (non-current)	6 116	5 581
Receivables and advances (current)	13 409	11 053
Receivables and advances (non-current)	464	496
Other assets	1 553	1 220
Total Financial Assets	26 267	24 111

All material financial liabilities are financial instruments stated at amortized cost.

76. ICAO is exposed to financial risks summarized in the following paragraphs.

2.7.2 Credit Risk

77. ICAO's credit risk is spread widely and ICAO's risk management policies limit the amount of credit exposure to any one counter party and include minimum credit quality guidelines.
78. Credit risk and liquidity risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed in highly liquid and diversified money market funds with major financial institutions that have been accorded strong investment grade ratings by a primary rating agency and/or with other credit worthy counterparties.
79. Contributions receivable comprise primarily amounts due from sovereign nations. Details of contributions receivable are provided in Note 2.2. As noted in Note 1 and 2.2, long term contributions are stated at amortized (discounted) cost using the effective interest method. Since these receivables do not bear interest, the interest rate used to calculate the discounted cost is the rate applicable for long-term Canadian government bonds.

2.7.3 Interest Rate Risk

80. ICAO is exposed to interest rate risk through term-deposits. In 2012, the average interest rate and term maturity are provided in Note 2.1. Due to the current low interest rate level risk is minimal.

2.7.4 Foreign Currency Risk

81. At 31 December 2012, cash, cash equivalent and investments are denominated in CAD (7 per cent) and in USD (88 per cent) which are the base currencies used by the Organization (7 per cent in the CAD and 87 per cent in USD base currencies at 31 December 2011). Non-CAD or USD holdings have the primary objective of supporting operating activities in other currencies than CAD. In addition, 43 per cent of contributions receivable are denominated in CAD and 57 per cent in USD base currencies (43 per cent in CAD and 57 per cent in USD base currencies at 31 December 2011).
82. Starting in 2010, in order to minimize the exposure of the USD fluctuation, the Organization moved to a split assessment system under which Member States are assessed partly in USD and partly in CAD based on foreseen needs of both currencies. With the adoption of the split assessment system, management believes that there is no need to enter into forward exchange contracts for the purchase of USD.
83. Purchase Orders pertaining to Technical Co-operation projects are sometimes denominated in currencies other than the CAD or USD. In order to limit exposure to currency fluctuations, a

policy on hedging has been adopted, whereby funds are purchased in the currency of the commitment at the time the Purchase Order is issued, in cases where currency fluctuation could have a material impact on the financial position of the project. An exchange gain or loss is recognized equivalent to the difference between the UNORE and the spot rate in effect on the date that the funds are purchased.

2.7.5: Liquidity Risk

84. A Working Capital Fund in the amount of USD 6.0 million is established by the Assembly for the purpose of making advances as necessary to the General Fund to finance budgetary appropriations pending receipt of contributions from Member States and other Funds in specific cases. Also, funds are deposited in banks on a pooled investment basis and funds not needed for immediate requirements are invested in term deposits.

Note 2.8: Advance Receipts

85. Advance receipts comprise:

	2012	2011
	<i>In thousands of CAD</i>	
Voluntary contributions for TC Projects	201 023	144 941
Assessed contributions received in advance	2 976	549
Other advances	4 829	4 069
Total	208 828	149 559

86. Other advances include an advance payment of CAD 922 thousand from a Member State (France), CAD 895 thousand from publication sales, CAD 784 from a private sector company, CAD 991 from Member States for PKD activities, deferred revenue and other advances.

Note: 2.9: Accounts Payables and Accrued Liabilities

87. Accounts payable and accrued liabilities are composed of the following:

	2012	2011
	<i>In thousands of CAD</i>	
Suppliers payables	14 212	11 021
Accruals and other payables	4 508	8 333
Total	18 720	19 354

88. Accounts payable to suppliers relate to amounts due for goods and services for which invoices have been received. Accruals are liabilities for goods and services that have been received or provided to ICAO during the period and which have not been invoiced.
89. Under certain conditions, the Organization reimburses a portion of education costs paid by internationally recruited professional employees. Accruals and Other Payables include an amount of CAD 215 thousand representing the estimated education costs payable to employees but not yet claimed at year end.
90. ICAO provides certain secretariat services for the European Civil Aviation Conference (ECAC). The net amount payable for all transactions effected on ECAC's behalf during the year is included in Accruals and Other Payables. Movements in this account are summarized below.

	2012	2011
	<i>In thousands of CAD</i>	
Opening balance at 1 January	2 367	1 966
Receipts during the year	3 147	3 403
Subtotal:	5 514	5 369
Less: disbursements during the year	3 093	3 002
Closing balance at 31 December	2 421	2 367

Note 2.10: Employee Benefits

91. Employee benefits liabilities comprise ASHI benefits, end of service benefits for annual leave, repatriation benefits payable and other short term amounts.

	2012	2011
	<i>In thousands of CAD</i>	
Composition:		
Current	4 669	4 060
Non-current	90 217	78 817
Total	94 886	82 877

2.10.1 Valuation of Employee Benefit Liabilities

92. Liabilities arising from end of service benefits, annual leave and repatriation benefits, and ASHI benefits are determined by independent consulting actuaries. These employee benefits are established for staff members in Headquarters and Regional Offices who are covered by ICAO Staff Rules.
93. Other employee benefits are calculated by ICAO based on personal data and past experience. These benefits comprise estimated repatriations benefits and annual leave due to Technical Co-operation project staff on separation. Such project staff benefits are not covered by the UN Staff Regulations and Rules, but by specific conditions under technical co-operation projects.
94. The movement of employee benefits liabilities during 2012 is as follows:

	Opening Balance 1 January 2012	Utilization	Increase/ (Decrease)	Actuarial Loss/(Gain)	Ending Balance 31 December 2012
	<i>In thousands of CAD</i>				
Post-retirement plan (ASHI)	62 744	(1 192)	4 472	7 337	73 361
End of service - Annual leave	7 959	(687)	976	174	8 422
End of service - Repatriation benefits	10 853	(831)	1 155	509	11 686
Other employee Benefits for international experts	1 321	(356)	452	-	1 417
Total Employee Benefits Liabilities	82 877	(3 066)	7 055	8 020	94 886

95. The utilization column represents payments made during the year. The increase (decrease) for ASHI, annual leave, and repatriation benefits and other employee benefits for international experts are comprised as follows:

	Current Service Costs	Interest Cost	Total 2012	Total 2011
	<i>In thousands of CAD</i>			
Post-retirement plan (ASHI)	2 847	1 625	4 472	5 127
End of service - annual leave	767	209	976	679
End of service - Repatriation benefits	873	282	1 155	983
Other employee benefits Liabilities	452	-	452	1 267
Total Employee Benefits Liabilities:	4 939	2 116	7 055	8 056

For comparison purposes, actuarial losses (and gains) were as follows:

	2012	2011
	<i>In thousands of CAD</i>	
Post-retirement plan (ASHI)	7 337	(7 091)
End of service - annual leave	174	2 820
End of service - repatriation benefits	509	1 696
Total Employee Benefits Liabilities	8 020	(2 575)

96. Actuarial losses for Annual Leave and Repatriation Benefits plus Current Service Costs and Interest cost including those for ASHI total CAD 7 286 in 2012 (CAD 11 305 in 2011) and are included in the expense of the Revolving Fund.

2.10.2 Effect of Increase (Decrease) of One Point in Trend Assumption

97. IPSAS require that the impact of one point in trend assumption be disclosed in the financial statements for post-retirement benefits:

Current Service Cost	Minus one percentage point: decrease of CAD 833 thousand Plus one percentage point: increase of CAD 1 175 thousand
Accrued Benefit Obligation	Minus one percentage point: decrease of CAD 11 864 thousand Plus one percentage point: increase of CAD 15 056 thousand

2.10.3 Actuarial Assumptions and Methods

98. Each year, ICAO reviews and selects assumptions and methods that will be used by the actuaries in the year-end valuation to determine the expense and contribution requirements for ICAO's after-service benefit plans (post-employment benefits and other separation-related benefits). Actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 25. In addition, each actuarial assumption is required to be disclosed in absolute terms. The following key assumptions and methods have been used to determine the value of post-employment and other separation-related employee liabilities for ICAO as at 31 December 2012.

99. ICAO is using the Canadian government bonds rate to discount the liability related to staff benefits. In some jurisdictions, there is no deep market for government bonds or government bonds are more risky than high quality corporate bonds. In such cases the use of the corporate bond rate would be more appropriate, being closer to a risk free rate. This matter was considered by ICAO's actuaries and it was determined that in the case of ICAO the use of the Canadian bond rate is more appropriate than the corporate bond rate for the reasons provided under paragraph 94 of IPSAS 25 and because of the existence of a deep market for government bonds in Canada. Therefore ICAO has continued to use the government bond rate to discount the liability.

Assumptions Used for ASHI Plan:

Actuarial Method	ASHI: The projected unit credit cost method, prorated on years of service, up to the age the employee is fully eligible for retirements benefits.
Discount Rate	2.40 per cent for accounting and funding (2.50 per cent in 31 December 2011 valuation).
Medical and Dental Trend Rates	Drugs and other health care from 10 per cent to 4 per cent over a period of 20 years, dental 3 per cent for 20 years.
Expected Return on Assets	Not applicable as plans are treated as unfunded.
Exchange Rate Used	USD 1.00 for CAD 0.993 (CAD 1.024 in prior valuation).
Medical and Dental Claims Cost	Average annual costs per person at age 60 are CAD 1.7 thousand for drug costs, from CAD 0.2 thousand to CAD 0.7 thousand for dental costs and CAD 0.3 thousand for other health care costs.
Age Variation of Medical and Dental Costs	For drugs in Canada from 5.8 per cent at age 40 to 0 per cent at age 85 and up. For health care in Canada, from 2.0 per cent up to age 59 to 0.75 per cent at age 85 and up. Health care outside Canada from 2.7 per cent at age 40 to 0 per cent at age 90 and up. Dental care minus 0.5 per cent per year. Reduction of drug cost at age 65 for those covered by a public drug plan in Canada, 78 per cent in Quebec (78 per cent in 2011) and 78 per cent (78 per cent in 2011) in other provinces.
Annual Administrative Costs	Included in annual costs per person.
Mortality Table	Up to 94 generational.
Withdrawal Rates	From age 20 to 55 and up: 15 per cent to 0 per cent.
Retirement Age	Employee hired prior to 1 January 1990: age 59, on or after this date at age 62.
Coverage of Dependents at Retirement	60 per cent (60 per cent in 2011). Wives are assumed to be five years younger than their male spouses. No children per family at retirement age.

Assumptions Used for Annual Leave and Repatriation Benefits:

Actuarial Method	Annual leave and repatriation grant: actuarial present value of future benefits with salary projections.
Discount Rate	2.40 per cent per year (2.50 per cent in prior valuation).
Salary Increase	3.25 per cent per year.
Net Accrual in Annual Leave Balance	From 8 days during the first year to none for 35 years of service and more, up to a maximum of 90 days.
Withdrawals Due to Voluntary Leave	10 per cent.
Removal of Effects on Repatriation	CAD 16.0 thousand per employee with annual increase of 3.25 per cent per year.
Travel Costs	CAD 7.0 thousand per employee with annual increase at 3.25 per cent per year.

2.10.4 United Nations Joint Staff Pension Fund

100. The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.
101. ICAO financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension 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 Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.
102. The latest actuarial valuation was performed as of 31 December 2011. The valuation revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years.
103. At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.
104. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2011, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as of 31 December 2013.
105. In July 2012, the Pension Board noted in its Report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012, the General Assembly authorized the United Nations Joint Staff Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

106. During 2012, contributions paid to UNJSPF by ICAO as a member organization amounted to USD 18.5 million equivalent to CAD 18.6 million (USD 18.1 million equivalent to CAD 18.0 million in 2011). Contributions due in 2013 are expected to be at the same level.
107. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org

2.10.5 Social Security Arrangements for Employees Under Service Contracts

108. ICAO employees under service contracts are usually entitled to social security based on local conditions and norms. ICAO however, has not undertaken any global arrangement for social security under service contracts. Social security arrangements can either be obtained from national social security system, private local schemes or as cash compensation for own scheme. The provision of proper social security in line with local labour legislation and practice is a key requirement of the service contract. Service contract holders are not ICAO staff members and are not entitled to the normal staff member benefits.

Note 2.11: Credits to Contracting/Servicing Governments

109. The credits comprise amounts assessed from contracting governments and collected by ICAO on behalf of servicing governments under the Danish and Icelandic Joint Financing Agreements, which are to be remitted to contracting/servicing governments. Also included in the liability, are user charges collected by ICAO on behalf of service governments under the Joint Financing of a North Atlantic Height Monitoring System.

Note 2.12: Net Assets (Net Accumulated Deficit)

110. Net assets comprise the accumulated deficit and reserves of the Organization at year-end. Closing balances are ICAO's residual interest in the assets after deducting all its liabilities. Since liabilities exceed assets, it is anticipated that future funding will cover the accumulated deficit. Variations to the accumulated deficit and reserves are presented in Statement III.
111. Reserves are composed of:

	2012	2011
	<i>In thousands of CAD</i>	
Regular activities		
Carry Forward of Appropriations (Statement V)	8 519	10 195
Accumulated actuarial gain/(loss) on ASHI (Note 2.10.2)	(6 127)	1 210
Amounts set aside in the Incentive Fund	1 201	2 250
	3 593	13 655
Technical Co-operation Project Activities	49	(7)
Total	3 642	13 648

112. Amounts set aside in the Incentive Fund comprise an amount of CAD 1.0 million as additional funding for Regular Programme activities during 2013 (Assembly Resolution A36-29 refers).
113. Included in the Technical Co-operation Project Activities Reserves is the translation adjustment from USD to CAD to reflect the Technical Co-operation Project Activities in the reporting currency (CAD).

NOTE 3: REVENUES AND EXPENSES**Note: 3.1 Contributions – Services in Kind**

114. Under separate agreements between the Governments of Canada, Egypt, France, Peru, Senegal, Thailand and Mexico 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 bears the major part of the operational and maintenance costs of the Headquarters premises. Contributions in kind are not recorded in the accounts, but presented for information purposes in notes below.
115. The estimated fair value of the contributions in kind provided to regular activities based on the lease contracts or on the estimated market value when there is no lease is as follows:

	2012	2011
	<i>In thousands of CAD</i>	
Canada	21 528	20 884
Egypt	154	157
France	664	716
Peru	427	411
Senegal	118	40
Thailand	1 307	1 130
Total	24 198	23 338

116. Included in the above contribution in kind from Canada, is an amount equivalent to CAD 1 683 thousand (CAD 1 928 thousand in 2011) from the Government of Quebec towards the provision of premises in the Bell Tower office in Montreal provided for the Technical Co-operation Bureau.
117. Staff services and travel are also provided free of charge by States for regular activities. These contributions are valued based on the cost to the donating State for each of the following activities:

	2012	2011
	<i>In thousands of CAD</i>	
Aviation Security	1 497	1 092
Aviation Safety	2 496	1 316

118. Also, the Government of Mexico provides a contribution in cash towards the rental of the Regional Office in Mexico City. The contribution in 2012 amounted to CAD 146 thousand (CAD 133 thousand in 2011) and is included in revenue.

Note: 3.2 Revenue

119. The main source of revenue recognized during the year comprises contributions for technical co-operation projects that were implemented during the year and assessed contributions. Assessed contributions are levied partially in Canadian dollars and in United States dollars to finance a major part of appropriations. Revenue recognized during the year is comprised as follows:

	2012	2011
	<i>In thousands of CAD</i>	
Assessments on States as resolved by the Assembly	84 256	82 024
Assessment on a new State	50	7
Exchange Differences	(399)	(1 055)
Decrease (increase) on cumulative discount on long-term receivables	298	(319)
Total	84 205	80 657

120. The following are the details for **Other Revenue Producing Activities**:

	2012	2011
	<i>In thousands of CAD</i>	
Publication sales and printing services	4 143	5 011
Delegation services	2 132	2 073
Events and symposia	1 436	1 380
Publication royalties	773	655
Dangerous goods licensing fee	1 024	795
Periodicals	655	755
Commissariat sales	603	580
Websites	368	436
Licensing agreements & partnership in statistics	413	394
Training/assessments, courses & membership fees	944	605
Others	642	717
Total	13 133	13 401

121. **Other Revenue** comprises the following:

	2012	2011
	<i>In thousands of CAD</i>	
Service fee	655	556
Professional liability insurance fee	167	343
Travel agent fee	157	47
Interest – income and exchange gain	297	1 283
Others	717	893
Total	1 993	3 122

Note: 3.3 Expenses**3.3.1 Staff Salaries and Employee Benefits**

122. Salaries include remuneration earned by employees of the Organization during the year, international field experts and experts under Operational Assistance Agreement (OPAS) for TC projects as well as employee benefits such as health insurance, annual leave, repatriation,

education, assignment and relocation grants, termination indemnities and ICAO's contribution to the UNJSPF.

3.3.2 Supplies, Consumables and Others

123. These expenses comprise the procurement of goods and services for Trust Funds, Management Service Agreements, Civil Aviation Purchasing Services and UNDP projects under the Technical Co-operation Project activities.

3.3.3 General Operating Expenses

124. **General Operating Expenses** mainly comprise rental, maintenance and operation of premises, information technology and printing expenses, stationery and office supplies, postage, courier and other operating expenses. Also included is depreciation on PP & E amounting to CAD 809 and to CAD 197 for the amortization of intangible assets (CAD 457 and CAD 118 respectively for 2011).

3.3.4 Travel

125. Travel expense is composed of mission travel, which includes airfares, daily subsistence allowances and terminal allowances.

3.3.5 Other Expenses

126. Other expenses include exchange losses attributable to Fund other than the Regular Budget Fund for an amount of CAD 1 154 thousand (CAD 294 thousand in 2011).
127. Exchange losses attributable to the Regular Budget Fund are allocated to expenses categories within the Statement of Financial Performance. This is done in order to compare actual expenses with budgeted appropriations. In 2012, CAD 900 thousand was so allocated. The equivalent number in the previous year was a gain of CAD 112 thousand which was presented as Other Income.

NOTE 4: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

128. ICAO's financial statements and the approved Regular Programme budget are not presented on the same basis. In the Statement of Financial Performance, expenses cover all Funds of the Organization and are classified based on their nature. Expenses in the Statement of Comparison of Budget and Actual Amounts are classified by Strategic Objective and Supporting Implementation Strategy for the Regular Programme General Fund Budget. The other approved publicly available budget relates to the AOSC Fund of the Technical Cooperation Programme.
129. The Assembly authorizes, separately for each year of a triennium, the expenditure in Canadian dollars for the Regular Programme and approves the total indicative budget estimates of the AOSC fund. Budgets may be subsequently amended by the Council or through the exercise of delegated authority.
130. As required by IPSAS, a reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V) and the actual amounts in the Statement of Cash Flow (Statement IV) for the period year ended 31 December 2012 is presented below.

	Operating	Investing	Financing	Total
	<i>In thousands of CAD</i>			
Actual Amount on Comparable Basis (Statement V)	(94 172)	-	-	(94 172)
Basis differences – exchange rate	399	-	-	399
Presentation differences	94 203	111	-	94 314
Entity differences	53 782	(1 291)	(46)	52 445
Actual Amounts in the Statement of Cash Flow (Statement IV)	54 212	(1 180)	(46)	52 986

131. Basis differences occur when an approved budget is prepared on a basis other than the accounting basis used to prepare the financial statements. For ICAO, a notable difference may occur when the rate of exchange used to prepare the Canadian dollar budget differs from the monthly UN rates of exchange. The Status of Appropriation, as presented in the Statement of Comparison of Budget and Actual Amounts (Statement V) provides reconciliation between approved appropriations of the Regular Programme Budget and the corresponding expenses incurred by the General Fund of the Regular Programme at the UNORE and at the budget rate of exchange.
132. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. For the purposes of comparison of budget and actual amounts, there are no timing differences for ICAO.
133. Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Cash Flows and Statement of Comparison of Budget and Actual Amounts. The Statement of Cash Flows reflects the net impact of receipts and disbursements and the Statement of Comparison of Budget and Actual Amounts present actual expenditures authorized through appropriations.
134. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared. Entity differences represent cash flows of those Funds that are reported in the financial statements, form part of ICAO activities, are funded by extra-budgetary resources, but are excluded from the Regular Programme budgetary process. These relate to other regular activities and technical co-operation project activities.
135. With regard to the AOSC Fund, budgeted figures represent indicative budget estimates only. Total indicative budget estimates for the AOSC Fund is compared to actual amount in the Presentation of the Secretary General on the financial statements. Also, included in the Presentation are explanations of material differences between the original and final budgets, and the actual amounts.

NOTE 5: SEGMENT REPORTING

Note 5.1: Statement of Financial Position and Financial Performance by Segment

136. Segment reporting is required under IPSAS and is described in Note 1. Financial Position by segment is shown in the next table followed by the Statement of Financial Performance by Segment. Some activities between the two segments lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements. Inter-segment transactions are reflected in the above tables to accurately present these accounting transactions and then eliminated to reconcile with Statement I and II.

137. The Regular Activities segment includes administrative fee revenue of CAD 7.9 million (CAD 6.1 million in 2011) charged by the AOSC Fund to Technical Co-operation projects. An equivalent amount is included as administrative overhead charges in the Technical Co-operation projects segment. The amount due to Technical Co-operation projects by the Regular Activities segment at 31 December 2012 amounted to CAD 1 077 thousand (CAD 1 447 thousand at 31 December 2011). These amounts are eliminated for presentation purposes.

FINANCIAL POSITION BY SEGMENT

AT 31 DECEMBER 2012

(in thousands of Canadian dollars)

	Notes	Regular Activities		Technical Co-operation Project Activities		Elimination		Total	
		2012	2011	2012	2011	2012	2011	2012	2011
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	2.1	43 721	43 250	202 658	150 143			246 379	193 393
Assessed contributions receivable from Member States	2.2	4 725	5 761					4 725	5 761
Inter-segment balances		765	1 447	312		(1 077)	(1 447)		
Receivables and advances	2.3	4 411	6 184	8 997	4 869			13 408	11 053
Inventories	2.4	1 121	952					1 121	952
Others	2.3	1 721	1 585	344	351			2 065	1 935
		56 464	59 179	212 311	155 363	(1 077)	(1 447)	267 698	213 095
NON-CURRENT ASSETS									
Assessed contributions receivable from Member States	2.2	6 116	5 581					6 116	5 581
Receivables and advances	2.3	464	496					464	496
Property, plant and equipment	2.5	3 726	3 046					3 726	3 046
Intangible assets	2.6	1 193	958					1 193	958
		11 499	10 081					11 499	10 081
TOTAL ASSETS		67 963	69 260	212 311	155 363	(1 077)	(1 447)	279 197	223 176
LIABILITIES									
CURRENT LIABILITIES									
Advanced receipts	2.8	7 805	4 618	201 023	144 941			208 828	149 559
Accounts payable and accrued liabilities	2.9	8 866	11 322	9 854	8 032			18 720	19 354
Employee benefits	2.10	3 284	2 771	1 385	1 289			4 669	4 060
Inter-segment balances		1 077	339		1 108	(1 077)	(1 447)		
Credits to contracting/servicing governments	2.11	1 608	1 397					1 608	1 397
		22 640	20 447	212 262	155 370	(1 077)	(1 447)	233 825	174 370
NON-CURRENT LIABILITIES									
Employee benefits	2.10	90 217	78 817					90 217	78 817
		90 217	78 817					90 217	78 817
TOTAL LIABILITIES		112 857	99 264	212 262	155 370	(1 077)	(1 447)	324 042	253 187
NET ASSETS									
Accumulated deficit	2.12	(48 487)	(43 659)					(48 487)	(43 659)
Reserves	2.12	3 593	13 655	49	(7)			3 642	13 648
NET ASSETS (ACCUMULATED DEFICIT)		(44 894)	(30 004)	49	(7)			(44 845)	(30 011)
TOTAL LIABILITIES AND NET ASSETS		67 963	69 260	212 311	155 363	(1 077)	(1 447)	279 197	223 176

Details may not add to the totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

NOTE 5.3

FINANCIAL PERFORMANCE BY SEGMENT
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of Canadian dollars)

	Notes	Regular Activities		Technical Co-operation Project Activities		Elimination		Total	
		2012	2011	2012	2011	2012	2011	2012	2011
		REVENUE							
Contributions for project agreements	3.2	5	5	105 127	104 770			105 132	104 776
Assessed contributions	3.2	84 205	80 657					84 205	80 657
Other revenue producing activities	3.2	13 133	13 401					13 133	13 401
Other voluntary contributions		6 755	8 339					6 755	8 339
Administrative fee revenue		8 118	6 103			(7 907)	(6 087)	211	16
Other revenue	3.2	1 763	3 126	251	18			2 014	3 144
		113 979	111 632	105 378	104 788	(7 907)	(6 087)	211 450	210 333
EXPENSES									
Staff salaries and employee benefits	3.3	96 561	95 301	37 014	30 715			133 575	126 016
Supplies, consumables and others	3.3	611	1 327	52 968	61 806			53 579	63 133
General operating expenses	3.3	15 586	15 582	1 603	1 407			17 189	16 989
Travel	3.3	5 836	5 577	2 821	2 865			8 657	8 442
Meetings		1 162	865					1 162	865
Training				2 553	1 020			2 553	1 020
Administrative overhead charges				7 779	5 938	(7 779)	(5 938)		
Other expenses	3.3	1 729	610	640	1 037	(128)	(149)	2 241	1 498
		121 485	119 262	105 378	104 788	(7 907)	(6 087)	218 956	217 963
DEFICIT FOR THE YEAR		(7 506)	(7 630)					(7 506)	(7 630)

Details may not add to the totals due to rounding

NOTE 6: COMMITMENTS AND CONTINGENCIES**Note 6.1: Commitments**

138. Lease commitments mainly pertain to ICAO Headquarters (HQ) premises and office equipment.

	2012	2011
	<i>In thousands of CAD</i>	
Minimum obligations for property leases:		
1 – 5 years	10 948	13 839
Beyond 5 years	-	-
Total Property Leases Obligations	10 948	13 839

139. The lease at HQ expires on 30 November 2016 and includes a purchase option at that date. Building lease costs are reimbursed by the host governments at the rate of 75 per cent for the HQ building and 100 per cent for the Bell Tower which is also part of HQ. Lease commitments therefore apply to the 25 per cent portion of the lease payable by ICAO to the host government. There is no financial commitment included in the Table above for the Paris office, since as noted in Note 2.5 a portion of the Paris office is owned by ICAO and the remaining portion is owned by France and leased to ICAO at nominal value.

140. Future year obligations related to non-property leases (including finance leases) amounted to CAD 137 thousand (CAD 257 thousand at 31 December 2011). The non-property leases mainly represent the rental of photocopiers and printing equipment, as reported in Note 2.5.

141. The future minimum lease revenues under non-cancellable operating leases total CAD 1.7 million for 2013. These lease revenues comprise rental of premises to Delegations.

Note 6.2: Legal or Contingent Liabilities and Contingent Assets

142. There are no material contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to ICAO.

143. A number of legal actions and claims have been brought against the Organization in relation to Technical Co-operation Projects in South America. These are mainly claims by individuals demanding additional payments under local labour laws beyond what was provided for under their contract of employment. The total of such claims is USD 2.3 million (USD 2.4 million at 31 December 2011). It has been assessed as unlikely that ICAO would incur financial liabilities given that the Governments concerned have committed in the underlying project agreements to absorb any financial liabilities which may arise from such claims.

NOTE 7: RELATED PARTY AND SENIOR MANAGEMENT DISCLOSURE**Note 7.1: Key Management Personnel**

	Number of Individuals (Person/Year)	Compensation and Post Adjustment	Entitlements	Pension and Health Plans	Total Remuneration	Outstanding Advances Against Entitlements	Out- standing Loans
<i>(In thousands of CAD)</i>							
Key Management Personnel	11	1970	241	494	2 705	21	-

144. Key management personnel includes members of the Senior Management Group (SMG) of the Secretariat, which comprises the Secretary General, Directors at HQ, Chief of Finance and Chief, Evaluation and External Audit. Senior managers have the authority and responsibility for planning, directing and controlling the activities of ICAO and for the establishment of policies. Key management personnel also include the President of Council and other key officers who can influence decisions made by senior management. The Council consists of 36 Member States without personal appointment.
145. The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as representation allowance, repatriation and education grants, rental subsidy, and also employer pension and current health insurance contributions. Entitlements and total remuneration include outstanding advances against entitlements, which are composed of education grant advances.
146. Key management personnel also qualify for post-employment benefits (Note 2.10) at the same level as other employees. These benefits cannot be quantified with precision on an individual basis, thus are not included in the above table.
147. Key management personnel are ordinary members of UNJSPF with the exception of most D-2 level personnel and above who do not participate in the UNJSPF. Amounts paid by ICAO in lieu of contributions to the plan, which represents 15.8 per cent of the pensionable remuneration, are included in total remuneration.
148. Total remuneration also includes an amount of CAD 61 thousand paid during the year to the spouse of key management personnel. The spouse is a consultant working in another Bureau and not in a direct hierarchical relationship to the key management personnel.

Note 7.2: Related Party Transactions

Except as otherwise noted in these statements for revenue from non-exchange transactions including contributions in kind, all transactions made with third parties, including United Nations organizations occur at fair value within a normal relationship of supplier or client and at arm's-length terms and conditions.

NOTE 8: EVENTS AFTER THE REPORTING DATE

149. ICAO's reporting date is 31 December 2012. On the date of signing of these financial statements by the Secretary General, no material events, favourable or unfavourable, occurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

PART IV: TABLES
(UNAUDITED)

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR ACTIVITIES BY FUND
 ASSETS, LIABILITIES, NET ASSETS AT 31 DECEMBER 2012 AND
 REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2012
 (in thousands of Canadian dollars)

	Regular Budget	Capital Fund	Revolving Fund	Ancillary Revenue Generation Fund	Administrative/ Operational Services Cost Fund	AVSEC Activities	AFI Plan Fund	France Fund	Joint Finance Funds	Incentive for Settlement of Arrears Account
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	15 800		1 400	3 831	3 285	6 845	420	922	1 480	2 471
Assessed contributions receivable from Member States	4 725									
Inter-fund balances	805			509	162		94			
Receivables and advances	1 040			2 405	259	101			168	
Inventories				951						
Others	1 712			7	2					
	<u>24 082</u>		<u>1 400</u>	<u>7 703</u>	<u>3 708</u>	<u>6 946</u>	<u>514</u>	<u>922</u>	<u>1 648</u>	<u>2 471</u>
NON-CURRENT ASSETS										
Assessed contributions receivable from Member States	6 116									
Receivables and advances	464									
Property, plant and equipment		3 725								
Intangible assets		1 193								
	<u>6 580</u>	<u>4 919</u>								
TOTAL ASSETS	<u>30 662</u>	<u>4 919</u>	<u>1 400</u>	<u>7 703</u>	<u>3 708</u>	<u>6 946</u>	<u>514</u>	<u>922</u>	<u>1 648</u>	<u>2 471</u>
LIABILITIES										
CURRENT LIABILITIES										
Advanced receipts	3 045			1 325	1 467			922	18	
Accounts payable and accrued liabilities	7 576			709	113	11	4		18	5
Employee benefits			3 252		32					
Inter-fund balances	1 077									805
Credits to contracting/service governments									1 608	
	<u>11 698</u>		<u>3 252</u>	<u>2 034</u>	<u>1 612</u>	<u>11</u>	<u>4</u>	<u>922</u>	<u>1 644</u>	<u>810</u>
NON-CURRENT LIABILITIES										
Employee benefits			90 217							
			<u>90 217</u>							
TOTAL LIABILITIES	<u>11 698</u>		<u>93 469</u>	<u>2 034</u>	<u>1 612</u>	<u>11</u>	<u>4</u>	<u>922</u>	<u>1 644</u>	<u>810</u>
NET ASSETS										
Accumulated surplus/(deficit)	10 445	4 470	(85 942)	5 918	2 115	6 935	511		4	460
Transfer of Funds – Capital Expenditure Recognition Reserves	8 519	448	(6 127)	(250)	(19)					1 201
	<u>18 964</u>	<u>4 919</u>	<u>(92 069)</u>	<u>5 669</u>	<u>2 095</u>	<u>6 935</u>	<u>511</u>		<u>4</u>	<u>1 661</u>
NET ASSETS (ACCUMULATED DEFICIT)	<u>18 964</u>	<u>4 919</u>	<u>(92 069)</u>	<u>5 669</u>	<u>2 095</u>	<u>6 935</u>	<u>511</u>		<u>4</u>	<u>1 661</u>
TOTAL LIABILITIES AND NET ASSETS	<u>30 662</u>	<u>4 919</u>	<u>1 400</u>	<u>7 703</u>	<u>3 708</u>	<u>6 946</u>	<u>514</u>	<u>922</u>	<u>1 648</u>	<u>2 471</u>
REVENUE										
Contributions for project agreements								5		
Assessed contributions	84 205									
Other revenue producing activities				14 011		2 186	52			
Other voluntary contributions										
Administrative fee revenue					8 131					
Other revenue	7 396	1 921	2 710	72	605	155	2		9	17
	<u>91 601</u>	<u>1 921</u>	<u>2 710</u>	<u>14 083</u>	<u>8 737</u>	<u>2 341</u>	<u>54</u>	<u>5</u>	<u>9</u>	<u>17</u>
TOTAL REVENUE	<u>91 601</u>	<u>1 921</u>	<u>2 710</u>	<u>14 083</u>	<u>8 737</u>	<u>2 341</u>	<u>54</u>	<u>5</u>	<u>9</u>	<u>17</u>
EXPENSES										
Staff salaries and employee benefits	73 682		7 286	6 074	7 129	1 457			3	
Supplies, consumables and others	359			240	12					
General operating expenses	13 619	1 006		8 764	206	26				1 049
Travel	4 508			327	86	560				
Meetings	1 049			23	7					
Administrative overhead charges						121	4			
Other expenses	555			354	77	455	13	5	2	60
	<u>93 773</u>	<u>1 006</u>	<u>7 286</u>	<u>15 782</u>	<u>7 518</u>	<u>2 620</u>	<u>16</u>	<u>5</u>	<u>5</u>	<u>1 099</u>
TOTAL EXPENSES	<u>93 773</u>	<u>1 006</u>	<u>7 286</u>	<u>15 782</u>	<u>7 518</u>	<u>2 620</u>	<u>16</u>	<u>5</u>	<u>5</u>	<u>1 099</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR	<u>(2 172)</u>	<u>914</u>	<u>(4 576)</u>	<u>(1 699)</u>	<u>1 218</u>	<u>(279)</u>	<u>38</u>		<u>4</u>	<u>(1 092)</u>

* Refer to Table B

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION
REGULAR ACTIVITIES BY FUND
ASSETS, LIABILITIES, NET ASSETS AT 31 DECEMBER 2012 AND
REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2012
(in thousands of Canadian dollars)

Table A
(continued)

	Information and Communication Technology (ICT) Fund	Public Key Directory	Safe	TSSF	Other Funds	Total	Elimination	2012	2011
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	1 135	1 036	2 454	443	2 199	43 721		43 721	43 250
Assessed contributions receivable from Member States						4 725		4 725	5 761
Inter-fund balances						1 570	(805)	765	1 447
Receivables and advances		13	61		365	4 412		4 412	6 184
Inventories					171	1 121		1 121	952
Others						1 721		1 721	1 585
	<u>1 135</u>	<u>1 049</u>	<u>2 514</u>	<u>443</u>	<u>2 735</u>	<u>57 269</u>	<u>(805)</u>	<u>56 464</u>	<u>59 179</u>
NON-CURRENT ASSETS									
Assessed contributions receivable from Member States						6 116		6 116	5 581
Receivables and advances						464		464	496
Property, plant and equipment						3 725		3 725	3 046
Intangible assets						1 193		1 193	958
						<u>11 499</u>		<u>11 499</u>	<u>10 081</u>
TOTAL ASSETS	<u>1 135</u>	<u>1 049</u>	<u>2 514</u>	<u>443</u>	<u>2 735</u>	<u>68 768</u>	<u>(805)</u>	<u>67 963</u>	<u>69 260</u>
LIABILITIES									
CURRENT LIABILITIES									
Advanced receipts		991			37	7 805		7 805	4 618
Accounts payable and accrued liabilities	82	58	34	20	236	8 866		8 866	11 322
Employee benefits						3 284		3 284	2 771
Inter-fund balances						1 882	(805)	1 077	339
Credits to contracting/service governments						1 608		1 608	1 397
	<u>82</u>	<u>1 049</u>	<u>34</u>	<u>20</u>	<u>273</u>	<u>23 445</u>		<u>22 640</u>	<u>20 447</u>
NON-CURRENT LIABILITIES									
Employee benefits						90 217		90 217	78 817
						<u>90 217</u>		<u>90 217</u>	<u>78 817</u>
TOTAL LIABILITIES	<u>82</u>	<u>1 049</u>	<u>34</u>	<u>20</u>	<u>273</u>	<u>113 662</u>	<u>(805)</u>	<u>112 857</u>	<u>99 264</u>
NET ASSETS									
Accumulated surplus/(deficit)	1 164		2 480	422	2 531	(48 487)		(48 487)	(43 659)
Transfer of Funds – Capital Expenditure Recognition Reserves	(110)				(69)	3 593		3 593	13 655
NET ASSETS (ACCUMULATED DEFICIT)	<u>1 054</u>		<u>2 480</u>	<u>422</u>	<u>2 462</u>	<u>(44 894)</u>		<u>(44 894)</u>	<u>(30 004)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1 135</u>	<u>1 049</u>	<u>2 514</u>	<u>443</u>	<u>2 735</u>	<u>68 768</u>	<u>(805)</u>	<u>67 963</u>	<u>69 260</u>
REVENUE									
Contributions for project agreements						5		5	5
Assessed contributions						84 205		84 205	80 657
Other revenue producing activities			100		637	14 748	(1 615)	13 133	13 401
Other voluntary contributions		1 524	961		2 032	6 755		6 755	8 339
Administrative fee revenue						8 131	(13)	8 118	6 103
Other revenue	7	4	14	2	1 601	14 516	(12 753)	1 763	3 126
TOTAL REVENUE	<u>7</u>	<u>1 528</u>	<u>1 074</u>	<u>2</u>	<u>4 271</u>	<u>128 359</u>	<u>(14 381)</u>	<u>113 979</u>	<u>111 632</u>
EXPENSES									
Staff salaries and employee benefits	302	1 466	504	142	2 428	100 473	(3 912)	96 561	95 301
Supplies, consumables and others						611		611	1 327
General operating expenses	251		36		689	25 647	(10 062)	15 586	15 582
Travel			129		225	5 836		5 836	5 577
Meetings					82	1 162		1 162	865
Administrative overhead charges		30	23		230	407	(407)		
Other expenses	51	31	68	11	47	1 728		1 729	610
TOTAL EXPENSES	<u>604</u>	<u>1 528</u>	<u>760</u>	<u>153</u>	<u>3 700</u>	<u>135 866</u>	<u>(14 381)</u>	<u>121 485</u>	<u>119 262</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR	<u>(597)</u>		<u>314</u>	<u>(151)</u>	<u>571</u>	<u>(7 506)</u>		<u>(7 506)</u>	<u>(7 630)</u>

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Table B

REGULAR ACTIVITIES
 AVIATION SECURITY TRUST FUNDS
 ASSETS, LIABILITIES, NET ASSETS AT 31 DECEMBER 2012 AND
 REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2012
 (in thousands of Canadian dollars)

	<u>Earmarked Training Programme</u>	<u>Enhanced Mechanism</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Awareness Training Programme</u>	<u>National Projects</u>	<u>Standardized Training Programme</u>	<u>2012</u>	<u>2011</u>
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	999	4 423	16	51	780	233	342	6 845	7 114
Receivables and advances		9		90	2			101	127
	<u>999</u>	<u>4 432</u>	<u>16</u>	<u>142</u>	<u>782</u>	<u>233</u>	<u>342</u>	<u>6 946</u>	<u>7 242</u>
TOTAL ASSETS	<u>999</u>	<u>4 432</u>	<u>16</u>	<u>142</u>	<u>782</u>	<u>233</u>	<u>342</u>	<u>6 946</u>	<u>7 242</u>
LIABILITIES									
CURRENT LIABILITIES									
Accounts payable and accrued liabilities		1		1	9			11	27
		<u>1</u>		<u>1</u>	<u>9</u>			<u>11</u>	<u>27</u>
TOTAL LIABILITIES		<u>1</u>		<u>1</u>	<u>9</u>			<u>11</u>	<u>27</u>
NET ASSETS									
Accumulated surplus/(deficit)	999	4 431	16	141	773	233	342	6 935	7 214
NET ASSETS (ACCUMULATED DEFICIT)	<u>999</u>	<u>4 431</u>	<u>16</u>	<u>141</u>	<u>773</u>	<u>233</u>	<u>342</u>	<u>6 935</u>	<u>7 214</u>
TOTAL LIABILITIES AND NET ASSETS	<u>999</u>	<u>4 432</u>	<u>16</u>	<u>142</u>	<u>782</u>	<u>233</u>	<u>342</u>	<u>6 946</u>	<u>7 242</u>
REVENUE									
Other voluntary contribution:		1 380		371	436			2 186	2 366
Other revenue	5	142			4	1	2	155	285
TOTAL REVENUE	<u>5</u>	<u>1 521</u>		<u>371</u>	<u>440</u>	<u>1</u>	<u>2</u>	<u>2 341</u>	<u>2 651</u>
EXPENSES									
Staff salaries and employee benefit:		1 078		372	7			1 457	891
General operating expenses		26						26	79
Travel		316			237		7	560	390
Meetings		77			44			121	3
Administrative overhead charges								121	199
Other expenses	24	415				7	9	455	2
TOTAL EXPENSES	<u>24</u>	<u>1 913</u>		<u>372</u>	<u>288</u>	<u>7</u>	<u>15</u>	<u>2 620</u>	<u>1 564</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR	<u>(18)</u>	<u>(392)</u>		<u>(1)</u>	<u>152</u>	<u>(6)</u>	<u>(13)</u>	<u>(279)</u>	<u>1 087</u>

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM MEMBER STATES
AND CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2012

(in thousands of Canadian dollars)

Member States Assembly Resolutions A37-26 and A37-27	General Fund						Total Balances Receivable	Contributions Received in Advance
	Scales 2012	Assessments 2012	Contributions Received for 2012	Balance of Assessments Receivable for 2012	Balance of Prior Years' Assessments Receivable	Balance of Advances due to the Working Capital Fund		
AFGHANISTAN	0.06	50	50					6
ALBANIA	0.06	50		50	11		61	
ALGERIA	0.11	92	92					
ANDORRA	0.06	50		50	17		67	
ANGOLA	0.06	50		50	15		65	
ANTIGUA AND BARBUDA	0.06	50		50	719	1	771	
ARGENTINA	0.25	210	210					
ARMENIA	0.06	50	50					
AUSTRALIA	1.72	1 442	1 442					
AUSTRIA	0.65	545	545					
AZERBAIJAN	0.06	50	50					
BAHAMAS	0.06	50		50	1		51	
BAHRAIN	0.13	109		109	32		141	
BANGLADESH	0.06	50	16	34			34	
BARBADOS	0.06	50		50	6		57	
BELARUS	0.06	50	50					
BELGIUM	0.82	688	678	9			9	
BELIZE	0.06	50	17	33			33	
BENIN	0.06	50	50					
BHUTAN	0.06	50		50	50		101	
BOLIVIA	0.06	50		50	92		143	
BOSNIA AND HERZEGOVINA	0.06	50		50	110		160	
BOTSWANA	0.06	50	50					
BRAZIL	1.33	1 115	1 115					
BRUNEI DARUSSALAM	0.06	50		50			50	
BULGARIA	0.06	50	50					
BURKINA FASO	0.06	50	50					
BURUNDI	0.06	50		50	49		100	
CAMBODIA	0.06	50	50		120		120	
CAMEROON	0.06	50	50					
CANADA	2.55	2 138	2 138					2 228
CAPE VERDE	0.06	50	50					
CENTRAL AFRICAN REPUBLIC	0.06	50	50					
CHAD	0.06	50	50					9
CHILE	0.28	235	235					
CHINA	4.06	3 405	3 405					
COLOMBIA	0.22	184	184					
COMOROS	0.06	50	50					
CONGO	0.06	50	50					
COOK ISLANDS	0.06	50	50		53		53	
COSTA RICA	0.06	50	50					
COTE D'IVOIRE	0.06	50	50					
CROATIA	0.07	59	19	40			40	
CUBA	0.07	59	59					
CYPRUS	0.06	50	50					
CZECH REPUBLIC	0.27	226	226					
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA	0.06	50	33	17			17	
DEMOCRATIC REPUBLIC OF THE CONGO	0.06	50	50					
DENMARK	0.56	470	469	1			1	
DJIBOUTI	0.06	50		50	735		786	
DOMINICAN REPUBLIC	0.06	50	50					
ECUADOR	0.06	50	50					
EGYPT	0.17	143	143					
EL SALVADOR	0.06	50	50					
EQUATORIAL GUINEA	0.06	50	50					
ERITREA	0.06	50		50	15		65	
ESTONIA	0.06	50	50					
ETHIOPIA	0.08	67		67	20		87	
FIJI	0.06	50	50					
FINLAND	0.50	419	419					
FRANCE	4.92	4 126	4 126					
GABON	0.06	50	50					
GAMBIA (*)	0.06	50		50	368		418	
GEORGIA	0.06	50	50		235		235	
GERMANY	6.56	5 501	5 501					

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM MEMBER STATES
AND CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2012

(in thousands of Canadian dollars)

Member States Assembly Resolutions A37-26 and A37-27	General Fund						Total Balances Receivable	Contributions Received in Advance
	Scales 2012	Assessments 2012	Contributions Received for 2012	Balance of Assessments Receivable for 2012	Balance of Prior Years' Assessments Receivable	Balance of Advances due to the Working Capital Fund		
GHANA	0.06	50	50					52
GREECE	0.50	419	411	9			9	
GRENADE (*)	0.06	50		50	375		426	
GUATEMALA	0.06	50	49	1			1	
GUINEA	0.06	50	50		128		128	
GUINEA-BISSAU	0.06	50	50					
GUYANA	0.06	50	50					
HAITI	0.06	50		50	17		67	
HONDURAS	0.06	50		50	49		99	
HUNGARY	0.22	184	184					
ICELAND	0.06	50	50					52
INDIA	0.73	612	491	121			121	
INDONESIA	0.26	218	218					
IRAN (ISLAMIC REPUBLIC OF)	0.20	168		168	112		280	
IRAQ (*)	0.06	50		50	898		949	
IRELAND	0.65	545	545					
ISRAEL	0.39	327	327					342
ITALY	3.52	2 952	2 952					
JAMAICA	0.06	50	50					
JAPAN	9.08	7 614	7 614					
JORDAN	0.06	50	50					
KAZAKHSTAN	0.06	50	50					1
KENYA	0.06	50	50					
KIRIBATI	0.06	50		50	184		234	
KUWAIT	0.23	193		193	101		293	
KYRGYZSTAN	0.06	50	50		46		46	
LAO PEOPLE'S DEMOCRATIC REPUBLIC	0.06	50		50	18		68	
LATVIA	0.06	50	50					
LEBANON	0.06	50	50					
LESOTHO	0.06	50		50	34		84	
LIBERIA	0.06	50	50		175		175	
LIBYA	0.09	75		75	48		123	
LITHUANIA	0.06	50	50					
LUXEMBOURG	0.31	260	260					
MADAGASCAR	0.06	50	50					
MALAWI	0.06	50		50	419		470	
MALAYSIA	0.47	394	394					
MALDIVES	0.06	50		50	50		100	
MALI	0.06	50	50					
MALTA	0.06	50	50					
MARSHALL ISLANDS	0.06	50		50	255		306	
MAURITANIA	0.06	50	50					
MAURITIUS	0.06	50	50					
MEXICO	1.72	1 442	1 442					
MICRONESIA (FEDERATED STATES OF)	0.06	50		50	130		180	
MONACO	0.06	50	50					
MONGOLIA	0.06	50		50	34		84	
MONTENEGRO	0.06	50	50					
MOROCCO	0.10	84	84					
MOZAMBIQUE	0.06	50	4	46			46	
MYANMAR	0.06	50	50					
NAMIBIA	0.06	50		50	32		82	
NAURU	0.06	50		50	578		628	
NEPAL	0.06	50		50	98		149	
NETHERLANDS	1.85	1 551	1 551					
NEW ZEALAND	0.30	252	252					262
NICARAGUA	0.06	50	50					
NIGER	0.06	50	50					
NIGERIA	0.06	50	50					
NORWAY	0.61	512	512					
OMAN	0.07	59	59					
PAKISTAN	0.15	126		126	51		177	
PALAU	0.06	50		50	314		365	
PANAMA	0.06	50	50					
PAPUA NEW GUINEA	0.06	50	31	19			19	

TABLE C
(continued)

IV-6

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM MEMBER STATES
AND CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2012

(in thousands of Canadian dollars)

Member States Assembly Resolutions A37-26 and A37-27	General Fund						Total Balances Receivable	Contributions Received in Advance
	Scales 2012	Assessments 2012	Contributions Received for 2012	Balance of Assessments Receivable for 2012	Balance of Prior Years' Assessments Receivable	Balance of Advances due to the Working Capital Fund		
PARAGUAY	0.06	50	50					
PERU	0.10	84	84					
PHILIPPINES	0.16	134	134					
POLAND	0.59	495	495					
PORTUGAL	0.48	403	403					
QATAR	0.41	344		344	127		471	
REPUBLIC OF KOREA	2.41	2 021	2 021					
REPUBLIC OF MOLDOVA	0.06	50	50		85		85	
ROMANIA	0.15	126	126					
RUSSIAN FEDERATION	1.46	1 224	1 224					
RWANDA (*)	0.06	50		50	99		149	
SAINT KITTS & NEVIS	0.06	50	50					
SAINT LUCIA	0.06	50	50					
SAINT VINCENT AND THE GRENADINES	0.06	50		50	82		132	
SAMOA	0.06	50	50					
SAN MARINO	0.06	50	50					
SAO TOME AND PRINCIPE (*)	0.06	50		50	568		618	
SAUDI ARABIA	0.77	646	646					
SENEGAL	0.06	50	50					23
SERBIA	0.06	50	50					
SEYCHELLES	0.06	50	50					
SIERRA LEONE	0.06	50	50		192		192	
SINGAPORE	1.07	897	897					
SLOVAKIA	0.11	92	92					
SLOVENIA	0.07	59	59					
SOLOMON ISLANDS (*)	0.06	50	49	2	47		49	
SOMALIA	0.06	50	50					
SOUTH AFRICA	0.42	352	352					
SOUTH SUDAN (**)	0.06	50		50	4	4	58	
SPAIN	2.47	2 071	2 071					
SRI LANKA	0.07	59	59					
SUDAN	0.06	50		50	131		181	
SURINAME	0.06	50		50	184		234	
SWAZILAND	0.06	50		50			50	
SWEDEN	0.74	621	621					
SWITZERLAND	0.95	797	797					
SYRIAN ARAB REPUBLIC	0.06	50		50	144		194	
TAJIKISTAN	0.06	50		50	6		56	
THAILAND	0.50	419	419					
the former Socialist Federal Republic of Yugoslavia (1)					501		501	
THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA	0.06	50	50					
TIMOR-LESTE	0.06	50		50	184		234	
TOGO	0.06	50	50					
TONGA	0.06	50	50					
TRINIDAD AND TOBAGO	0.06	50	50					
TUNISIA	0.06	50	43	7			7	
TURKEY	0.63	528	528					
TURKMENISTAN	0.06	50		50	60		111	
UGANDA	0.06	50	15	35			35	
UKRAINE	0.10	84	84					
UNITED ARAB EMIRATES	1.07	897	897					
UNITED KINGDOM	5.68	4 763	4 763					
UNITED REPUBLIC OF TANZANIA	0.06	50	50					
UNITED STATES OF AMERICA	25.00	20 964	20 964					
URUGUAY	0.06	50		50			50	
UZBEKISTAN	0.06	50	49	2			2	
VANUATU	0.06	50	50					
VENEZUELA	0.22	184	184					
VIET NAM	0.10	84		84			84	1
YEMEN	0.06	50	50					
ZAMBIA	0.06	50	35	16			16	
ZIMBABWE	0.06	50		50	67		117	
TOTAL (***)	100.06	83 907	80 186	3 721	9 276	5	13 001	2 976

Note 1 : The devolution of the amount owing by the former Socialist Federal Republic of Yugoslavia is to be ascertained.

* States which had not met their obligations according to the terms of their agreements as at 31 December 2012.

** The Republic of South Sudan became a Member State on 10 November 2011

*** Details may not add to totals due to rounding.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Table D

TECHNICAL CO-OPERATION PROJECT ACTIVITIES BY GROUP OF FUNDS
 ASSETS, LIABILITIES, NET ASSETS AT 31 DECEMBER 2012 AND
 REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2012
 (in thousands of Canadian dollars)

	United Nations Development Programme	Trust Funds and Management Service Agreements	Civil Aviation Purchasing Services Funds	Total 2012	Total 2011
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	(3 132)	188 456	17 333	202 658	150 143
Inter-fund balances	312			312	
Receivables and advances	3 823	5 174		8 997	4 869
Others	9	335		344	351
TOTAL ASSETS	1 012	193 966	17 333	212 311	155 363
LIABILITIES					
CURRENT LIABILITIES					
Advanced receipts	57	183 885	17 081	201 023	144 941
Accounts payable and accrued liabilities	772	8 831	252	9 854	8 032
Employee benefits	134	1 251		1 385	1 289
Inter-fund balances					1 108
TOTAL LIABILITIES	963	193 966	17 333	212 262	155 370
NET ASSETS					
Reserves	49			49	(7)
NET ASSETS (ACCUMULATED DEFICIT)	49			49	(7)
TOTAL LIABILITIES AND NET ASSETS	1 012	193 966	17 333	212 311	155 363
REVENUE					
Contributions for project agreements	4 712	96 824	3 591	105 127	104 770
Other revenue		240	11	251	18
TOTAL REVENUE	4 712	97 063	3 602	105 378	104 788
EXPENSES					
Staff salaries and employee benefits	2 859	34 091	65	37 014	30 715
Supplies, consumables and others	802	48 963	3 203	52 968	61 806
General operating expenses	184	1 370	49	1 603	1 407
Travel	269	2 500	53	2 821	2 865
Training	76	2 477		2 553	1 020
Administrative overhead charges	491	7 057	231	7 779	5 938
Other expenses	31	606	2	640	1 037
TOTAL EXPENDITURE	4 712	97 063	3 602	105 378	104 788
SURPLUS/(DEFICIT) FOR THE YEAR					

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Table E

TECHNICAL CO-OPERATION PROJECT ACTIVITIES
 TRUST FUNDS AND MANAGEMENT SERVICE AGREEMENTS
 RECEIPTS, EXPENSES AND BALANCE OF ADVANCE RECEIPTS
 FOR THE YEAR ENDED 31 DECEMBER 2012
 (in thousands of United States dollars)

Fund	Type of Fund	Balance as at 01-Jan-2012	Receipts		Expenses		Transfer from or to Other Funds	Refund of Contributions	Unrealized Exchange Gain or Loss	Balance as at 31-Dec-2012
			Contributions ⁽¹⁾	Interest and Other Income	Project Costs	Administrative Overhead				
Afghanistan	MSA	2 102		3	619	3				1 484
Angola	MSA	199			121	12				67
Argentina	MSA	15 738	32 864	116	22 301	1 341	(83)		(171)	24 821
Bahamas	MSA	10			4					6
Bangladesh	TF	16					(15)	(1)		
Barbados	TF	46								46
Bolivia	MSA	1 032	3 589	(1)	3 468	297	(91)		1	765
Bolivia	TF	12								12
Botswana	TF	68		1	2				1	68
Brazil	MSA	2 740		279	44	(3)			(299)	2 680
Cambodia	MSA	1								1
Cameroon	MSA		156							156
Cape Verde	MSA	131	80		6	1				204
Chad	MSA	44								44
China	MSA	26				26				
China	TF	37								37
Colombia	MSA	15	100	1	105	5			1	6
Comoros	MSA	9								9
Costa Rica	MSA	20 355	27 127	35	821	650				46 046
Costa Rica	TF	4								4
Cyprus	MSA	15			16	(1)				
Czech Republic	MSA	35								35
Côte d'Ivoire	MSA	(7)								(7)
Democratic Republic of the Congo	MSA	44			37	4				3
Denmark	MSA	1	93		53	5				36
Djibouti	MSA	291								291
Dominican Republic	MSA	192	2		10	1			(2)	181
Ecuador	MSA	1 990	8 256	5	3 384	139	(1)			6 727
Egypt	MSA	106			5	1				101
Equatorial Guinea	MSA	533	41	2	530	53				(7)
Ethiopia	MSA	738			499	17				222
Fiji	MSA	26								26
Gabon	MSA	(16)							4	(12)
Greece	MSA	27								27
Guatemala	MSA	918		(2)	341	22	(1)		1	553
Guyana	TF	7								7
Haiti	MSA								(1)	(1)
Haiti	TF	55								55
INTER-REGIONAL	TF	124	4		5	1				123
Iceland	MSA	3								2
India	MSA	1 932		1	356	45			1	1 532
Indonesia	MSA	3 964	336	4	1 199	137			1	2 969
Iraq	MSA	43								43
Iraq	TF	39								38
Italy	MSA		24		6	1				17
Jamaica	TF	6								6
Jordan	MSA		63		27	3				33
Kazakhstan	MSA		1 494	1	3					1 491
Lao People's Democratic Republic	MSA	(2)								(2)
Latvia	TF	8								8
Lebanon	MSA	1 029		2	62	6				962
Lesotho	TF	129								130
Liberia	MSA	16								15
Libyan Arab Jamahiriya	MSA	9								9
Macao Special Administrative Region of China	MSA	8			1					7
Mauritius	MSA	6								6
Mexico	MSA	14	177	1	78	5				109
Mexico	TF	59	1 856	1	1 454	128				334
Morocco	TF	70								70
Mozambique	MSA	765	263	(2)	557	56				413
Namibia	MSA	1 868	2 278	(6)	2 204	220			(61)	1 656
Nauru	TF	(3)								(3)
Nepal	MSA	27			14	1				12

(1): On a cash basis

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Table E
(Continued)

TECHNICAL CO-OPERATION PROJECT ACTIVITIES
TRUST FUNDS AND MANAGEMENT SERVICE AGREEMENTS
RECEIPTS, EXPENSES AND BALANCE OF ADVANCE RECEIPTS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of United States dollars)

Fund	Type of Fund	Balance as at 01-Jan-2012	Receipts		Expenses		Transfer from or to Other Funds	Refund of Contributions	Unrealized Exchange Gain or Loss	Balance as at 31 December 2012
			Contributions ⁽¹⁾	Interest and Other Income	Project Costs	Administrative Overhead				
Nicaragua	MSA	20								20
Nigeria	MSA	433		1		1				433
Nigeria	TF	9								9
Oman	MSA	15								15
Oman	TF	431	159	1	330	31				230
Pakistan	MSA	53			20	2				31
Panama	MSA	2 299	947	2	1 760	126	(50)			1 312
Panama	TF	21 617	2 050	23	13 328	320			1	10 044
Paraguay	MSA		32		32	2				(1)
Peru	MSA	13 482	7 159	19	15 245	284	(100)		52	5 084
Philippines	MSA	39								38
Philippines	TF	2 870		2	577	62			2	2 236
Portugal	TF	(1)								(1)
Qatar	MSA	38			2					35
Regional for Africa	MSA	3 217	39 352	(1)	2 776	1 501	(5)	(14)	9	38 280
Regional for Asia	MSA	549	250		437	35		(14)		313
Regional for Asia	TF	1 593	1 391	4	1 494	191	16		12	1 331
Regional for Europe	MSA	35								35
Regional for Europe	TF	32	80		76	8				29
Regional for Europe and Middle East	MSA	988	708	(3)	429	43	(1)			1 220
Regional for Latin America	MSA	169	417		341	12	5			240
Regional for Latin America	TF	2 074	4 737		1 583	256	105	(3)	1	5 080
Republic of Korea	MSA	91	23			68				46
Romania	MSA	11					(8)			3
Russian Federation	MSA	1			1					(1)
Rwanda	MSA	183		(1)	172	17				(7)
Saudi Arabia	MSA	1 442	8 373	234	8 286	434			2	1 332
Seychelles	MSA	56								56
Singapore	MSA	232	(108)			47		(12)		66
Singapore	TF	(4)	247		109	11				123
Somalia	TF	7 592	7 179	17			(153)	(3 000)		11 635
South Africa	MSA	205								205
Spain	MSA		53		45					7
Sri Lanka	MSA	198								198
Sri Lanka	TF	9							(1)	8
Sudan	MSA	1 634	353		916	92			1	979
Swaziland	MSA		600							600
Syrian Arab Republic	MSA	157			4					154
Thailand	MSA	266	60	(1)	60	34				231
Thailand	TF	30	64							94
Trinidad and Tobago	TF	8								8
UN Department of Peacekeeping Operations	MSA		95		101	10				(17)
Uganda	MSA	48	80		4	16				109
United Republic of Tanzania	MSA	(5)								(5)
Uruguay	MSA	9 819	812	14	2 184	194	(60)	(34)		8 173
Venezuela (Bolivarian Republic of)	MSA	(212)	201		1					(12)
Viet Nam	TF	14								14
Yemen	MSA	8								8
	LS	280	767	(2)	732	57	234		1	492
Total		129 680	154 883	761	89 378	7 036	(209)	(3 079)	(440)	185 181
Equivalent Canadian Dollars		129 732	153 804	759	89 647	7 057	(208)	(3 057)	(441)	183 885

(1): On a cash basis

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Table F

TECHNICAL CO-OPERATION PROJECT ACTIVITIES
 CIVIL AVIATION PURCHASING SERVICE FUNDS
 RECEIPTS, EXPENSES AND BALANCE OF ADVANCE RECEIPTS
 FOR THE YEAR ENDED 31 DECEMBER 2012

(in thousands of United States dollars)

Fund	Balance as at 01-Jan-2012	Receipts		Expenses		Transfer from or to Other Funds	Refund of Contributions	Unrealized Exchange Gain or Loss	Balance as at 31-Dec-2012
		Contributions ⁽¹⁾	Interest and Other Income	Project Costs	Administrative Overhead				
Afghanistan	930		4	531	16				388
Angola	(16)								(16)
Bahamas	(76)	8 295	7	101	135	(3)			7 987
Bangladesh	228		1	22	2				205
Bolivia	5								4
Canada	38								38
Cape Verde	30								31
Costa Rica	2 803	2 100	3	612	11		(2 178)		2 105
Cuba	17								17
Democratic People's Republic of Korea	6					(6)			
Egypt	(2)								(2)
Ethiopia	1 262		1	1 059					204
Fiji	1								1
Guinea	43								43
India	23			9	(3)				17
Lebanon	3 330		5	448	63				2 824
Lesotho	40			1					40
Libyan Arab Jamahiriya	62								61
Lithuania	(4)								(4)
Macao Special Administrative Region of China	(12)								(12)
Mozambique	20			13	1				6
Myanmar	521		1						522
Nigeria	74								74
Oman	720		1	555					165
Pakistan	(56)								(56)
Philippines	741		1	9	1				732
Russian Federation	52								53
Seychelles	(69)								(69)
Sudan	98								98
Suriname	6								6
Syrian Arab Republic	723		5						728
Trinidad and Tobago	165		4						168
Uruguay	642	187	1						830
Yemen	17								17
Total	12 363	10 581	36	3 361	230	(9)	(2 178)		17 202
Equivalent Canadian Dollars	12 312	10 507	36	3 371	231	(9)	(2 163)		17 081

(1): On a cash basis

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

**PART V: 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 2012**



External auditor of the
International Civil Aviation
Organization



**ANNUAL REPORT OF THE EXTERNAL AUDITOR
FINANCIAL PERIOD 2012**

(Courtesy translation)

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1. This annual report gives an account of the various audits carried out by the external auditor on the activity, accounts and management of International Civil Aviation Organization (ICAO) during the financial period 2012.

1. INTRODUCTION

1.1. Audits carried out by the external auditor

2. Since his last annual report covering 2011, the external auditor has performed nine on-site audits, as a result three management letters have been sent to the Secretary General, and two others are currently being processed, and this annual report has been written for the Council.
3. The present report gives account to the Council of these nine last audits. The table below shows the chronology of these audits and mentions, when needed, management letters sent to the Secretary General:

Table 1: Work done by the external auditor in the financial period 2012

Theme	Date of audits	Management letters to the SecGen	
		provisional	Definitive
APAC ¹ Regional Office	04-15/06/12	02/07/12	In process
Technical cooperation : projects in APAC region	04-15/06/12	02/07/12	In process
Administration Bureau (ADB) ²	15-26/10/12	05/02/2013	In process
Internal Audit (EAO) ³		-	-
ICAO Publications			
Audit on 2012 financial statements	15-26/10/12 et 18-30/03/13	In process	In process
Budget implementation in 2012	18-30/03/13	In process	In process
HR management in 2012			
IT management in 2012			

1.2. Modification in the clearing process for external auditor's findings and recommendations

1.2.1. Previous clearing process

4. During the first two years of auditor's previous mandate, in 2008-2009, a classical clearing procedure, strictly compliant with INTOSAI standards⁴, was applied for audit findings and recommendations. After each audit, an official draft report was

¹ APAC : Asia Pacific

² ADB : Bureau of Administration and Service

³ EAO : Evaluation and Internal Audit Office

⁴ INTOSAI : International Organisation of Supreme Audit Institutions. This international organisation defines, among others, recommended standards and practices for International Organisations external audit.

sent to ICAO Secretary General for clearance and a final report, including Secretary General's comments and draft action plans was issued and sent to the Council.

5. At the end of 2010, in view of the external auditor's mandate renewal, AGEA⁵ suggested the implementation of a new clearing process. Two new rules were proposed and accepted:
 - before sending the official draft report, an unofficial briefing note should be sent to the audited services, and copied to the Secretariat General, to ensure that the official clearing process would, even during the draft phase, be based on information previously counter-checked and commented by the audited services;
 - the audit conclusions addressed to the Council would only deal with topics falling under the Council's direct responsibility, whereas "micro-management" issues, if spotted by the external auditor, should be addressed separately, through "management letters" exclusively sent to the Secretary General (following the same process: unofficial briefing note, draft letter, final letter).
6. One must underline that such a "three-step" procedure (unofficial briefing note, followed by official draft report, followed by final report) is quite uncommon, and goes well beyond the usual international clearance process standard as set by INTOSAI (which recommends only a draft/final process), and followed by all other international organisations.

1.2.2. Council decision of 31 October 2012

7. On 31 October 2012, at the first meeting of the 197th session, the Evaluation and Audit Advisory Committee (EAAC) report for 2012 was presented to the Council. This report considered that:
 - external auditor's findings and recommendations were not always clear to ICAO services and Secretary General;
 - the Secretary General's action plans did not always bring the adequate answers to External Auditors recommendations.
8. On 6 December 2012, the Secretary General sent a letter to external auditor, to inform him that the Council had *"requested the external auditor to: i) work together with the Secretariat to ensure that all issues, recommendations and actions raised in the Annual Report were clearly understood and that, where a recommendation was agreed, clear, specific action steps were identified to address the audit finding and implemented as soon as possible; ii) prioritize his recommendations in future"*.

1.2.3. New clearing process

9. To answer the Council's decision, a discussion took place in October 2012 between the external auditor and the Secretariat. An agreement was reached to introduce two new rules:
 - a fourth step would be introduced in the clearing process: after receiving the audited services answers and comments to the unofficial briefing note, a new informal discussion should take place between external auditor and the Secretariat, to check again that, even if the answers did not mention any problem or

⁵ AGEA: Advisory Group on Evaluation Audit

misunderstanding about the external auditors unofficial findings and recommendations as presented in the briefing notes, all external auditor's conclusions were fully understood. The following steps remain the same: an official draft report is then sent to the Secretariat, the Secretariat officially accepts or rejects the recommendations and issues a draft action plan for the Council; taking into account Secretariat's answers and draft action plan, the external auditor issues a final report for the Council, and the Council takes a decision on the draft action plan presented by the Secretariat;

- the external auditor classifies each recommendation, according to a scale ranking 1 (urgent and/or high risk), 2 (medium) and 3 (not urgent and/or moderate risk).

10. The present report is based on this new clearing process.

1.3. Summary of the main observations

11. The present report contains 29 observations, of which 11 rank 1, 11 rank 2 and seven rank 3.

12. The eleven most important observations deal with:

- ARGF⁶ and AOSC⁷ financial evolution (observations 2 and 3);
- overdue Member States contribution receivables (observation 4);
- insufficient follow up and analysis of ICAO wage bill evolution (observation 5);
- need for a review of the policy and use of consultants in ICAO (observation 6);
- absence of systematic overall ICAO IT expenditure follow up (observation 7);
- time spent by Evaluation and Audit Office on non-core activities (observation 10), and subsequently, insufficient coverage of regional offices, technical cooperation and IT activity by internal auditors (observation 11);
- lack of instruments for comprehensive financial monitoring and management of ADB activities by ADB manager (observation 12);
- need for an adequate policy and system to measure translators' productivity and to control translation quality (observation 14);
- high level of core ICT activities outsourcing, compared with other organizations (observation 15).

13. Concerning previous recommendations of the external auditor, as at June 2012, 26 accepted recommendations were outstanding, five of which dated back to 2009. In the course of 2012, ICAO closed 12 recommendations, two of which dated back to 2009. As at 1 March 2013, the total number of outstanding recommendations arising from reports between 2009 and 2011 was 14.

⁶ ARGF: Ancillary Revenue Generation Fund

⁷ AOSC: Administration and Operational Service Costs Fund

2. ACCOUNTS CERTIFICATION – ICAO’S BUDGETARY AND FINANCIAL POSITION

2.1.External auditor’s opinion on the financial statements for 2012

AUDIT OPINION⁸

We have audited the financial statements of the International Civil Aviation Organisation (ICAO), for the 12 month period ended 31 December 2012. These financial statements include a statement of financial position at 31 December 2012, a statement of financial performance, a statement of changes in net assets, a statement of cash flow, a statement of comparison of budget and actual amounts for the period ended 31 December 2012 and notes including a summary of the accounting principles and other information.

Within the general framework of Article 61 of the Chicago Convention and by virtue of Article XII of the ICAO Financial Regulations, the Secretary General of the ICAO is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector Accounting Standards (IPSAS). This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of financial statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing (ISA). These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the financial statements are free from material misstatements.

An audit consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The design of the audit procedures is based on the external auditor’s professional judgment, as well as the risk evaluation that the financial statements include significant misstatements, resulting either from frauds or errors. In the context of this risk evaluation, the auditor considers the internal control in place for the preparation and presentation of the financial statements, in order to design appropriate audit procedures and not in order to express any opinion on the internal control. An audit also consists in evaluating that the accounting method applied and the presentation of the financial statements is appropriate and that the significant accounting estimates are reasonable.

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Based on our audit, the financial statements give a fair view of the financial position of the ICAO at 31 December 2012, as well as the financial performance, the cash flow and the comparison of budget and actual amounts for the 12 month period ended 31 December 2012 in conformity with the IPSAS.

(Signed)
Didier MIGAUD

⁸ Cf. Annex 1: Original signed by the external auditor

2.2. ICAO negative net asset increased by MCAD 14.8 in 2012

14. ICAO net assets amount to MCAD⁹ (44.8) as at 31 December 2012 (versus MCAD (30.0) as at 31 December 2011 and MCAD (29.7) as at 31 December 2010). The MCAD 14.8 decrease in net assets between 2011 and 2012 is mainly due to the increase by MCAD 12.1 of the employee benefits liability (After Service Health Insurance, Repatriation Grant and Annual Leave). Another reason for this decrease is the MCAD 1.7 loss in 2012 made by the Ancillary Revenue Generation Fund (ARGF).
15. The MCAD 12.1 increase in Employee benefit liability is explained as follows:

	In MCAD
Increase of the liability in 2012	7.1
Actuarial loss currency exchange rate	2.5
Actuarial loss medical and dental cost	4.0
Actuarial loss discount rate	1.6
Subtotal	15.2
Utilization in 2012 financed by Regular Budget on a pay-as-you-go basis	-3.1
Increase in Employee benefit liability	12.1

16. As the employee defined benefit obligation (DBO) is calculated following an actuarial method, the liability amount may change significantly from one year to another due to changes in actuarial assumptions and these changes may result in an increase of ICAO net negative assets.

Finding n°1 : ICAO will have to face significant disbursements in the future to meet its obligation towards former employees and these disbursements, currently financed on a “pay-as-you-go” basis, are about to increase due to trends in medical and dental costs and due to the average age of ICAO employees.

Recommendation n°1 : In such a context, it would make sense to anticipate the financing of future payments by creating a specific funding vehicle (that may be outsourced or managed within the United Nation organization) that could be used in addition of Member States contributions to meet this obligation.

The Secretary General indicates that this issue has to be followed up at UN level.

Priority 3

⁹ CAD: Canadian dollars

2.3. ARGF experienced a MCAD (1.7) loss in 2012

17. The ARGF made in 2012 a net MCAD (1.7) loss (versus a 0.4 MCAD surplus in 2011). This loss resulted on the one hand from a MCAD 0.6 decreases in revenue linked to the decline of the publication market. On the other hand, ARGF faced a MCAD 1.5 increase in expenses including an increase by MCAD 0.4 in staff costs, due to the development of the e-commerce platform and to the Trainer Plus Programme and an increase by MCAD 1.1 in general operating expenses due to the rise of contributions to the Regular Budget.
18. Funding of the ICAO approved budget for the 2011- 2013 triennial period includes a MCAD 14.1 transfer from ARGF surplus (MCAD 4.37 in 2011, MCAD 4.68 in 2012 and MCAD 5.08 in 2013). This transfer was recorded in the books so the fact that ARGF experienced a loss in 2012 indicates that the surplus generated from ARGF activities was insufficient to cover this transfer to the regular budget, which led to a MCAD (1.7) decrease in ARGF reserves in 2012.

Finding n°2: total ARGF reserves amounted to MCAD 5.7 as at 31 December 2012 (versus MCAD 7.7 as at 31 December 2011). These reserves may decrease again in 2013 if ARGF continues to generate an insufficient surplus from operations to cover the cost of the transfer to the regular budget.

Recommendation n°2: the decreasing trend in ARGF reserves as well as this activity's business plan have to be taken into consideration when deriving the estimates of the transfers from ARGF surplus figures that will be included in the 2014-2016 triennial period budget.

The Secretary General agrees with the recommendation and will implement it before June 2013

Priority 1

2.4. A MCAD 0.5 arrear payment from Democratic Republic of the Congo was recorded in the regular budget and not in the incentive for settlement of arrears account

19. ICAO managed to recover a MCAD 0.5 assessed contribution arrear from Democratic Republic of the Congo in 2012. This cash was recorded in the regular budget fund instead of being recorded in the Incentive for Settlement and Arrears Accounts.
20. We understood that ICAO management consider that such arrear payments shall be recorded in the Incentive for settlement and arrears accounts only when the regular budget is not experiencing a cash deficit.
21. We also understood that a working document was prepared by ICAO to inform the Council on this treatment.

2.5. Administration and Operational Costs Fund (AOSC) became profitable in 2012

22. After a long history of losses, Administrative Operational Service Cost Fund experiences a MCAD 1.2 surplus in 2012 (versus a kCAD 951 loss in 2011). This performance is not directly linked to the technical cooperation activities. It results mainly from changes in estimations and in allocations within ICAO.
23. These changes in estimations and in allocations had a positive MCAD 2.2 impact in the 2012 net result that can be analysed as follows:

	In MCAD
Increase in interest on investments (50% of interests on deposits in excess of KCAD 100 have been kept by ICAO since 2011: it was reversed to contractual States before that)	0.2
Increase in charge travel (10% mark up)	0.2
Other increase in revenue	0.1
Total increase in revenues	0.5
Costs transferred to regular Budget (including the five regional officers transferred from AOSC to Regular budget: the information was given to the Council by the Secretary General in its speech in the 194th session)	0.8
Decrease in staff direct cost to projects	0.5
Decrease in support cost provided by Regular Budget	0.4
Total decrease in expenses	1.7
Total increase in net result	2.2

Finding n°3: Changes in estimations and in allocations between funds recorded in 2012 may lead the regular budget to partially finance technical cooperation activities.

Recommendation n°3: Council should request from the Secretary General to be provided with a summary detailing all estimation and allocation changes impacting AOSC net result on an annual basis. This summary should clearly show how regular budget contributes to the financing of technical cooperation activities.

The Secretary General disagrees with the finding and the recommendation: he strongly denies the fact that regular budget may partially finance technical cooperation activities and considers the AOSC budget and mid-year forecast to be a sufficient level of information for the Council. In the external auditor's view the transfer of five regional officers from AOSC costs to regular budget cost may be analysed as a partial funding of the technical cooperation activities by the regular budget. In addition to this, the external auditor considers the information provided to the Council to be insufficient at this stage. As a consequence, the external auditor recommends that a detailed analysis explaining the reasons of the return to profitability of AOSC fund in 2012 be prepared by the Secretary General and communicated to the Council.

Priority 1

2.6.Overdue Member states contribution receivables

24. We noted significant overdue in the Member States contribution receivable accounts as at 31 December 2012. The MCAD 13 gross receivable includes a MCAD 3.5 receivable with 14 group A Member States which reached an agreement with ICAO to settle their arrear and a MCAD 4.2 with 10 group B Member States which have an overdue for more than three years. The six group A Member States and 10 group B Member States which lost their voting rights due to their overdue represent a MCAD 6.8 gross receivable at 31 December 2012, and MCAD 7.5 accordingly by updating the list of 4 group B new Member States at 1 April 2013.
25. During the recent years, ICAO recorded a MCAD 0.5 allowance for the former Socialist Federal Republic of Yugoslavia when this Member State had ceased to exist. In addition to this, group A and group B Member States receivables were presented as non-current assets and subject to a discount amounting MCAD1.7. As a consequence the net receivable recorded in the assets amounts to MCAD 10.8.
26. ICAO finance branch considers that there is no ground to justify an additional allowance for bad and doubtful debts as there are no cases where a Member State has indicated that no payment would be made. ICAO finance branch also estimates that agreements will be reached to settle arrears over a maximum period of 20 years for Member States that face overdue debts of over five years or were unable to comply with their arrears agreement. We also understood that ICAO expects to collect overdue receivables prior to the 2013 General Assembly given that some Member States would like to retain their voting rights.

Finding n°4: the external auditor noted in 2012, ICAO collected the payment of the MCAD 0.5 overdue receivable with the Democratic Republic of the Congo. However, the collection process remains unsatisfactory and the overdue receivable amount has increased since 2011.

Recommendation n°4: this situation may require ICAO to revise its position regarding bad and doubtful debt allowances, especially if no significant improvement is noted in the debt collection process in 2013. For instance, the Member States that lost their voting rights (representing a MCAD 5.4 receivable as at 31 December 2012) could be subject to an allowance. We informed the Secretary General on this issue in our management letter.

The Secretary General disagrees with the recommendation as he considers that no allowance is needed as long as the Member States did not express their intention not to meet their obligations. He also mentioned that the discount recorded on the non-current assessed contribution receivable reduces the amount of the asset. Lastly, he argues that an allowance will imply an increase in the Member States future contribution to compensate the loss. The external auditor confirms that this judgmental difference is material as it may have consequence on the audit opinion in the following years. The external auditor also indicates that an allowance is not a write off and has no cash impact. As a consequence there is no link between this allowance and the level of Member States future contributions and ICAO will have to do its best effort to collect the overdue assessed contribution receivable, even after recording an allowance.

Priority: 1

3. HUMAN RESOURCES

27. The examination of personnel management in 2012 led to a review session in Montreal from 18 to 29 March 2013.

3.1. Total wage bill as a proportion of the regular budget

28. The staff wage bill is of primary importance in the expenditure of the ICAO's regular budget program. While there was a tendency towards a relative decrease in payroll expenses within the ICAO between 2008 and 2011 (83% to 77%), this trend was reversed in 2012 with payroll now representing 78.57% of the budget:

**Table 2: Weight of payroll expenses in 2012 expenditure of regular budget
(in thousands of Canadian dollars)**

Regular program	2011	2012
Total regular program expenditures	89,416	93,773
Wage bill regular program (1)	68,608	73,682
% wage bill/total expenditures	76.73 %	78.57%

(1) Total wage bill includes salaries and various associated costs (training, social projects, etc.)

(Source: ICAO)

29. The wage bill increase has been kCAD 5,074, or 7.4%, while the staff numbers have remained broadly stable over the course of the regular budget: 527 positions in 2011 (506 "core" positions and 21 "surplus" positions) as against 530 in 2012 (515 "core" positions and 15 "surplus" positions).

30. The figures provided by the finance department in explaining this discrepancy are not always consistent. Nevertheless, one reason for this raise is increased expenditure on consultancy. Total payroll can be divided into two categories, corresponding on one hand to ICAO personal strictly speaking, and to consultants on the other:

Table 3: Total wage bill of staff and consultants (in thousands of Canadian dollars)

Ordinary budget program	2011	2012	Diff.
Consultants	3,943	5,114	1,171
ICAO Personnel	64,665	68,568	3,903
Total	68,608	73,682	5,074

(Source: ICAO)

31. The increased consultant expenditure corresponding to the presence of consultants in the accounts (accounts 55405-55415) is particularly strong: + 26.69% in one year.

32. But beyond this increased consultant expenditure corresponding to the presence of consultants in the accounts, part of the expenditure on consultants was assigned to ICAO staff salary accounts (accounts 50105-50910), given that they performed the functions of unavailable ICAO staff. The amounts involved totaled kCAD 425 for ten consultants which were placed on the professional (P¹⁰) salary account and kCAD 137 for nine consultants which were placed on the employee (GS¹¹) salary account. This gives a total of kCAD 562 if we limit ourselves to data taken from Agresso by the external auditor.

33. In total, consultants represent MCAD 5.7 in the 2012 budget.

34. A second factor in the total payroll increase in 2012 results from the substitution of personnel in employee status (GS) by staff in professional (P) status. The Council, when discussing the last two triennial budgets, wanted in fact to increase the relative share of professional (P) staff. This shift began in 2011 and continued in 2012. Within the scope of the regular program budget in 2012, there were over 15 P and 12 GS less, for a slight global increase to 530 (+ three staff compared to 2011).

35. Given that the average cost of P is more than two times that of GS, the increased wage bill makes perfect sense:

Table 4: Standard personnel costs (in thousands Canadian dollars)

D2/6	D1/8	P-5/9	P-4/12	P-3/9	P-2/10	P-1/4	
264,070	251,198	214,429	187,431	160,520	137,678	108,503	
GS-9/11	GS-8/11	GS-7/11	GS-6/10	GS-5/11	GS-4/10	GS-3/1	GS-2/10
86,463	79,601	73,299	65,529	60,413	55,728	51,436	47,543

(Source: ICAO)

36. Financial management is not able to quantify the financial impact of the substitution of P for GS employees

¹⁰ (P): Professional

¹¹ (GS): General service

37. A third factor in the payroll increase in 2012 regular budget program concerns the use of ICAO personnel that were funded partly or wholly by other funds in 2011:
- thus, the funding of five officers in charge of technical cooperation in the regional offices was transferred in 2012 from AOSC budget funds to regular budget funds, which improves the perceived performance of the AOSC at the expense of the regular budget¹². According to the finance department, the cost of these transfers amounted to kCAD 323;
 - similarly, positions financed by ACIP¹³ funds were transferred (kCAD 718 according to the finance department) to the regular program budget, in accordance with a decision of the Council;
 - finally, according to the finance department, other personnel were transferred to the regular program budget from other areas, which represents a cost of kCAD 556 in 2012.
38. The increase of the index by 3.17% (from 1 April 2012) resulted in an additional budgetary cost in the order of 610 kCAD in 2012, according to the finance department.
39. Although the reclassification of staff of GS status has had only a minor impact on payroll changes, salary increments and various individual factors related to recruitment and departures have resulted in more considerable repercussions amounting to approximately MCAD 1.7, according to the finance department.
40. Finally, with regard to the wage bill, accounting expenses (MCAD 73.7) were higher than expected (doc 9955 P 112) (MCAD 71.57)¹⁴ amounting to a discrepancy of MCAD 2,1 in 2012.

¹² The information was given to the Council in document C-WP / 13764 on 4 November 2011

¹³ ACIP: AFI Comprehensive Implementation Programme

¹⁴ This figure includes salaries (MCAD 67.99) and the position – “Discretionary staff-related costs” (MCAD 1.12) to which the role of consultant is added: MCAD 3.46

Finding no. 5: The total payroll, which constituted since 2008 a declining proportion of the total regular budget, increased sharply in 2012. This increase is mainly the result of a very significant increase in the use of consultants and the transfer to the payroll budget of various expenses which had previously been assigned to other funds. The basic information, not always numerical, and when numerical, not always auditable, has generally been given to the Council in due time, but in a sparing manner, and lacking entirely an analysis of the evolution of the wage bill. The external auditor for his part noted that the finance department itself had not received such an analysis, and sometimes contradictory and often imprecise responses, generally not auditable, were made to its investigations.

Recommendation no. 5: The wage bill represents nearly 80% of budget expenditure. The General Secretariat and the finance department should be invited by the Council to submit an annual management report explaining clearly and in detail, in an auditable form, major changes to the payroll as compared to the previous year under the program funds from the regular budget and other major funds related to the regular budget (AOSC, ARGF, etc.), and the evolution of discrepancy between standard costs used to establish the triennial budget and standard costs actually recorded each year on year.

The Secretary General proposes to accept this recommendation and will prepare and present to the Council an annual report in line with the external auditor's recommendation.

Priority 1

3.2. ICAO positions on 31 December 2012

41. A headcount freeze was applied under the 2011-2013 triennium, which provides a maximum of 554 "established" positions for 2012 (an increase of three units on 2011), corresponding to a fund which falls within the scope of the program budget.
42. An "established" position corresponds to a precise set of criteria, bearing in mind that, for 2011-2013, all job descriptions fall within the basic employment ceiling, based on standard costs, and financial estimates from the triennial budget approved by the Council and the Assembly. Positions authorised in this way are financed by funds 1101 (529 positions in 2012), 1107 (19 positions) and 1108 (six positions).
43. It is also noted that there is another type of "established" position within the scope of the AOSC funds (49 vacancies): but the designation "established" only means in this case that the position has been authorised by the Secretary General and the employment ceiling established in the regular budget does not apply.
44. In practice, all "established" positions provided for in the employment ceiling are never fully occupied, which provides, if necessary, the recruitment of consultants (see below), or ICAO staff, which are designated "supernumerary"¹⁵, as they do not correspond to the "established" designation: these positions only open temporarily, though they may be occupied by personnel with permanent ICAO

¹⁵ These supernumeraries covered by the regular budget are an exception. As a general rule, and as explained by the finance department, ICAO supernumerary staff are those remunerated by funds other than the regular budget.

contracts. There are a total of 154 “supernumerary” positions, of which only a part are assigned to the regular budget.

45. In total, the ICAO has 758 conventional positions (ICAO staff). Not all are occupied.

3.3.ICAO personnel on 31 December 2012

46. ICAO staffs are fewer than those in “established” positions allowed by the headcount freeze. Out of 554 positions, there were 514 positions counted by the database on 31 December 2012, 514 occupied positions (in reality 513, because two positions were funded at 50% by regular budget).

47. In addition, out of 49 "established" positions within the AOSC, 38 positions were filled.

48. Finally out of 154 vacancies designated “supernumerary”, 145 were occupied.

49. The number of positions recruited for under the “supernumerary” designation varies greatly from year to year, depending on the requirements and resources: in 2011, out of 186 open positions, 153 were occupied and in 2012, out of 154 open positions, 145 were occupied:

Table 5: Table no.4: “Supernumerary” staff per fund (number of occupied posts)

Funds	31/12/2011	31/12/2012
Regular budget	21	15
AOSC	30	28
ARGF	62	65
AVSEC ¹⁶	8	8
TF ¹⁷	8	7
ECAC ¹⁸	14	14
TSSF ¹⁹	2	1
Other funds	8	7
Total	153	145

(Source: ICAO)

¹⁶ AVSEC: Aviation Security

¹⁷ TF: Task Force

¹⁸ ECAC: European Civil Aviation Conference

¹⁹ TSSF: Provisional Fund for Staff Remuneration

50. “Supernumerary” staff are employed in all departments ICAO:

Table 6: Table no. 5: Breakdown of supernumerary staff, 31 December 2012 (number of occupied posts)

OSG	ADB	ANB	ATB	RO	LEB	FIN	TCB	Total
4	59	14	14	25	2	6	21	145

(Source: ICAO)

51. This table shows that seven officials were removed from the wage bill in 2012 by states that managed their salaries under a variety of procedures. All have ICAO status (ICAO staff), and are listed in the category of "supernumerary".

52. The development in ICAO staff numbers between 2011 and 2012 is the sum of departures (75) and recruitments (73). Therefore, the wage bill in respect of this category is stable. The corresponding development between 2011 and 2012 for all funds (excluding technical cooperation funds) was as follows:

Table 7: Developments in ICAO staff (number of occupied post)

Positions funded by	2011	2012
Regular budget, established	506	515
AOSC, established	41	38
Supernumerary	153	145
Total workforce on the 31/12	700	698

(Source: ICAO)

53. The number of vacancies in all funds (excluding technical cooperation) decreased from 118 at end of 2010 to 84 at end of 2011 and 60 at end of 2012:

Table 8: Vacant positions

Funds	31/12/2011	31/12/2012
Regular budget, established	43	40
AOSC, established	8	11
Regular budget, supernumerary	7	4
AOSC, supernumerary	2	2
ARGF	10	2
Other funds	14	1
Total	84	60

(Source: ICAO)

54. Out of 60 vacancies at the end of 2012, 40 were “established” positions funded by regular budget, 11 “established” positions funded by AOSC fund and nine were “supernumerary” (all sources of funding).

55. Regarding the breakdown of staff between the various ICAO services, the situation as of 31 December 2011 and 2012 was as follows:

Table 9: Breakdown of staff in the ICAO (acronyms represent different departments)

	President	OSG	ADB	ANB	ATB	RO	LEB	FIN	TCB	Total
2011	2	14	213	108	74	166*	18	43	62	700
2012	2	16	207	117	79	167*	15	38	57	698

*This figure includes ECAC personnel with ICAO status and ACIP staff
(Source: ICAO)

3.4. Seconded staff not covered by the ICAO status

56. In addition to the seven seconded staff whose remuneration passed through the ICAO (which have status and are counted as supernumerary), personnel are made available free of charge by Member States, in addition to personnel with ICAO status. Having increased between 2010 and 2011, their numbers stabilised in 2012 at 28:

Table 10: Evolution of staff made available (number of agents)

	2010	2011	2012
Argentina	-	1	-
EU	-	-	1
Saudi Arabia	1	1	-
Canada		2	1
China	2	10	10
Colombia	-	-	1
Cuba	1	-	-
Spain	-	1	-
France	4	6	8
Great Britain	-	1	1
Italy	2	1	1
Malaysia	1	1	1
Singapore	1	3	4
Sweden	-	1	-
Switzerland	1	1	-
US	6	-	-
Total	19	29	28

(Source: ICAO)

3.5. Consultants

57. In 2011, procedure relating to consultancy staff under "special service agreements" (SSA) within the regular budget and other proprietary funds was amended as of 1 November :

- uniform rules were established: Contracts are for a maximum of eleven months, renewable three times, with an obligatory period of one month between contracts;
- the human resources department establishes the framework for recruitment and remuneration;
- the employing departments, and not human resources, are responsible for recruitment.

58. ICAO employed 161 contracted staff throughout 2011 (revised retrospectively in 2012) corresponding to 1064 months, the equivalent of 97 man/ year (based on

11 months), and 202 consultants during the year 2012²⁰ corresponding to 1423 months, the equivalent of 129 man/ year (+ 33%), a figure that is consistent with the financial data.

59. After reprocessing, the wage bill for ICAO staff (excluding TCB²¹) rose in 2012 to MCAD 91.2 for 641 staff (deduction of 57 TCB staff). The same reasoning can be applied to FTE (full time equivalent) consultants, taking into account that the number of consultants employed by TCB is negligible:

Table 11: Average cost of staff and consultants²²(in Canadian dollars)

	Wage bill	Number	Average cost
Consultants	9,295,006	129	72,054
ICAO personnel	91,175,212	641	142,239

(Source: External auditor)

60. The increased use of consultants has undeniable financial benefits, they cost about half as much as ICAO staff. But in terms of human resources management, an increased use of consultants can affect the performance of departments²³: ANB²⁴ used 63 consultants in 2012 and ADB²⁵ used 88, 53 in the IT section which has only 21 ICAO staff where there had been 37 consultants and 18 ICAO staff in 2011²⁶:

Table 12: Distribution of consultants

	OSG	ADB	ANB	ATB	RO	LEB	FIN	TCB	Total
2011	0	48	60	23	16	0	11	3	161
2012	0,5	88	63	29	16	0,5	4	1	202

(Source: ICAO)

3.6.Total staff working with ICAO (excluding technical cooperation funds)

61. On December 2012, the ICAO's human resources (excluding Technical Cooperation "field staff" and personnel contractors) was composed of 698 ICAO staff, 28 staff made available for free by States and 129 consultants (full time equivalent), for a total of 855 staff (826 in 2011 according to the same calculations and the same scope).

²⁰ This corresponds to 314 contracts (one staff can benefit from several contracts during the year taken into consideration).

²¹ TCB: Technical Cooperation Bureau

²² Note that the ICAO has access to standard personnel costs in establishing its budget. This is not the case for consultants.

²³ It is recommended to avoid the use of consultants in sensitive positions which require a degree of continuation.

²⁴ ANB: Bureau of the Air Navigation

²⁵ ADB: Bureau of Administration and Service

²⁶ The EAO was investigating its use of consultants during the external audit.

62. Personnel contractors paid by the day (including interpreters) are not counted above: 55 were used in 2011, with an average cumulative contract of 22.5 days, and 66 in 2012, with an average cumulative contract of 21.5 days.
63. It was not possible, on the basis of data provided by the ICAO departments to say exactly how many full time equivalent consultants are recorded in the regular budget, and how many are linked to other funds. An approximation, made by calculating the average cost of one full time equivalent consultant and comparing it to the expenditure on consultants in the regular budget gives an estimate in the order of 74 consultants (and thus, full time equivalent consultants paid by other funds would be approximately 55 in number).

Finding no. 6: as already observed in the past, the number of staff actually recruited by the ICAO is much higher than the number of staff funded by the regular budget, if one takes into account full time equivalent consultants, the number of staff paid from the regular budget is approximately 604, while the number of staff paid by the ICAO (excluding technical cooperation funds) is approximately 855. We also note a net increase in the number of consultants both on the regular budget and other funds.

Recommendation no. 6:

Taking into account the increasing number of consultants, and recognizing the financial benefit of the use of consultants, it would be advisable to undertake a review of the policy and use of consultants in ICAO so as to identify challenges and areas for improvement.

The Secretary General accepts this recommendation: a Council working document on a review of the consultants' policy will be presented to the Council at its next session. This paper will review challenges, provide an update of the policy and other measures for improvements.

Priority 1

4. INFORMATION AND COMMUNICATION TECHNOLOGY

64. From 18 to 29 March 2013, the external auditor conducted a review of IT operations within the ICAO. Firstly, the objective was to verify the accuracy of attendant information provided to the Council in the triennial budget and various related documents. Secondly, the objective was to see how IT operations - still relatively dispersed within the Organisation - met the Organisation's requirements in an economic and effective manner with a view to making recommendations if necessary.

4.1. The IT budget

65. The information and communication technology (ICT) budget is integrated in the management support and administration budget. It rose to MCAD 16.8²⁷ for 2008-2010 period (MCAD 2.9 of which remained after the period in question). Currently, MCAD 18,5 are planned for 2011 -2013 (including 2.9 MCAD issuing from a report related to the previous triennium, the initially voted budget being MCAD 14.2), with the following annual breakdown for the period 2008-2013:

Table 13: IT budget (in thousands of Canadian dollars)

Year	Initial assignment	Assignment amount	Assignment Relat. Transfers	Year 1 report	Total	Salary costs	Total
(ex personne costs)							
2008	1,546,382	359,585	510,860		2,416,827	2,035,647	4,452,474
2009	1,878,757	836,050	109,375	1,232,354	4,056,536	2,134,183	6,190,719
2010	1,851,967	898,015	2,614,972	782,118	6,147,072	2,077,652	8,224,724
2011	2,803,930		1,004,984	2,940,624	6,749,538	1,880,575	8,630,113
2012	2,705,519	287,526	-104,536	1,717,836	4,606,345	2,038,805	6,645,150
2013	3,110,525			860,902	3,971,427	1,788,621	5,760,048

(Source: ICAO)

4.1.1. Approved budget and actual budget

66. The difference of MCAD 4.3 between the approved budget and the actual provisional budget for 2011-2013 period is based on the following:

- the aforementioned report costing MCAD 2.9 from the previous triennium concerned funds budgeted, but not spent, in 2010;
- additional allocations, during the year 2011, to a total of kCAD 788.6, as well as transfers of kCAD 216.3;
- a decrease in the 2012 initial budget, excluding reports, of kCAD 304 offset throughout the year and at year-end by additional balancing of kCAD 414, DADB transfers amounting to kCAD 35.7²⁸, and additional resources from the AOSC fund of kCAD 103;
- a decrease in the 2013 budget, excluding deferrals, of kCAD 192 offset by additional resources from the AOSC fund for an amount of kCAD 321;

67. Excepting the report from the previous triennium, the current budget for 2011-2013 period amounts to MCAD 15.5 (MCAD 14.2 million initial budget + MCAD 1.4 in transfers and additional grants + MCAD 0.4 in resources from AOSC funds and - MCAD 0.5 decrease in the budget).

68. The overall increase shown in the table above, of 10% of the IT budget between the two trienniums, is the results of various factors:

²⁷ The figure of MCAD 18.6 indicated in the 2010 report did not take into account the finalization of reports from n-1 years in the three year period.

²⁸ For 2 consultants on the EDRMS project.

- the report from the previous triennium (MCAD 2.9), the initial allocation of new resources (excluding the report) being no more than MCAD 15.5 for 2011-2013 - a decrease of 8% on the previous triennium;
- the change in scope of the IT budget (covering all IT operations in 2008-2010, but only representing the ICT section between 2011-2013). Accordingly, the budget allocated to IT in other sections must be added;
- A reduction in the budget for 2012 and 2013;

69. For 2011-2013 triennium, and regarding only the budget of the ICT section, these allocations represent 5.68% of the regular ICAO budget and 12.37% of all management and administration credit (which themselves represent a budgetary category which changed greatly after the previous triennium).

4.1.2. Distribution of IT budgetary allocations

70. Starting in 2011, IT allocations were divided into three broad categories of support operations: "PS" programs, representing up to 60% of IT credit; management and administration "MAA" - 35%; management and administration of managerial bodies "MAA GB" - 5%.

71. Therefore, the budgets in question are not directly comparable with those of the previous triennium, since the methods of allocating expenditure between support programs and operations have been modified, as outlined in the document presenting the budget from 2011 to 2013²⁹.

72. In addition, the 2008-2010 budget reflects a host of computer-related expenses (including staff costs), some of which were not passed by the ICT section, whereas, since 2011, the budget reflects the expenses of the ICT section only.

73. As before, the range of the Organisation's IT expenditure and expenditure by the ICT section directly did not overlap in 2012, other management services being liable to affect expenditure through the IT budget.

74. Expenses identified as belonging to the ICT section's budget represented MCAD 6.2 in 2012, including MCAD 5.8 which was charged to the regular budget.

**Table 14: Expenditure devoted to the regular IT budget and ICT funds
(in thousands of Canadian dollars)**

	2011	2012
Regular budget	7,604	5,799
ICT funds	238	396
Total	7,842	6,195

(Source: ICAO)

²⁹ Working paper A37-WP/43 paragraph 28: structural costs are now recorded in resources relevant to support execution strategies.

75. As a reminder, accounting expenses devoted to information technology in the last triennium which appeared in the external auditor's preceding annual report were:

Table 15: ICT expenditure during previous triennium (in thousands of Canadian dollars)

	2008	2009	2010
Total IT spending posted to accounts of which ICT Section	3,905 2,888	6,113 5,151	5,518 4,379

(Source: ICAO)

76. Differences in the budget structure preclude the comparison of expenditure between 2008-2010 and 2011-2013 trienniums. The structure of the former budget highlighted all the projected expenditure of the IT on the regular budget (whatever the decision-making department), with the exception of expenses that would not have been recorded as pertaining to IT in a standard accounting procedure. The new budget only records the projected ICT budget.

4.1.3. Assessment of the total IT spend financed by the regular budget

77. Starting from 2011, IT expenditure is grouped into a "supporting implementation strategy" managed by the ICT section, and must as such, before allocation, be authorised by the head of the budget section. This new approach is accompanied by the assignation of IT expenditure to a single cost centre, which should enhance visibility of this operation's budget, and help focus responsibility for the distribution of funds allocated to IT.

78. Although it was not possible to verify thoroughly that this rule is strictly adhered to, the use of this single cost centre by management has improved compared to the previous year.

79. In order to have an overview of IT costs financed through the regular budget the following should be taken into account:

- salaries of staff in regional offices (eight so far), amounting approximately to kCAD 617;
- technical management staff in headquarters who may have computer skills without same being made available to the ICT section. At year-end 2012, the external auditor was able to identify, in a non-exhaustive manner, 14 computer specialists - one in part-time status and six consultants (some highly part-time) recruited by ATB, four conventional staff and one consultant at ANB and two conventional staff working partially on IKS³⁰ in the Finance department - which represents approximately kCAD 710. The personnel in question have both computer skills and professional skills;
- potential IT spending assigned to the managerial program budget for the implementation of specific computer applications or the outsourcing of some services. Unlike in 2011, the implementation of the cost centre has been properly applied, and no significant expenditure has been recorded outside of this. The largest expenditure concerned payments to the University of China (CAFUC) for the ICORAS ATB project - a total of kCAD 60, of which kCAD 40 related to 2013.

³⁰ IKS: ICAO Knowledge Shared Network

80. Regarding the two ATB high-priority³¹ projects identified last year, whose realisation is beyond ICT resources for an estimated cost of more than MCAD 1, the reduction in its scope and the sharing of a tool with the ANB, allowed expenditure to be reduced significantly, by approximately kCAD 60 in 2012 (for an expense that could reach kCAD 160 in 2013).

Finding no. 7: The cost of IT services is difficult to comprehensively assess, due to the dispersion of IT operations across the various structures of the ICAO. Spending under the aegis of the ICT Section has represented an annual volume of MCAD 6.2, a decrease of MCAD 1.6 on the previous year. The year 2011, however, saw an exceptional expense of more than MCAD 2 on infrastructure.

The new budget does not allow for the reassignment of the overall cost of IT operations to the ICAO. However, the increasing use of the ICT cost centre aids a tendency to approach this global cost figure as compared to 2011. Apart from the personnel spend, the auditor did not find any significant sums that should have been assigned to the ICT section. However, the IT personnel outside the ICT represented a roughly estimated wage bill of MCAD 1.3.

Recommendation no. 7: Given the financial burden of the ICAO IT operation – in the order of 12.37% of the budget, the external auditor recommends, as part of budget preparation for the next triennium, to identify IT expenditures and IT staff costs specifically under each Strategic Objectives budget and accounting classification.

The Secretary General does not accept this recommendation for IT staff costs, arguing that it would lead to an allocation of these costs to supporting implementation strategies: external auditor does not have in view such an allocations – he only considers that an overall information on ICAO IT costs, independently of budget specific allocations, should be annually provided to the Council.

Priority 1

4.2.IT personnel

81. On 31 December 2012, the ICT section consisted of 20 ICAO Staff, representing 3.9% of conventional personnel in the Organisation, and a wage bill of MCAD 2.04 annually. The apparent growth of the workforce (18 staff at end of 2011) actually comes from the assimilation into the ICT of four staff from the WMU (Web Management Unit), in addition to the IRIS Group (already counted last year with 18 staff), the recruitment of a temporary staff member and three departures. The section had two unoccupied positions at the end of 2012, the post of IT Security Officer has been closed upon departure of the member of staff in question.
82. Three agents with ICAO status who were not attached to the ICT section were partly paid by the ICT section in 2012 (one in HR, one in FIN and one in TCB) for work related to the ICT.

³¹ “UASP Audit Manager replacement Software”, for security department, valued at 400,000 CAD, and “CO2 Reporting System”, for environment department, valued at 600,000 CAD.

83. Apart from ICAO personnel, staff under the management of the ICT also include:
- staff in charge of IT related to the budget of each regional office - eight people belonging to the ICT;
 - finally, 35 consultants (including three placed under the control of the ICT but paid by the ATB), who worked on 31 December 2012 for the ICT section. Given the multiplicity of contracts, some of which are not managed by the ICT, and the rules governing contract renewal, it is difficult to determine the number of consultants in employment at the beginning of the year. In total, 54 different consultants have worked for ICT in 2012 (some paid by the ATB, the ADB-EDRMS³² or the ANB), that is 25% of consultants in the Organisation.
84. The IT outsourcing budget (including consultants) had increased in absolute terms by 93.7% over the 2008-2010 triennium. The same budget was increased by 54% between 2010 and 2011, and a further 15% between 2011 and 2012, as shown in the following table:

**Table 16: Projected budget and spending on outsourcing in the ICT
(in Canadian dollars)**

Year	Budget alloc.	Expenses recorded	% of expend.
2008	888,950	244,710	8.4 %
2009	1,419,808	1,138,549	22 %
2010	1,722,591	745,093	17 %
2011	2,646,081	1,424,153	18.2 %
2012	2,145,909	1,635,936*	26 %

*data as of 5 March 2013, accounts not closed
Source: ICAO

Finding no.8: Outsourcing IT expenditure doubled between 2010 and 2011. Between 2011 and 2012, they increased again by 15%. Personnel under the control of the ICT section now include a large majority of consultants (2/3 of the section on December 31st, 2012), some of which are used to perform permanent functions, expertise in which is essential to the ICAO. Given the growing number of development projects serving business managers (iStar, eANP, ISDB), pressure on resources, including permanent staff, could lead to a loss of expertise in part of the IT service, although this service is the basis for a growing number of the ICAO's operational activities.

Recommendation no.8: In order to better ensure the durability and expertise of IT services deemed essential, the risk of using a large majority of consultants should be identified, documented and the appropriate mitigating actions put in place.

The Secretary General notes that ADB agrees on the fact that the current utilisation of SSA contractors could potentially lead to a loss of critical business knowledge, and accepts recommendation.

Priority 2

³² EDRMS: Electronic Document and Records Management System

5. EVALUATION AND INTERNAL AUDIT OFFICE (EAO) AUDIT

85. The Evaluation and Internal Audit Office (EAO) budget increased significantly during the current triennium, as well as between the 2008-2010 and 2011-2013 trienniums. This increase is, for the main, the result of a Council's decision to provide EAO with enough funding to create a P5 post for an Internal Auditor:

**Table 17: Budget allocations and expenditure
(in thousands of Canadian dollars)**

	2008			2009			2010			2011			2012 ⁽¹⁾			2013
	Budget	Expend- iture	Diff.	Budget	Expend- iture	Diff.	Budget	Expend- iture	Diff.	Budget	Expend- iture	Diff.	Budget	Expend- iture	Diff.	Budget
Staff costs	722	936	-214	753	662	91	769	677	92	742	647	95	979	579	400	1,029
Consultants	0	0	0	0	0	0	0	75	-75	61	45	16	63	18	45	64
Travel	15	12	3	15	11	4	16	15	1	46	30	16	47	40	7	52
Miscellaneous	1	0	1	1	0	1	1	0	1	1	0	1	1	0	1	1
I.T.	6	0	6	6	0	6	6	0	6	0	-2	2	0	5	-5	0
Total	744	948	-204	775	673	102	792	767	25	850	720	130	1090	642	448	1,146

⁽¹⁾Established in October 2012 for the period January to September
(Source: ICAO)

5.1. Core activities

86. EAO's core activities cover three areas: audit, evaluation and investigations.

5.1.1. Audit

87. Internal audit, as defined in the EAO charter approved in June 2009, comprises an analysis of the procedures, particularly financial, and their compliance with current regulations, an examination of the IT systems to assess and test the existence and operation of controls, and a check of the accuracy of data processing. After due control of the formal compliance of operations and the suitability of internal control procedures, the aim of these audits is to identify the areas in which improved performance can be envisaged (efficiency), and those in which cost reductions are possible (effectiveness).

88. The number of audits conducted each year has fallen significantly over time: seven in 2006, six in 2007, four in 2008, three in 2009 and 2010, four in 2011 and three in 2012 (as at the end of September). Of course, the workload for each audit carried out varies. Hence, to correctly interpret this trend, each report should be weighed by the time spent. However, this data has only been available since June 2010, when the auditor took a decision to record time spent on the various tasks undertaken. The table below therefore shows the time spent in days, only on audit reports completed in that time, and over the limited period from June 2010 to October 2012, which is too short to allow a clear trend to emerge.

Table 18: Evolution of activity from June 2010 to October 2012

Year	Audit report	Time (days)	Total
2010 from June	Interpretation	37	37
2011	TCB Projects for Somalia	37	106
	Translation	54	
	IT availability and continuity	11	
	Certification of funds	4	
2012 until September	Certification of funds	5	62
	TCB consultants	30	
	Paris regional office	27	

(Source: ICAO)

89. It is also necessary to distinguish the audits wholly carried out by EAO from those which were subcontracted to an external audit firm, and to note that, for the one concerning IT availability and continuity in 2011, the time spent by the internal auditor encompasses interfacing with the service provider. On the other hand, we note that the certification of certain funds only required a few days' work.

90. Every year EAO draws up a work programme which is submitted to the Council for information. The table below compares the audits scheduled and those performed:

Table 19: Completion of planned audit work programme (in audits number)

Year	2006	2007	2008	2009	2010	2011	2012	Total
Audits included in annual work programme	5	5	8	4	4	4	5	35
Audits carried out	4	3	2	2	2	1 ³³	2 ³⁴	16

(Source: ICAO)

91. The ratio of audits carried out to audits included in the initial work programme, over the entire period, is thus 46%. This situation must however be kept in perspective by taking account unplanned audits: these are audits carried out at the request of the Secretary General (or sometimes at the request of the ICAO administration) during the year or are changes to the work programme made by EAO themselves based on changing priorities and risks. The table below indicates the number of additional audits carried out (that were not included in the annual programme):

Table 20: Audits added during year (not scheduled)

Year	2006	2007	2008	2009	2010	2011	2012	Total
Audits added	5	3	2	1	0	3	1	15
Audits carried out	5	3	1	1	0	3	1	14

(Source: ICAO)

³³ This was the audit report concerning computer security outsourced to KPMG.

³⁴ Three audits were in progress at the time of the audit, and should be completed in 2013. Conversely, one report was initiated in 2011 and was only completed in 2012.

92. During the 2006-2012 period, unscheduled audits represent 43% of the planned audits, only 46% of annual scheduled audits are carried and 93 % of unscheduled audits are carried out. The General Secretary stresses the fact that “if [unscheduled audits] did not need to be done, we would not have added them, and would have stuck to the original plan” – nevertheless, an average ratio of 43% of unscheduled annual audits is highly uncommon, and can only raise doubts on the internal audit annual planning methodology.

Finding n°9: The number of audits completed, which has fallen significantly since 2006, appears to have stabilized at a low level. This is mainly due to the increasing amount of non-audit work and tasks that are added to EAO’s workload, but also to frequent unplanned audits.

Recommendation n°9: Unplanned audits that are added during the year should, in principle, remain exceptional. This would imply more in-depth reflection during the preparation of the annual programme submitted to the Council.

The Secretary General proposes to accept this recommendation but does not propose to take any specific step to apply it.

Priority 2

5.1.2. Evaluation

93. The second area of EAO's activity concerns evaluation. Unlike audit, which focuses on compliance with regulations and rules and achievement of objectives in terms of economy, efficiency and effectiveness, the focus in evaluation is to measure the performance of particular programmes, projects or activities carried out by the organization in relation to their relevance, impact and sustainability. According to this definition, evaluation should be a means of informing management’s decision on whether to continue, modify or abandon a policy, project, programme or an activity in progress. The global questions that evaluation seeks to answer are whether the right things are being done, if they are being done right and if there are better ways of achieving the desired results.

94. Since 2008 a P-4 professional has been responsible for undertaking evaluations within EAO, in addition to other tasks.

95. The finding concerning the performance of the evaluation programme is not very encouraging, as shown in the table below:

Table 21: Completion of planned evaluation work programme from 2008

Year	2008	2009	2010	2011	2012
Evaluations planned	4	4	2	2	2
Evaluations carried out	0	0	1	1	0

(Source: ICAO)

96. Only one request for an unplanned evaluation was made, by the Council, for 2010. It concerned the evaluation of mission travel. It does not appear in the above table for 2010, which only covers the annual programme as presented to the Council. EAO began this evaluation in 2010 and completed it in 2011. It was the only evaluation carried out during that year.
97. During this period, only one other evaluation was completed by the former Chief EAO himself, with the substantive support of a seconded expert from the Italian Civil Aviation Authority (made available gratis to EAO during one year) in 2010: it was planned and concerned the USOAP³⁵.
98. The under-achievement of EAO evaluation programme is the result of two factors:
- the first is the existence of other tasks which limit the evaluator's output capacity. This point will be discussed in detail below;
 - the second is the unexpected complexity of certain evaluations.
99. The external auditor issued a recommendation aimed at improving the evaluation activity of EAO in a management letter addressed to the Secretary General.

5.2. Operational activities carried out by EAO

100. According to records kept by the internal auditor, who has been keeping time sheets since June 2010, and as shown in the tables above, the amount of time spent in carrying out audits has decreased each year. The percentage of her time spent on audits as a share of all her other activities fell from 56.3% in the second half of 2010 to 41.8% in 2011 and 36.4% in 2012 (January to September).
101. With the EAO's Chief time sheets are a formal system, giving all staff members a single framework for measuring how they spend their time. The table below summarizes the different activities of the EAO's Chief and the two staff members responsible for auditing and evaluation. "Administration" covers the internal management of EAO and training; "core activity" has been split into two parts: risk assessment, work planning, follow-up of recommendations, Advice to management, EAAC Secretariat, etc., and the oversight activities (internal audit, evaluations, and investigations) themselves. "Coordination of external audits and JIU³⁶ reviews" concerns focal point activities relating to the external auditor and JIU. Lastly, "external communication" covers all contacts between EAO and other ICAO bureaus and offices, the Secretary General Office, the Council and the Assembly.

³⁵ USOAP: Universal Safety Oversight Audit Programme

³⁶ JIU: Joint Inspection Unit

Table 22: Distribution of the activity of EAO staff (as %)

Activities	EAO Chief	Auditor	Evaluator	EAO
Core activity:	29	64	29	41
<i>Audit, Evaluation, Investigations</i>	12	38	10	20
<i>Other oversight activities³⁷</i>	17	26	19	21
Coordination of external audits and JIU Focal point	9	6	24	13
Administrative tasks (staff management, planning, reporting, budget, recruitment, training, etc.)	47	25	31	34
Institutional activities (Secretariat, Council, UN system, etc.)	15	5	15	12

Source: ICAO

102. This table shows that EAO spends only 41% of its time on its core activities. The professional staff member responsible for evaluation has recently had to spend most of her time on tasks that are not part of her core activity.

103. This situation is not compliant with best practices, as defined by the International Organization of Supreme Audit Institution (INTOSAI) concerning internal audit. INTOSAI GOV 9140 §2.3 standard states that “internal auditing works with those charged with governance, such as board, audit committee, senior management or, where appropriate, an external oversight body, in ensuring that appropriate systems of internal control are designed and implemented. As such, internal auditing can provide assistance regarding accomplishment of goals and objectives, strengthening controls, and improving the efficiency and effectiveness of operations and compliance with authorities. It is important to clarify that while internal auditing can provide assistance on internal control, it should not perform management or operational duties”.

104. In this respect, coordination of external audits (EAO acting as focal point for both external auditor and JIU), as well as administrative tasks of the office and external communication are management and operational duties which, as such, should not be performed by an internal audit and evaluation entity.

105. Balance needs to be restored to these core activities if internal audit and evaluation functions are to play their role within ICAO. This restoration of balance should be made easier by the arrival of the two new professional staff members who have recently been recruited. In addition, a vacancy for one of the administrative staff members (GS) is shortly expected to be advertised. In the short term, the Office will therefore have a Chief at the D1 level, four P staff and two GS staff. According to the above mentioned principle set by INTOSAI, applicable to all UN organizations, all the professional staff of internal audit (i.e. in the case of ICAO, of EAO) should devote their entire activity to auditing, evaluating and investigating: the external auditor notes that EAO considers that “It will not be so, strictly speaking. Even with the arrival of GS, considering the current list of other duties, some involvement of P staff in non-core activities will be needed”.

106. Coordination of external audit and relations with JIU, administrative tasks, and institutional activities should be taken over by OSG or any other suitable service within ICAO, as they are in most other international organizations.

³⁷ WP Preparation, Audit and Evaluation Planning, Advice to management, Follow-up of EAO recommendations, EAAC Secretariat, etc.

Finding n°10: EAO spends most of its time (60%) on tasks that are not part of its core activity. The core activity (auditing, evaluation and investigation) is therefore residual, which explains the low level and in some cases complete lack of the different types of internal oversight activities at ICAO. This is not compliant with INTOSAI standard for internal audit

Recommendation n°10: The auditors and evaluators should fully dedicate their activity on audit and evaluation, and administrative tasks (external auditor focal point and follow up of JIU) should be transferred to more suitable services in ICAO.

The Secretary General proposes to reject this recommendation, although compliant with INTOSAI recommended practices and followed by most of other UN organizations.

Priority 1

5.3. Quality of Internal audit

5.3.1. Self-assessment

107. EAO has carried out a self-assessment, positioning its capacities on a chart (one for audit and one for evaluation) showing six areas of performance classified in five levels (from 1, the lowest, to 5, the best). In terms of audit, EAO considers that it is at an average level of 2.5 with two classifications at Level 2, one at 2.5, two at 3, and three at 3.5. This assessment has been reviewed and validated by EAAC. In terms of evaluation, the average classification is also 2.5 with two at the lowest level, two at Level 3 and one at Level 4. At the time of external auditor's review, the assessment for evaluation had yet to be reviewed and validated by EAAC.
108. On this basis, EAO acknowledges that there is room for improvement, and aims to reach Level 3.5 in four years for both audit and evaluation.

5.3.2. Risk analysis

109. Every year EAO carries out an analysis of the risks within the Organisation, in order to prepare the annual work programme in accordance with Institute of Internal Auditors (IIA) standards.
110. Based on its own experience during the past five years at ICAO, the external auditor has identified four areas where he considers the management risk to be high and the present internal controls to be low (see external auditor's previous reports):
- Technical cooperation, and particularly the purchasing of technical equipment on behalf of certain States;
 - Transparency in Recruitments;
 - Information technology;
 - Regional offices.
111. Quite naturally, every year the external auditor has largely focussed his own audits on these three areas: a prior annual consultation with EAO has served to avoid duplication in these areas. It is nonetheless true that audits in the foremost risk areas (TCB), although planned by the internal audit office, have not all been carried out. EAO points out that an audit of TCB consultants was carried out in 2012. An evaluation of Technical Cooperation administrative support processes is planned in 2013, and

considers that “being more active on this activity would require more resources”. This last argument may be challenged – if EAO dedicated all its resources, as recommended by INTOSAI, to audit/evaluation activities, internal audit could cover more extensively these risk areas.

112. As regards IT system audits, EAO does not have any staff with specialised IT audit skills. Only two IT audits have been carried out in recent years, both of them subcontracted to outside firms.
113. In 2012, EAO agreed with the Office of Internal Oversight Services (OIOS) at the UN in New York, to borrow two of its specialist IT auditors on a “guest” basis to carry out a planned audit of IT governance and strategic planning. However, these auditors will only work at ICAO for this one assignment.
114. In 2012, EAO engaged Deloitte to help prepare a four-year strategic plan for IT audits (2012-2015). The plan proposed by Deloitte comprised 11 audits, including five to be conducted in 2012 and 2013. At the end of October 2012, none of them had been started and only two were scheduled, one in 2012 (UN auditor) and one in 2013.

Finding n°11: On the basis of his own experience gathered through five years of auditing ICAO, the external auditor considers that three major risk areas deserve greater attention: technical cooperation, recruitment and computer systems. In short, the external auditor has found that:

- EAO allocates a significant part of its scarce resources to non-core activities (see previous observation);
- EAO considers the remaining resources insufficient to perform audits in the major risk areas.

Recommendation n°11: External auditor considers that EAO should increase its audits in the areas of technical cooperation³⁸ and regional offices, and also ensure a better coverage of IT systems, an area which is still very scantily audited by EAO.

This recommendation is neither accepted nor rejected by the Secretariat General, which points out that one audit of TCB consultants was carried out in 2012, but that following external auditor’s recommendation would require a higher consultancy budget and the recruitment of an additional audit professional.

Priority 1

³⁸ It would probably be justifiable to plan funding of these audits by TCB through the AOSC.

6. THE BUREAU OF ADMINISTRATION AND SERVICE (ADB) AUDIT

115. The ADB audit was carried out at ICAO Headquarters from 15 to 27 October 2012.

6.1. Review of means, missions and organization of ADB

116. By virtue of its terms of reference, ADB performs services in nine areas:

- human resources management (HRM);
- information and communication technologies (ICT);
- interpretation, translation and publications management services (LPB³⁹);
- management of buildings and premises (COS⁴⁰);
- management of files and records (RDM);
- Assembly and Council Support (ACS);
- management of travel (TU⁴¹);
- management of revenue generating activities (RGA);
- security of people and premises (SEC).

117. Each year the external auditor systematically reviews the management of human resources and IT. A specific audit of RGA activities was also carried out for 2011 financial year. The main focus of this audit was therefore, firstly, an organic control of the main sections of ADB, and secondly, in routine management, ADB's main areas of responsibility other than human resources and IT, i.e. language services, conference services and security. No special audit was performed on the RDM, ACS and TU activities, which are important but more marginal.

6.1.1. Missions

118. According to the triennial budget adopted by the Assembly (document 9955), the support budget, which corresponds to the eight support programmes and the 17 management and administration programmes, represents MCAD 273.1, i.e. 46% of the Organization's ordinary budget. ADB does not manage this entire budget, because:

- legal and external relations (PS-LEB), management of the Office of the Secretary General (PS-OSG), internal audit and evaluation (MAA-EAO), budgetary and financial management (MAA-FIN), administrative support for ANC (MAA-GB-ANB) and support for the General Assembly (MAA-GB-OSG) report to other bureaus or entities of the Office of the Secretary General;
- security (MAA-ISEC), which was initially under the responsibility of ADB, has been temporarily placed under the Secretary General's direct authority although it is still partly managed by ADB;
- RGA budget administration remains under the responsibility of the Finance branch, with direct oversight by the Office of the Secretary General.

³⁹ LPB: Language and Publications Branch

⁴⁰ COS: Conference and Office Services Section

⁴¹ TU : Travel Unit

6.1.2. Structures

119. ADB's scope has hardly varied since 2010. The only changes to it were made in January 2012, firstly with the RGA activity coming under the responsibility of ADB, as recommended in the external auditor's previous report, and secondly with the security sector being removed, perhaps temporarily (see below) from the scope of ADB.

120. However, the internal organization of ADB has undergone three changes in recent years:

- on 1 July 2011, the LPB branch was reorganized (SN 5382 of 4 July 2011);
- on 1 January 2012 (SN 5410 of 6 January 2012):
 - the Security section (ISEC) was closed in favour of the creation of a Safety and Security Unit (ISS) temporarily, from January 2012, under the direct responsibility of the Secretary General (OSG), its manager being named Safety and Security Adviser (SN 5415 of 1 February 2012);
 - a Revenue Generating Activity (RGA) section was created within ABD by transfer of the Finance branch, without its internal organization being modified on that occasion;
 - a Web Management Unit (WMU) was created within the ICT section;
 - the Records and Web Management Section (RWM) was renamed Records and Management Section (RMS) after integration of the Customer Services Unit (CSU) and the External Distribution Unit (EDU);
 - the Reproduction, Sales and External Distribution Services section (RSED), reduced after the transfer of the EDU, was transformed into the Reproduction Services unit (REP) under the responsibility of the RGA branch;
 - the two sections Staff Services (SER) and Recruitment, Establishment, Studies (REC/EST) were reorganized into two sections named Staff Employment and Administration (SEA) and Policy, Organizational and Staff Development (POD);
 - the Assembly and Council Secretariat (ACS) unit was renamed Assembly and Council Support (ACS).

- in the spring of 2012, the RGA section was formed by the REP unit, the Sales and Customer Relationship unit (CSU) and the Marketing Event Management unit (job vacancies for the three units announced in April and May 2012), without a Staff Notice specifying this explicitly. The director of ADB considers, in fact (IOM⁴²) to the Secretary General dated 15 December 2011), that the present structure is subject to change according to the needs of the Organization and to optimize the use of resources, taking into consideration upcoming retirements and redesigning of posts as well as in view of a change in the scope of two other ADB sections (RDM, COS) in 2013.

⁴² IOM: Interoffice Memorandum

6.1.3. The budget

121. The programmes managed by ADB under the regular budget represent nearly MCAD 91 for the 2011-2013 triennium, that is, one third of the Organization's ordinary budget.

122. The nine entities placed under the responsibility of ADB have a cost centre:

**Table 23: ADB appropriations and allotments (2010-2012)
(in thousands of Canadian dollars)**

Entity	2010 Budget	2010 Expenditure	2011 Budget	2011 Expenditure	2012 Budget	2012 Expenditure
ISEC	259,483	285,644	243,797	293,109	74,965	Not available at the time of the audit
D/ADB	3 926,374	2 888,644	2 833,838	1 941,893	2 587,056	
ACS	428,178	440,143	417,487	417,443	449,231	
COS	4 841,919	4 374,787	5 359,588	5 113,758	4 967,726 (1)	
RWM/RMS	1 401,028	1 291,602	1 083,831	1 072,744	1 109,642	
ICT	8 224,724	4 935,514	9 034,886	7 037,521	6 652,424	
HRB	4 526,826	4 206,358	4 240,656	3 997,928	4 321,749	
LPB	13 791,629	12 375,625	12 654,235	12 176,835	13 515,412	
WLM (2)	-	-	170,819	155,904	242,916	
Total	37 400,161	30 798, 317	36 039,138	32 207,135	33 921,121	

Nota: (1) this figure includes the 25% cost for the CCC

(2) *Web Library Management*

(Source: Status of ADB Appropriations and Allotment for 2010, 2011 and 2012 according to Agresso)

123. The table above shows that more than three quarters of the 2011 expenditure was mainly allotted to three entities: LPB (37.8%), ICT (21.9%) and COS (15.9%).

124. However, the amounts shown in this table also reflect the fact that the scope of the funding allotted to ADB entities is significantly larger than the amounts allotted to this bureau under the ordinary budget alone. For example, for 2011, the triennium budget stipulated MCAD 30, and allotments amounted to MCAD 36, faced with the accrued expenditure of MCAD 32.

125. The external auditor finds that ADB has no consolidated view of all costs related to the various activities of this bureau: the amounts shown in the regular budget (regular Budget, Fund 1101) as well as a few other funds (Efficiency Fund, No. 1106, ICT Fund, No. 1602, TSSF Fund, No. 1603 and AOSC Fund, No. 2201), monitored by the FIN branch⁴³, only represent part of these costs: a number of ADB staff members, and the associated payroll costs, are nevertheless financed by other funds, the most significant of which is the Ancillary Revenue Generation Fund (ARGF), which is also monitored by FIN branch. To the amounts indicated, for instance, MCAD 32.2 of expenditure for 2011, a total amount of MCAD 4.3 should be added, i.e. more than 13% of the apparent amount. The original amounts other than the ordinary budget are distributed unequally among the sections: for the COS section, they represent nearly MCAD 1 of payroll costs, compared with the ordinary expenditure of MCAD 5.1 in 2011 (i.e. nearly 20%). The budget of RGA section (MCAD 1.2 in 2011) does not include the payroll costs of more than 40 people (permanent employees of the Organization but also special service agreements) which are financed by the ARGF in an amount of nearly MCAD 2.5.

⁴³ FIN: Finance branch

126. The absence of a consolidated monitoring chart of the funding of ADB branches and sections is not specific to ADB: earlier controls showed that ANB and ATB also had only a very limited knowledge of their budgetary costs, being allotment holders only for a very small part of these costs⁴⁴. But in the case of ADB, the proportion of resources not derived from the regular budget is so significant that it could justify the setup of a specific management tool, particularly as concerns COS and RGA, explicitly under the responsibility of ADB. At present only FIN branch, which has no operational responsibility for the ADB activity, owns all information on non-budgetary income and costs. Consolidation is done only once a year, when FIN prepares the financial statements: expenditure and income monitoring is thus purely budgetary and account-based, and no instruments, exist for monitoring and hence for financial management of these activities.

Finding n°12: even if the present finding does not only apply to ADB, the external auditor finds that ADB has no overall view, in terms of management instruments for its routine activity, of its costs, and hence of its productivity and efficiency this only being measured ex post by the FIN branch during the preparation of the annual financial statements.

Recommendation n°12: In view of the size of the managed financial volumes, in terms of both the regular budget and other resources, ICAO could consider the setup of instruments for comprehensive financial monitoring and management of ADB activities, which are dependent on non-budgetary resources (COS and RGA).

The Secretary General proposes to accept this recommendation – target date: December 2013.

Priority 1

6.2. Language services (LPB)

6.2.1. Significant budgetary resources for an activity whose costs lack transparency

127. The budget for LPB (kCAD 39.283) covers all staff salaries. It represents 39.7% of ADB's budget and 14.4% of the Organization's budget for the triennium:

**Table 24: Place of LPB within the budget managed by ADB
(in thousands of Canadian dollars)**

	2011	2012	2013	Triennium
MAA GB-LPB	4 089	4 200	4 315	12 604
PS-LPB	8 657	8 889	9 133	26 679
Total LPB	12 746	13 089	13 448	39 283
Total of ADB sections	31 801	22 629	34 576	99 008

(Source: document 9955)

⁴⁴ However, TCB is an exception within the ICAO: all its costs are, at least in theory, accounted for in the AOSC fund, as are the resources generated by its activity (essentially the "administrative costs" collected in the context of technical cooperation projects and the financial income resulting from the investment of sums advanced by "client" States).

128. These expenses consist 90% of staff costs, mostly professionals. The consultants share represents less than 10% of the budget, i.e. more than MCAD 1. However, despite a recommendation of the Council in 2010, ADB is unable to provide information on the cost of the various language services (other than strictly budgetary), Chief LPB contends that it is difficult to distinguish between direct and indirect costs, that there exist different standards in different organizations, that there is a lack of qualified analysts and that it is difficult to access Agresso data.

6.2.2. Partial achievement of the objectives disclosed to the Council by the Secretary General

129. The Council had set objectives for language services, based on historical scenarios and included in Annex 5 to the three-yearly budget: in terms of these objectives, the results have either not been achieved, or are below forecast, or are behind the schedule announced to the Council, as shown in the table below:

Table 25: Expected results

No.	Subject	Comments	Progress on date of audit
LPB-1	Quantified objectives for interpretation (1,465 sittings per year), translation (9 M words per year), publications (55,000 pages per year), references (8,280 jobs per year) and terminology (updating of 2,900 records)		8.72 M words translated in 2011 No data for 2012
LPB-2	Increased roster for interpretation and translation	In progress for December 2012 as per 2012 operations plan	No progress in October 2012
LPB-3	Introduction of CATS	Introduction begun end 2011 (C-WP/13791)	Operational in September 2012
LPB-4	Improvement of outsourcing process	Directive on outsourcing policy of April 2012 – 40% of outsourcing in 2011-2013 budget	No data for financial arbitration

(Source: document 9955)

130. The Secretary General's C-WP/13645 dated 19 October 2010 stipulated:

- better focus of LPB section chiefs' activity on operational tasks;
- introduction of computer aided translation software (CATS);
- more intensive use of outsourcing;
- greater attention to upstream activities (terminology, references, etc.) and
- grouping of all editorial assistants. The external auditor finds that these first five guidelines have been satisfactorily met, with the installation of the CATS software having just been completed during the summer of 2012.

131. The same document stipulated an overall evaluation of the translation needs in 2011. Assigned to a sub-group formed by the Council in its decision C-DEC 1986/1 on publications priorities (Publications Priority Board, chaired by the director of ADB), this evaluation was in principle expected for the end of 2012. Priority was to be given, in the short term, to documents for the Council, and in the medium term, to technical meetings (with a minimum notice period of six weeks for submission of documents for translation) while in the long term, focus was on publications.

132. Lastly, the Secretary General requested an increase in translators' productivity, which was supposed to increase to 1,500 words per day in 2013, the level reached in 2008 by other international organizations. This increase has not been achieved to date (1,200 words per day in 2010 compared with 1,320 in 2009) and has not been measured since 2011. Unless a very determined effort is made, the objective will probably not be met in 2013.

6.2.3. Quality of language services is questioned inadequate by users

133. Evaluation: One of the quality problems, noted by the Council in 2010, concerns the formal qualifications of interpreters and translators. Despite a description of required qualifications in the appendix to the 2011 directive on outsourcing, a preference for experience over qualifications is given. Such a pragmatic approach is not without merit but it clearly opens the way to the risk of recruitments based on “subjective” criteria.

134. Computer-aided translation, a tool for quality or productivity? Recommended by the Secretary General in October 2010 and followed as a project by ICT since January 2011, the introduction of automated translation support by computer-aided translation software (CATS) was examined. After an assessment of three comparable products by an external consultant, a Multitrans software package (supplied by the Canadian company Multicorpora) was purchased for the approximate price of kCAD 35. Training for translators was given in the spring of 2012, with several months' delay, and the software has in principle been operational since August 2012. It has begun to be used by certain translators. Although the prior study identified the possibility of a 20% increase in productivity, today this tool is considered within LPB more as a means for improving quality rather than as a productivity tool. It would however be useful to evaluate, in the light of the first months of use, the increased productivity obtained from Multitrans.

6.2.4. Interpreters

135. The average seniority (and hence the age) of interpreters is high (for example, 28, 28 and 32 years of seniority respectively for the three Russian interpreters). Several section managers will leave their posts in the next few months on reaching the age limit (in particular in the French, Russian and Chinese sections). This situation could provide opportunities for reform.

a) Probable existence of an untapped translation potential

136. The total potential of interpreters, expressed in man-days, decreased by 2.3% in 2011. The reduction especially concerned temporary interpreters: in man-days, the number of interpreters on permanent ICAO contracts fell from 2,073 in 2010 to 2,057 in 2011 (-16), while the number of temporary interpreters fell from 579 to 269 (-310).

137. Despite this drop in the number of interpreters in terms of man-days, a comparison between the theoretical interpretation potential (“input”) and the number of meetings covered (“output”) shows a significant discrepancy: in 2011, the theoretical potential of LPB's permanent and temporary interpreters corresponded to 4,652 sittings (2,326 x 2), whereas only 1,259 sittings were covered, only just over a

quarter (27%) of the theoretical potential. This apparent discrepancy is growing (it was 30.1% in 2010 and 30.2% in 2009). Even with LPB’s own calculations of the interpretation potential (2400 sittings per year), this discrepancy remains and is growing (it was 30.1% in 2010 and 30.2% in 2009).

138. However, this theoretical calculation does not take into account the specific constraints of the activity (maximum of seven weekly sittings, presence of two or three interpreters in a cabin, presence of a reserve interpreter, etc.), and the fact that certain parameters of the activity remain relatively unclear (“special assignments”, used by interpreters to prepare their work, which, according to LPB, could represent 10% of the activity): under these conditions the theoretical calculation only allows at best, and very imprecisely, the presumption of an unused potential, as shown, with the limits recalled above, by a comparison of the two tables below:

Table 26: Trend of theoretical potential of interpretation days

	2009	2010	2011
Internal interpreter days	2 109	2 073	2 057
Freelance interpreter days	464	579	269
Total interpreter days	2 573	2 652	2 326

(Source: ADB)

Table 27: Number of interpretation sittings

	2009		2010 (Assembly year)		2011	
	Number of sittings	% of total	Number of sittings	% of total	Number of sittings	% of total
Governing bodies	817	47.7%	685	48.8%	726	57.7%
Other ICAO meetings	897	52.3%	718	51.2%	533	42.3%
TOTAL	1 714	100.0%	1 403	100.0%	1 259	100.0%

(Source: Presentation by ADB Director to WGGE Subgroup on Language Services, 26 June 2012)

139. Similarly, according to the presentation by the ADB director to the WGGE Subgroup on Language Services on 26 June 2012, a comparison between the potential of interpreters for interpretation sittings (2,425 in a full year) and the effective demand (of the order of 1,500 sittings planned for 2012) shows, in 2012, a possibility of using interpreters which is evaluated at 560 days a year, equivalent to 2.8 posts. However, this volume could not be confirmed by calculations supplied by LPB at the time of the external auditor's control (October 2012).

b) Insufficient monitoring for optimizing recourse to available potential

140. Like all employees of the ICAO, the 20 LPB interpreters are required to work 35 hours a week. In accordance with the 2009 directive, they are supposed to do seven sittings of a maximum of three hours every week (with change of interpreter every half-hour) preceded by two hours of preparation. When interpreters do not work the seven weekly sittings, they must in principle do translation work. A work schedule limited to six interpretation sittings therefore entitles LPB to require five hours of translation.

141. There is no monthly planning system for the work of interpreters: the section manager merely prepares a schedule of tasks, which is finalized on Thursday or Friday, according to a weekly interpretation schedule. Since January 2012 he has used the Eden⁴⁵ application, but as he finds it constraining he also continues to use the earlier system which uses an Access database. This situation does not allow the activity to be planned far enough ahead, nor does it provide information, requested by the Council in 2010, on the ratio between scheduled sittings and sittings actually worked. A tool to automate interpretation assignments was added in 2012 to Eden in efforts to maximize the coordination between interpretation and translation tasks as well as to capture information on planned meetings and changes to the schedule as per Council request. Many adjustments have been made to this tool in order to facilitate its use. A dashboard was introduced to allow better planning to maximize the time interpreters can be assigned for translation and in coordination with feedback received from the Chief of one translation section. Several obstacles were encountered for the adoption by the users of this new tool including a heavy workload in 2012 and the one technical resource that could not be dedicated only to this project. A review of the perceived constraints will be undertaken during the first quarter of 2013.
142. The internal audit office (EAO) also noted, in 2011, *“a lack of transparency on the exact number of hours worked by interpreters in their interpretation activities and on the available time remaining for translation work”*. During the external audit, the number of days worked by interpreters could not even be calculated; the LPB manager explained this shortcoming by the fact that he did not have access to the data on actual attendance (recorded in Agresso, according to him). If this explanation were confirmed, it should be easy to correct the situation. The LPB manager should simply be given read-access to the necessary data in Agresso. This point should therefore be clarified between LPB and FIN.
143. In 2011 EAO had proposed converting the interpreters' unused hours into numbers of words, with an average translation target of 1,600 words per day. This suggestion was however not followed up because, in the negotiation between the manager of LPB and the interpreters, he had suggested that in return they would be allowed to do the corresponding work at home. Given the difficulty in monitoring the interpreters' activity even on ICAO premises, and that current HR rules and regulations do not allow working at home ADB prudently did not support this proposal.
144. Finally, still according to the 2011 internal audit on interpretation, there was a certain degree of tolerance regarding working practices on the part of LPB (permission to stay at home if there was no sitting, etc). A problem of absenteeism was noted within LPB following observations made by certain section managers. However, the proposal to put an attendance monitoring system (signatures) in place was not followed up, although the Organization's legal office gave no objection to such a procedure, which was considered appropriate by the Secretary General. At present, LPB indicates that they do not have any tools (Agresso or other) to check the effective availability of interpreters and translators and, taking into account the objections raised by the Staff Association Executive that such a system should apply

⁴⁵ Eden: Electronic Documents and Enquiry Network

to all staff or none, is supposed to hold now every supervisor accountable for the presence of those under his/her supervision.

Finding n°13: despite the recent installation of the Eden application, the ICAO does not have a reliable instrument for evaluating the available translation potential of interpreters. The only evaluations available to the external auditor during his control were partly contradictory and revealed significant gaps in methodology.

Recommendation n°13: the setup of objective fool-proof system for measuring the available translation potential of interpreters, and an effective assignment of interpreters to enhance planning, together with adequate means for monitoring the work done by each interpreter, are a prerequisite for any concrete attempt at using this potential rationally and in a necessarily concerted way. Using the data available in EDEN and Agresso, LPB should provide as soon as possible reliable information on these important parameters.

The Secretary General proposes to accept this recommendation, and will update productivity report by December 2013.

Priority 2

6.2.5. Translators

a) Growing workforce despite a drop in translation volume

145. The translators' potential, expressed in man-days, rose by 22.5% between 2009 and 2010 (6,443 in 2010 compared with 5,260 in 2009). The increase was particularly significant for Russian (+33.1%) and Arabic translators (+64.7%). LPB is however unable to give the corresponding figures for 2011 and 2012: the raw data exist in the Eden database but, in this area also, they do not take into account the actual availabilities (leave records), and do not appear able to yield relevant retrievals.
146. In 2011 the internal audit office (EAO) had noted the “lack of ability for precise forecasting of demand for translations”: at the time of the present external audit (October 2012), the work was still allocated “as it came in”, without planning. The Eden scheduler, which in principle allows the setup of a workflow slotting system, is not used. The problem reportedly comes from an update of the Eden system which has not yet been installed.
147. Translation represents approximately 5,000 original documents every year. They are measured in uniform pages (Translation Pages Unit or TPU) equivalent to 400 words (although the manager of LPB suggests referring to the United Nations standard TPU, of 330 words). The Organization's translation requirements had been assessed, for the 2009-2011 period, at an average of 25,218 TPU per year, of which 25.1% for the governing bodies, 22.8% for the Organization's other meetings and 52.1% for publications, correspondence and other activities. The activity theoretically stood at an average level slightly above 26,990 TPU for the 2009-2011 period, of which 24.9% for the governing bodies, 23.2% for other meetings and 51.9% for publications. But according to the annual report to the Council for 2011, LPB actually only handled 8.72 million words in 2011, that is, 21,800 TPU

(compared with 12.13 million words/30,325 TPU in 2010 and 10.21 million words/25,534 TPU in 2009), i.e. a level below the budget forecast (9.1 million) and a drop of 28.1% in one year (-14.1% since 2009). The variety of these data makes their reliability doubtful.

b) Increased use of outsourcing

148. Paradoxically, despite the drop in activity in 2011, the volume of translation was handled with greater use of outsourcing (45% in 2011 compared with 41% in 2010 and 36.8% in 2009), continuing a steady trend since at least 2005. Due to the demand for large-size publications, this trend is reflected in growing costs for a constant volume of translation.
149. The use of outsourcing is covered by a policy document prepared by LPB since 2008, which was published in March 2012 and has been applicable since April 2012. The aim is to use this formula more strictly and transparently, for 40% of the work load. According to the annual report to the Council for 2011, LPB actually handled 55% of translations in-house and outsourced 45%, that is, a proportion of outsourcing in excess of the budget forecast. In accordance with the 2012 directive, the decision to use outsourcing is made by the translation section managers, the contracts (contracts for language services, purchase orders or MOU) being signed by the manager of LPB.
150. LPB uses approximately 50 external translators, registered with the AITC association and sometimes former ICAO staff members. The internal audit had noted the absence of a formal roster of the competence of external translators. Although mentioned in the document of April 2012, the use of new resources listed in a roster, as recommended by the internal audit office, is still not in place.

c) Productivity that is poorly measured, but probably down

151. Overall, the apparent average productivity (TPU/day) is down, falling from 3.3 in 2009 to 3.0 in 2010, and declining in all languages except Spanish. In this area too, no data are available for 2011. The external auditor notes that:
- measured in words per day, the average production of the ICAO fell from 1,320 in 2009 to 1,200 in 2010 although the triennial budget stipulated an increase from 1,200 to 1,400 words per day with a target of 1,500 words per day (United Nations standard) by the end of 2013. Even if the reform of LPB's organization in 2011 released potential for the translation section managers, this objective was manifestly not achieved in 2011. The manager of LPB claims that it would require additional means (recruitment of editors) coming from the fact that ICAO texts are largely unedited and require additional work for translators. The objective set (1,500 words per day) is however lower than the one proposed by the internal audit office taking into account the automation of certain tasks (1,600 words per day);

- the internal audit office had noted in 2011 that, for translators, “given the quality of the statistics obtained [...], it has not been possible to know whether or not an additional capacity exists or whether increases in productivity can be achieved” and observed that “no precise procedure exists for measuring translators' productivity”. These observations were still relevant at the time of the external audit. Availability of translators is not measured in Eden. Hence, the indicator of the average number of pages translated per translator was not entered in ADB's management report in 2011 or 2012. According to LPB, now that accurate leave records are captured in Eden, Branch is analyzing all the data related to the productivity reports to incorporate the time spent in other special assignments not directly related to an Eden request.
- based on a recommendation of the internal audit office (No. 8 of the February 2011 audit on translations), the Secretary General, in his report to the Council of January 2012 (C-WP/13791), indicated that “new standards of productivity will gradually be introduced in 2012 to align them with those of the United Nations system”. LPB was assigned a task of developing these standards (task manager of 8 August 2012) but this task, which should have been completed at the end of September 2012, was still not done at the time of the external auditor's control (October 2012). However, according to LPB Chief, the standard for productivity has since been set at 1500 words per day by the end of 2013 and progress has been made regarding productivity standards for other LPB staff (editorial, text processing)

d) Translation quality questioned by users

152. This point has already been mentioned as regards all the language services (interpretation and translation). Concerning translation in particular, although, in response to a request from the Assembly (37th session), quality control has been reinforced since April 2011 for outsourced translation work and especially for the most sensitive translations (air navigation procedures, safety and security publications), the quality of some translations for the Council was criticized in early 2012 by certain representatives. LPB was asked by ADB (task manager of 12 April 2012, renewed on 18 October 2012) to put in place a procedure for monitoring the quality of translations and make the translators accountable.
153. This procedure has not been put in place, due to reticence on the part of the LPB manager. According to LP Chief, this procedure is being implemented in March 2013 in conjunction with other procedures for error-reporting and feedback on language services. Even if regularity is only one factor among others in the quality of translation, LPB claims that its translations generally meet the required or agreed deadlines: this is true in principle of documents related to meetings, but less certain for translations which are not related to meetings (which however account for 50% of the activity). To date, no tool exists for checking whether translation deadlines have been exceeded, while certain documents, although not related to meetings, are just as time-sensitive.

Finding n°14: although the main issue for interpreters today is to measure the potential time left available for translation, the main question for translators is twofold: productivity and quality. The first is not measured and the second is not controlled, despite the directives issued in this respect several months ago by the Secretary General.

Recommendation n°14: ADB is working on issues regarding evaluation and benchmarking of translation services, particularly compared with other United Nations organizations. When this reflection is completed and the objective methodological bases defined, measuring translators' productivity and controlling translation quality should be two priorities. These priorities must be accompanied by precise schedule markers, to put an end to the present situation of resistance to change.

The Secretary General proposes to accept this recommendation, and plans to develop a policy and system to measure translators' productivity and to control translation quality by December 2014.

Priority 1

6.3.Human Resources (HR)

154. Following previous external auditor's recommendations, a D1 deputy specializing in human resources has been recruited. In terms of organisation, the external auditor does not have any further recommendations at this stage. The usual HR review has been presented above.

6.4.Conference and Office Services (COS)

6.4.1. Budget

155. The triennial budget for COS section is as follows:

Table 28: COS section budget (in thousands Canadian dollars)

	2011	2012	2013	Triennium
Management activity – Governing bodies support (MAAGB)	1 459	1 410	1 444	4 313
Management activity (MAA)	1 029	985	1 009	3 023
PS ⁴⁶	2 488	2 395	2 452	7 335
TOTAL	4 976	4 790	4 905	14 671

(Source: ICAO)

156. These sums represent more than 15% of ADB's total budget. However, these figures do not reflect all costs of the section's staff, particularly payroll costs; some of those are financed by the Ancillary Revenue Generation Fund (ARGF), for an amount, in 2011 for instance, of nearly MCAD 1. Conversely, more than MCAD 4.3 in 2011 (i.e. nearly 85% of budgetary expenditure) of the section's budget were

⁴⁶ PS: Support Program

absorbed by rent (MCAD 3.3) and the Operations and Maintenance expenses of the headquarters building, paid to PWGSC (Public Works and Government Services Canada).

6.4.2. Overall achievement of objectives set by the Council

157. The Council had set COS the following objectives in 2010 (Appendix 5 to the three-yearly budget):

- improvement of coordination and quality of conference services and support for meetings of the Council, the Air Navigation Commission and the committees;
- configuration of a permanent videoconferencing installation at headquarters;
- optimization of available space to better utilize the existing space for offices;
- study of telephone system configuration, taking into account the integration of regional offices;
- modernization of the interpretation system with conversion from analogue to digital in the conference rooms;
- modernization of the online registration system and automation of conference room reservations.

158. The external auditor finds that the objectives set by the Council have been correctly achieved:

Table 29: Achievement of objectives set by the Council

Improve quality of conference services for meetings	Ongoing action
Install videoconferencing system at Headquarters	Will be assigned to an outside service provider
Optimize Headquarters surface area	Ongoing action
Review telephone system	Project also under ICT responsibility, conversion in progress from PBX to VOIP
Convert telephone system to digital	
Modernize conference room registration and reservation system	Achieved (Melba) but improvement still needed

(Source: external auditor)

159. These objectives are implemented through more precise operations plans. The progress of some of the most important projects was checked with the managers by the external auditor:

- the feasibility study for renovation of the General Assembly hall had been completed in September 2012;
- the renovation of the lighting of this hall had been postponed because of insufficient budget, and because it could only be carried out according to a tight schedule;
- the electronic conference management system was at the ITT stage;
- the project for installation of an electronic voting system was now under the responsibility of the ICT section (joint project of ACS/COS/ICT);
- the setup of a system for online monitoring of conferences would be assigned on a case-by-case basis to an outside service provider (outsourcing).

6.4.3. Conference services

160. In terms of conference services, the priority objective set by the Council (to improve the quality of conference services and support for the meetings of the Assembly, the Council and the committees) employs just over half of the section's workforce (10 out of 18 staff members).

161. The section's activity in this area can be characterized by main figures:

Table 30: Activity of COS section (number of days)

	2010	2011
ICAO meetings (Council, committees, ANC)	170	148
External meetings	65	46
Participants (at external meetings)	15 300	11 100
Days / room (total)	3 447	3 513
Of which Secretariat	1 967	1 843
Of which Conferences	1 480	1 670

(Source: ICAO)

162. The number of meetings which are “external” to the Organization in 2012 should be at the same level as in 2011. According to the data communicated by the unit manager, the external meetings (46) should generate revenues of over CAD 500,000 (this revenue is registered in the ancillary revenue generation fund ARGF).

163. Four types of meeting/conference/event can be defined. They corresponding roughly to the same number of “client profiles”:

- “ICAO meetings” (Council, Assembly, committees, panels, etc.), which may bring together not only the members of the organization, but also representatives of the aeronautics industry, the airports, and other service providers;
 - delegations which themselves organize meetings, conferences, receptions, etc.;
 - “external” clients (other international organizations, private companies, etc.);
- lastly, “RGA⁴⁷ events” organized and marketed by RGA. These are charged for, and may involve sponsors, exhibitors and enrolled visitors (for example, the “MRTD” meeting).

164. The external auditor issued a recommendation aimed at improving the conference services in a management letter addressed to the Secretary General.

6.4.4. Office services

165. The other activity of COS section, which occupies seven of the section's members, is that of office services, responding to the requests of “clients”, i.e. Organization services and national delegations. These requests are varied (changes to office layouts, new equipment, etc.), but they nearly always involve external service providers, as well as the Canadian Government body (PWGSC) in charge of works and maintenance of the building. The external service providers are chosen according to best offer, by the owner of the building (Westcliff).

⁴⁷ RGA: Revenue Generating Activity

166. The section manager considers that the elimination of a post (P3, upon the retirement of the person concerned) within the Offices unit was detrimental. It is planned that a post of the same grade be created to coordinate and monitor the works. This post appears in the section's organization chart drawn up on 20 September 2012 (but not in the HR action plan for the section, which only identifies expected vacancies in existing posts). This activity does not call for any special comments by the external auditor.

6.5. Information and communication technology (ICT)

6.5.1. Budget trend: significant discrepancy between forecasts and achievements

167. In terms of expenditure the ICT section is the second largest in ADB, after language services. The ICT budget was growing fast at the end of the previous triennium, but has stabilized during the 2011-2013 triennium:

Table 31: ICT three-yearly budget in thousands of Canadian dollars (in thousands of Canadian dollars)

	2011	2012	2013	Triennium
ICT	4 685	4 749	4 769	14 203
Total ADB	31 801	32 629	34 576	99 006

(Source: document 9955)

168. In actual performance, however, the ICT section continued to experience a contrasting trend:

Table 32: ADB allotments and actual expenses 2010-2011 (in thousands of Canadian dollars)

	2010 Allotment	2010 Expenses	2011 Allotment	2011 Expenses
ICT	8 224	4 935	9 035	7 165
Total	37 400	30 799	36 039	32 207

(Source: Agresso – Status of ADB Appropriations and Allotment)

169. The significant discrepancy between ICT's allotments and expenses can be explained by the existence of carry-overs authorized in 2011 and 2012. The high increase in accrued expenses (+45.2% between 2010 and 2011) corresponds to an exceptional quantity of IT hardware purchases, making up for the low investment of earlier years.

170. The structure of expenses, for the last financial period known at the time of the external auditor's control (October 2012), essentially comprises four blocks of comparable volume: fixed assets, staff, consultancy/outsourcing and IT hardware. The table below gives the details of the breakdown:

Table 33: Breakdown of ICT expenses in 2011 (in Canadian dollars)

Type	Total	%
International Professional Posts	1 554 328	21.7
General Service Posts	455 367	6.4
Capital Expenditures	2 019 101	28.2
Outsourcing and Consultancy	1 426 065	19.9
Training	67 533	0.9
IT Hardware	1 505 331	21
Telecommunications	36 145	0.5
Operational Expenditure	35 972	0.5
Travel	65 005	0.9
Total	7 164 866	100.0

(Source: Agresso)

6.5.2. Workforce

171. ICT is the third-largest entity of ADB, with 10% of the bureau's workforce:

Table 34: Trend of ICT workforce within ADB (posts)

2010		2011		2012		Variation 2010-2012
ICT Staff	21	ICT Staff	19	ICT Staff	23	+2
Total ADB	263	Total ADB	237	Total ADB	233	-30

NB: Scope of ADB excluding security.

(Source: document Breakdown of Posts by Funds 2011 to 2013)

172. At the time of the external auditor's control (October 2012), the manager of the ICT section, who had occupied the post since 2009, was soon to leave it to become deputy director of ADB in charge of non-HR matters, which would mean he retained the supervision of ICT.

173. Out of 23 posts, except for those which are funded by the ordinary budget, two posts are funded by the ARGF and a final post by "another source". The increase observed since 2010 (+ two posts) is the result of the absorption of the Web Management Unit at the end of 2011. The section comprises four entities: the IRIS unit (three permanent staff members), two units responsible for IT support, and one Web Management Unit. The latter unit (WMU) was created within the ICT section on 1 January 2012 (SN 5410 of 6 January 2012). It comprises five posts that were previously included in the RWM section (now RDM). The unit is technically responsible for posting online the content of the Organization's public website.

174. The above tables show that half the ICT section's expenses consisted of staff costs and that these expenses were roughly balanced between permanent staff and consultants in 2011. In fact, the ratio of staff costs (international professional posts + general service posts) to consultants (outsourcing and consultancy) increased from 79% in 2010 to 140% in 2011, that is, double in one year, while the expenditure for consultants (CAD 745,093 in 2010, CAD 1,426,065 in 2011) also nearly doubled (+91.4%).

175. The main reason for this sharp, rapid change is the headcount freeze, which prevents the ICAO from controlling with its own means the large number of projects undertaken, often of major strategic importance for the organization.

176. The section now has 40 consultants on SSA contracts, which represented more than a quarter of the consultants employed by the Organization. The monthly volume was 185 consultant-days in September 2012, 45 of them directly for ADB and 45 for projects concerning the organization as a whole. Seen from this angle, therefore, outsourcing actually represents 65% of the section's human resources, which could be problematic in terms of the observation made by the Secretary General in 2010 (C-WP/13645 of 19 October 2010) and has convinced ADB to change its model in 2013. The section managers themselves argue that this resource model entails a risk of dependency and even, ultimately, of vulnerability for the most strategic IT applications, which are generally beyond the competence of the Organization's own staff.

Finding n°15: the Council's decision for a total ICAO staff headcount freeze has led to the use of a very high proportion of external consultants in the IT field. ICAO is thus in a situation of strong dependency with regard to a basic function, and the Council itself expressed concern, during its 190th session, upon the high level of ICT outsourcing compared with other organizations.

Recommendation n°15: within the limits set out for support services in the next triennial budget, the Organization should consider granting ICT enough posts to ensure a satisfactory control of the main IT applications, including by reallocation from other sections.

The Secretariat General considers this question depends on strategic choices to be made by the Council.

Priority 1

6.5.3. Achievement of objectives disclosed to the Council

177. In connection with the 2011-2013 three-yearly budgets, the Council had ratified four “expected results” of the ICT activity. The table below summarizes the situation in these four areas, as they appeared at the time of the external auditor's control in October 2012:

Table 35: Results expected by the Council for the ICT activity

No.	Subject	Progress at 30 September 2012
ICT-1	Adaptation of IT Master Plan	ICT Master Plan implemented in August 2012
ICT-2	Improvement of IT security (ICT Security Roadmap, Phase 2 Disaster Recovery)	In progress during autumn 2012
ICT-3	Improvement of cost-effectiveness of communications	In progress during autumn 2012
ICT-4	Implementation of IRIS ERP	In progress during autumn 2012

(Source: document 9955)

178. The IT Master Plan drawn up in August 2012, in accordance with a recommendation by the external auditor, has now been approved by the Information Management Committee (IMC)⁴⁸, and submitted to the Secretary General and the SMG⁴⁹. During the external auditor's control it was planned to present it to the Council for information during the session in early 2013. This point should therefore be finalized soon.
179. In its 189th session (January-February 2010), the Council requested an indicator of the cost of IT support. During an earlier control (March 2012), the external auditor had observed that such an indicator still did not exist.
180. The Council had also recommended the optimization of the ICT function. This recommendation by the Council accompanying the three-yearly budget was repeated and specified in a document issued by the Secretary General (C-WP/13645 of 19 October 2010). This document stipulated, in particular, an improvement in quality, by the setup of a new framework for management of IT projects, a data recovery plan in case of disaster, standardization of the infrastructure (One-ICAO ICT) and the setup of an electronic document management system (EDRMS).
181. According to the Secretary General's progress report to the Council (C-WP/13791) in January 2012, most of these questions have been dealt with. In accordance with the Council's recommendation, ICT has set up a special project management system (Project and Portfolio Management System). Even if this system is now operational, it has not been implemented. Indeed, the system responsible person left the Organisation.

6.5.4. IT risk management

182. In January 2012 the Secretary General presented to the Council (C-WP/13791) an ICAO Corporate Risk Register 2012 which defined ten specific risks. Of these, the "poor management of information systems and IT infrastructure" is considered as an "occasional" probability with an "average" level of risk. ADB is expected to take action from 2012 onwards to reduce this risk, in the framework of a Business Continuity Plan.
183. The annual report to the Council for 2011 mentioned the setup of a single IT infrastructure (One-ICAO ICT), a data recovery plan in case of disaster (Phase I, Phase II being planned for 2012), Phase I of a Web content management project (WCM), the setup of a new public website for the ICAO at the beginning of 2011, improved security of the Council's site and the development of the e-Recruiter system (launched in March 2011).
184. An IT audit of security, availability and continuity (2011/03 presented in February 2012) was performed by the internal audit office with the company KPMG. It concluded in the need for further efforts to make effective the Disaster Recovery Plan (DRP) (Recommendation No. 4).

⁴⁸ The IMC was set up in December 2011, to replace the ICT MC. Its terms of reference date from August 2012. It is chaired by the director of ADB and her secretarial services are provided by the manager of the ICT section.

⁴⁹ SMG: Senior Management Group

Finding n°16: The Organization is behind schedule in the management of its fast-changing and fast-growing IT systems.

Recommendation n°16: Given the growing importance of IT applications in ICAO's various activities, this is now a major area of risk: the external auditor shares the conclusions of the internal audit office on the need for further effort in this area, and welcomes the perspective of implementing a core Disaster Recovery Plan in the first half of 2013.

The Secretary General proposes to accept this recommendation: a Disaster Recovery Plan should be available by end of 2014.

Priority 2

6.6.Safety and Security Unit (ISS)

185. Since 2010 the Council has not made any particular recommendations concerning the ICAO's security service.
186. The ICAO Safety and Security Unit (ISS) is responsible for ICAO security on three levels: the internal security of headquarters, security within the entire Organization (including regional offices) and the security of the United Nations in Canada, the Secretary General being the designated Official for all six international United Nations organizations in Canada.
187. The security of headquarters premises is covered by art. 6 of the Supplementary Agreement signed with the Canadian Government. This agreement requires the Organization to “provide the internal security measures at Headquarters as demanded by the type, function and operations of the Organization”. This gives the ICAO, as such (and not only Secretary General), direct responsibility for internal security for ICAO headquarters (for example, ICAO is responsible for the access control at the Headquarters), whereas it only has indirect responsibility for the security of the building, due to the competence of the owner and the tenant, the Canadian government.
188. The Secretary General has taken the decision to reintegrate the security function in a new Conference, Security and General Services Section. This type of organization (this involves assigning security responsibility to a clerk in charge of logistics and support services) is uncommon. The external auditor has issued a recommendation to the Secretary General in a management letter.

7. ICAO PUBLICATIONS

189. The ICAO publications were audited at the Headquarters from 15 to 27 October 2012.
190. These publications are inherent to the vocation and mission of the Organisation. Publications Regulation Doc 7231 specifies that each Member State of the ICAO shall receive two printed copies of all publications (free quota policy). According to these provisions:

- each State shall receive its quota of all new and updated publications in each language requested

- the annex to State Letter A 3/1-09/99 amending Doc 7231/11 states that, in addition to the standard of two printed copies, free distribution quotas are to be proportional to the State's contribution, with 40 States thus benefitting from a higher quota (United States of America 29, Japan 19, Brazil 18, France 10, etc.). On average, this accounts for an additional 140 copies of each publication. There is also an additional copy for the representatives of the States to the Council.

191. In application of these provisions, the number of publications distributed free of charge as part of the quota policy was 46,303 in 2010 and 63,648 in 2011.

192. The free quota rule of two copies per State applies to printed publications: States also receive access rights for electronic publications.

193. For other interested parties, access to publications is not free of charge.

7.1. Quantitative data

194. The volume of ICAO publications may be assessed using a number of different approaches:

- the number of published works available (original and updated titles): 2061 printed works were on sale at the time of the audit (October 2012). At the same date, the publications catalogue displayed on the Internet included 1678 printed titles on sale via the e-store

- the annual number of new publications intended for sale: 55 in 2010, 47 in 2011. "New publications" here refers strictly to new items and do not include updates of previous documents.

- revenues (covering both sales and royalties): MUSD⁵⁰ 5.1 in 2009, MUSD 5.7 in 2010 and MUSD in 2011.

- electronic publications: in 2011, 11,000 new electronic documents were published on the Web, and 28,000 documents (all types of free and paid-for publications) were updated on the various ICAO websites.

195. However, the number of pages printed by the ICAO (69.5 million in 2010 and 57.7 million in 2011, the recent drop being due in part to the increase in electronic versions) is not a reliable indicator, as it covers a considerably larger scope than that of "publications" in the strict sense:

- in the first place, just over 11 million pages were printed in 2010 and 2011 for "external clients" (other organisations, national delegations, etc.);

- secondly, in addition to publications (annexes, PANS, manuals, etc.), "internal" printing (49 million pages in 2010, 41.6 in 2011) includes a large proportion of working documents (for the Council, Assembly, various standing bodies, correspondence from the Office of the Secretary General, etc.) not intended for publication.

196. Printing statistics enable only one category of publications to be isolated, that of magazines and events presentations (9.1 million pages in 2010, 5.1 million in 2011).

⁵⁰ United States dollars

197. Whatever the approach, the figures above show that publications form an essential activity of the ICAO. They are how its fundamental work is made tangible. For instance, this includes updating and disseminating public standards for civil aviation safety and security, which are intended to be transposed into the regulations of the Member States. The latter receive them free of charge according to the conditions referred to above. In addition, these are also of potential interest to all civil aviation service providers and other stakeholders: in principle, these parties have access to them on a payment basis.

7.2. Producers of publications

198. The main producers of publications within the ICAO are naturally the ANB⁵¹ and ATB⁵², and more marginally, the RGA⁵³.

7.2.1. Bureau of the Air Navigation (ANB)

199. The ANB is the main supplier of ICAO publications. More particularly:

- air traffic management (ATM) keeps three annexes updated (2, 11, 12) and manages 28 PANS⁵⁴ and manuals
- the Integrated Infrastructure Management (IIM) section keeps three Annexes updated and manages 27 manuals through regular updates;
- the Flight Operations (OPS) section keeps six Annexes updated and manages two PANS and 36 manuals through regular updates .

200. The ANB is generally of the opinion that in the main, its publications are destined to be circulated widely and free of charge (safety should be free) and that selling publications should be the exception⁵⁵.

⁵¹ ANB: Bureau of the Air Navigation

⁵² ATB: Bureau of the Air Transport

⁵³ RGA: Revenue Generating Activity

⁵⁴ PANS: Procedures for Air Navigation Services

⁵⁵ "Exceptions" include utilitarian publications that are not directly related to safety and security standards: one such example is document 8585 "Designators for aircraft operating agencies, aeronautical authorities and services". Written and updated by ANB/OPS, this is on sale for USD 840, providing annual revenues of between USD 500,000 and USD 600,000 each year.

7.2.2. Bureau of the Air Transport (ATB)

201. Most ATB publications are for sale rather than free. Between 2008 and 2012, the ATB's best-selling publications were:

Table 36: ATB 'best-sellers', 2008-2012 (in US dollars)

Publication	Revenue (USD)	Number of units sold
ASTP - Aviation Security Training Package	348,133	258
Tariffs for Airports and Air Navigation Services	200,707	612
Security Manual	109,572	1,545
MRTD	69,302	1,006
Annex 9 Facilitation	63,536	1,873
WASA	38,553	51
Global 20 year Forecast	35,417	57
Annex 17 Security	28,502	1,206
Data Statistics Electronic format	25,660	12
Total	919,382	6,620

(Source: ATB)

202. Within the ATB, in addition to AVSEC publications, in particular in the field of MRTD⁵⁶, the EAP⁵⁷ section is highly oriented towards revenue generation. Programme 32 describes "intellectual capital" activities, which must be self-funding and "generate revenue". This programme covers three main areas.

- the first is the contribution to IATA's⁵⁸ Prorate Agency (agreement dated 8 January 2008) for its work on the prorating of revenue from passengers on all airlines. This "Prorate study" was originally sold to IATA for CAD 105,000, and brought in CAD 128,000 in 2009, CAD 111,000 in 2010 and CAD 130,000 in 2011; a revised agreement that is presently in place is that signed on 12 September 2011, which applies to deliverables provided to the Agency in 2012, 2013 and 2014. The amount charged this year is USD 140,000.
- secondly, an agreement has been made with UPU⁵⁹ for contributing to the calculation of basic airmail rates (BACR, Basic Airmail Conveyance Rate). The contract brought in revenues of USD 8,500 in 2009 and USD 8,500 in 2010. It was redefined and re-evaluated at the end of 2010 for 2011, at USD 13,000; this has subsequently been increased to USD 15,000;
- lastly, the sale of online statistics is carried out in cooperation with *Flight International* magazine and its ATI (Air Transport Intelligence) department (Reed Business). This concerns statistical data on finances, traffic and personnel for commercial fleets. A non-exclusive licensing agreement was signed in March 2005 by the head of the ATB and Reed Business Information Ltd., one of the world leaders in professional economic information. Under this agreement, revenues are first used for each party to recover its initial outlay, and then shared 50/50 subsequently. The target assigned to EAP for the 2011-2013 triennium is MUS\$ 1.2. Since being signed, this arrangement has generated revenues of between kCAD 177 (2011) and kCAD 299 (2008) for the ICAO.

⁵⁶ MRTD: Machine Readable Travel Documents

⁵⁷ EAP : Economic Analysis and Policy

⁵⁸ IATA: International Air Transport Association

⁵⁹ UPU : Universal Postal Union

7.2.3. The Revenue Generating Activity (RGA) section

203. The RGA section is responsible for “reinforcing and coordinating marketing and promotional activities by means of a structured product management approach”, particularly for the sector of regular publications, which will be examined later.

7.3. Coordination of publications

204. The coordination of publications relies firstly on an interoffice memorandum (IOM) dated 28 October 2008, setting out the policy for the production of publications, and secondly on document 7231/11 (*ICAO Publications Regulations*), in force since 20 June 2009, setting out the rules for publication. Broadly speaking, two very different categories of publication are concerned:

- Firstly, publications relating to the ICAO’s “core business”: annexes, PANS, reports, manuals and working documents intended for the Council or various standing bodies, circulars, aeronautical charts, letters of State, bulletins from the Secretary General, etc.
- Secondly, publications aimed at making the work of the ICAO better known and understood – essentially, these consist in four periodicals of different types: the ICAO Journal, the MRTD Report, the Regional Reports and the Training Report.

7.3.1. The Priority Board

205. A “Priority Board” is responsible for coordination of the publication activity. This convenes senior personnel from the departments concerned, and is in charge of setting priorities, supervising content and ensuring proper performance of activities in this area. In November 2009, an IOM from the Secretary General supplemented the system by forming a permanent sub-group reporting to the Priority Board for the coordination of publications, whilst from a logistics point of view, an “Eden” (Electronic Documents and Enquiry Network) system has been implemented to facilitate the input of requests and the monitoring of documents intended for publication.

Finding n°17: The Priority Board has met only very occasionally (February 2009, October 2009, and May 2012). The sub-group strives to maintain more frequent meetings (monthly in principle), but it is not very representative and its powers are limited: it merely draws up and monitors a schedule for all work (translations, printing, dispatches, etc.).

Recommendation n°17: The Priority Board should meet more regularly. Indeed, the following observations show that it could usefully be referred to for discussion of a number of major issues relating to publications.

The Secretary General proposes to accept this recommendation, and plans to hold a quarterly meeting of the Priority Board (first meeting took place on 1 March).

Priority 3

7.3.2. Publications under the control of the RGA

206. Due to their commercial targets, the publications managed by the RGA section sometimes fail to adhere to the rules in place or follow the prescribed procedures. This is the case in particular for periodicals, and sometimes even for certain one-off publications (the 2010 environment report was already commented on during the 2011 audit of the ATB at a time when there were no particular rules or prescribed procedures in place related to publications under RGA).
207. In this regard, the standards established for the formatting, pagination and colour of publications (Staff Notice 4562 dated January 16th, 2001) are not always adhered to. Furthermore, the publications managed by the RGA do not follow the Eden procedure, and the fact that the ICAO printing department depends on the RGA further reinforces the operating autonomy of this non-negligible aspect of the production of ICAO publications. There is a high degree of disparity in the presentation of publications. While this is somewhat understandable given the different objectives and audiences for each product, it is counterproductive when it comes to upholding a consistent image of ICAO publications. Moreover, the objectives and details of this diversity are not really managed or controlled across the Organisation as a whole.

7.3.3. Electronic publications

208. The fact that the image of the ICAO is not controlled across its publications is exacerbated by the growing number of publications intended to be made available online. ICAO has not established rules for these publications to ensure that the image projected externally is always the same.
209. One recent illustration of this lack of a concerted operational framework concerns the publication by the ANB of an FRMS (Fatigue Risk Management System) manual, in October 2011. This publication was intended solely for electronic distribution in a specific format, which was quite different from the standards applying to printed manuals. It required an exchange of IOMs between D/ANB and D/ADB (20 October 2011 and 23 May 2012) to finally admit an “exemption” and accept that this document – which was important and long-awaited – could adhere to criteria in terms of formatting that differed from those set down in the ICAO’s standard rules – rules which had not in fact ever been the subject of prior internal consultation.
210. The overall rules governing publication should be helping to support the current change in favour of electronic publication, rather than hindering it.

Finding n°18: there is a high degree of disparity in the presentation of ICAO documents. This is due to the amount of liberty taken with the rules in force, relating to the semi-commercial nature of certain publications (RGA). This has been exacerbated in recent years by the inevitable changes in format, and sometimes even in content, brought on by electronic publication (this also affects the ANB and ATB).

Recommendation n°18: it is time for the rules governing the style, format and presentation of ICAO publications to be reviewed and streamlined: firstly to avoid the Organisation's "commercial" publications adversely affecting the Organisation's external image, and secondly to take into account the increasing share of electronic distribution in the work of publication. In this regard, texts focussing on these two aspects (Staff Notice 4562 and Doc 7231/11) should be updated.

The Secretary General proposes to accept this recommendation, and will prepare a new branding for ICAO publications by December 2014.

Priority 2

7.3.4. Publications and public relations

211. Harmonization of the various documents produced, which would respect their specificity, while taking into account ICAO image and overall message, is still insufficient. Yet, such convergence is even more vital that, in the 'improving the efficiency and effectiveness of ICAO' framework, the Secretary-General reported to the Council in its 191st session in 2010 C-WP/13644 on the development of a new strategic plan, proposing a "overarching" policy for public information.

Finding n°19: All production published by ICAO contributes to the image and external communication of the Organization.

Recommendation n°19: The inclusion of publications policy in the reflection on the public information strategy plan would be appropriate.

The Secretary General proposes to accept this recommendation: publications policy will be reflected in the Communication Plan by December 2014

Priority 3

7.4. The development of electronic publications

212. The development of electronic publications is a major trend for ICAO, as can be seen from a number of its portals, in particular the online store, where its publications can be purchased.

213. The current scale of the electronic product offering is clear:

- 21,000 new electronic dossiers and 26,000 updates in 2010
- 11,000 new dossiers and 28,000 updates in 2011.

214. At the same time, there is a decrease in the number of printed pages as mentioned previously⁶⁰. The current trend also means that a range of questions, regularly brought to the attention of the Council in recent years, are now being raised in new terms:

- the future of the printing department
- trends in revenues from publications
- protecting the ICAO's copyright.

7.4.1. The future of the printing department

215. It is not possible to distinguish what proportion of the 41.6 million "internal" pages printed by ICAO in 2011 could be intended for publication (annexes, PANS, manuals, etc.). However, it would appear that most of the documents printed by ICAO are purely working documents and not intended for publication (working documents for the Council, Assembly, various commissions and committees, working groups, panels, and so on).

216. The current policy, asserted in particular by the ADB, which is in charge of the printing department, is aimed at a "paperless environment" with a systematic preference for electronic publication. This policy should in theory apply to all of the Organisation's printed productions. The transition of periodical publications and regular technical publications (annex updates, PANS, manuals etc.) to electronic versions may be envisaged in the medium term, given the gradual (but rapid) adaptation to this expanding method of distribution.

217. However, in the light of the figures quoted above, this change to a paperless environment will only have a significant impact if internal documents, majority in the ICAO printing activity, move in the same direction at the same speed: the key issue is therefore to establish whether this change could be applied to the working documents of the Council, Assembly and various standing bodies, since these account for the vast majority of the ICAO's printing.

218. The speed at which any such paperless environment could be envisaged will depend on the attitude taken to these documents; this depends above all on the position taken by the Council itself. There will no doubt remain an enduring need for hardcopy documentation for some of the Organisation's bodies. The choice between maintaining an internal printing department (at least for a transitional period) and having work subcontracted to external providers will depend on the residual amount of documents to be printed: taking into account the current volume of printed documents, the external auditor noted that to date, the response to the question of the future of the ICAO printing department has resulted in the existing system being maintained for three reasons:

- the first relates to the equipment, which is still in good working order despite no longer weighing adversely on the accounts (given its level of depreciation);
- the second, closely linked to the scale of the printing department's activity for ICAO internal documents, relates to security and availability: any recourse to outsourcing could potentially compromise this, due to the volumes and lead-times in question;
- the third relates to the issue of the future of the print shop employees.

⁶⁰ Cf. §195.

Finding n°20: most current ICAO printing work relates not to publications, but to internal documents for the running of ICAO and its bodies. It is not certain that outsourcing this work would represent a decisive advantage, assuming the amount of work processed remains the same.

Recommendation n°20: in order for the “paperless environment” policy to be cost effective, the move to electronic publications is not sufficient. The Council should take a decision to drastically limit the number of documents made available in paper form to the Council itself, the Assembly, and the various “standing bodies” (AN commission, AT commission, work groups, etc.)

The Secretary General proposes to accept this recommendation while pointing out that a policy of limitation of all papers available to internal structures is already in place. No additional measure is proposed by the Secretary General.

Priority 2

7.4.2. The effect on publication-related revenues

219. The generalisation of electronic publications also has financial consequences:
- Firstly, with respect to the application of free quotas. In addition to free distributions, States benefit from access to an electronic copy, and therefore purchase fewer copies: following a peak of USD 560,000 in 2008, sales of publications to Member States amounted to only USD 274,000 in 2011
 - On the other hand, a certain number of productions with high added value (those using statistics for example) do not come with automatic, free access. These are the result of cooperation: the original statistics are supplied to the ICAO by States or major air service suppliers (airlines, airports, etc.). In return, these service providers sometimes demand preferential access to the products that are the fruit of this cooperation. In such cases, it is probably preferable to maintain the current practice of negotiations on a case-by-case basis rather than applying a general rule, which would be liable to result in adverse consequences. However, the question of access for States to this type of publication should be clarified. Should systematic free access to documents be applied to documents of such a particular nature?

Finding n°21: the basis for circulation (free or on a paid-for basis) of various publications with high added value resulting from cooperation with States or various air service providers is currently settled on a case-by-case basis. This pragmatic approach appears to be suitable for service providers. However, the issue of whether the free quota policy should be extended to this type of publication should be clarified.

Recommendation n°21: the possibility of updating articles 9 and 10 of Document 7231/11 concerning publication regulations should be investigated, particularly with regard to the issue of the circulation of certain publications with high added value.

The Secretary General proposes to accept this recommendation: The Document 7231/11 concerning publication regulations is being revised, and a recent decision has been taken to eliminate “Air Cargo”.

Priority 3

7.4.3. Copyright protection

220. Electronic circulation of publications also involves tighter supervision of the protection of intellectual property. Indeed, this raises the issue of rights in a new way:

- firstly, effective protection of these rights must be undertaken in an electronic distribution environment. This is more anonymous, and therefore more difficult to trace, than hardcopy circulation
- secondly, in the long term, income from licensing of these rights is intended to replace the sales of individual copies of hardcopy publications. The legal issue is thus compounded by a commercial problem. So far, in application of the Document 7231/11 (ICAO Publications Regulations), the Legal Affairs Bureau has enforced copyright compliance for publications. However their task is not easy, even for hardcopy publications. Some States may, in good faith, deem that they should bring ICAO standards and recommendations for air safety and security to the public's attention and therefore reproduce them. As a result, the copies supplied under the "free quota" rule are sometimes published on their websites, thereby making them available to all without any concern for the original copyright: clearly, such practices jeopardise the potential customer market for these publications.
- The Legal Affairs Bureau has recently intervened on two occasions for States which had been involved in such practices; the generalisation of electronic communications can only add to this risk. For the time being, the ICAO does not have an intelligence system for the Internet enabling it to pursue appropriate legal action as soon as ICAO copyright appears to have been infringed. However, the cost-benefit ratio of this type of intelligence would be worth investigating.

Finding n°22: the growth in electronic distribution of ICAO publications is liable to lead to an increase in copyright issues.

Recommendation n°22: an evaluation of the cost-benefit ratio of a specific intelligence system for copyright protection of ICAO publications on the Internet would be worthwhile.

The Secretary General proposes to accept this recommendation. ICAO has already implemented a partial Digital Rights Management System for saleable publications. No additional measure is proposed by the Secretary General.

Priority 2

7.5. Periodicals

221. The periodicals published by the ICAO have a twofold objective: enhancing the image and visibility of ICAO and generating advertising income.

7.5.1. The issue of advertising

222. Canvassing advertisers for the various periodicals is the responsibility of the RGA section. This activity is subcontracted to advertising agencies. The rule in force for all publications (in particular for print media) is to give the publisher, who is responsible for the publication, the means of checking the compliance (political, moral or simply the appropriate nature) of advertisements (in terms of the advertiser and the content)

featuring in their publication. A few rules of ethics do feature in the contracts agreed by the RGA with subcontractor. However, the external auditor is unsure as to whether the RGA has the means (or even the vocation) to assess the appropriateness or otherwise of certain advertisements.

Finding n°23: The control of advertisements received by ICAO subcontractors is not systematic and is therefore not under the control of the head of publication

Recommendation n°23: The codes of ethics featured in ICAO contracts used when canvassing advertisers should be reinforced, with more specific provisions added. The head of any ICAO publication that carries advertising should be systematically consulted and engage their own liability by giving their agreement.

The Secretary General proposes to accept this recommendation: the responsibility for approving advertisers in publications will be attributed to the originating bureaus and Communications.

Priority2

7.5.2. The financial situation of the ICAO Journal

223. For the three-year period 2011-2013, the Assembly had requested “*refocusing the position of the ICAO Journal and the overarching editorial strategy to make it more profitable; advertising sales for the ICAO Journal, special reports and website should be maximised; advertising revenues from the ICAO Journal should be increased and the deficit offset*”. Nevertheless, the original budget forecast was for revenues of CAD 225,000 compared to costs of CAD 425,000, with a resulting deficit of CAD 200,000. At the time of the audit by the external auditor (October 2012), income was CAD 146,000 and costs came to CAD 265,000, leaving a recorded deficit of CAD 119,000. These figures relate to the four issues published (the usual frequency is six issues per year): contrary to the requirement of the Assembly, the situation is therefore not financially balanced. Extending the time between publications was the only way losses could be limited.
224. Reducing the total number of copies printed (or increasing the time between issues, which comes to the same thing), as was done in 2012, is probably not a long-term solution. It results in a loss in advertising revenues, and could also have a negative effect on the appeal for potential advertisers. On the other hand, while migrating to all-electronic distribution would certainly solve part of the problem by significantly cutting production and circulation costs, it would result in the publication losing the prestige associated with being a hardcopy magazine.
225. The solution probably involves exploring a combination of both methods (reducing the number of printed copies and promoting an alternative suitable for electronic communication).

Finding n°24: In the past period, the *ICAO Journal* has not managed to break even, even by reducing the number of issues: its advertising income being insufficient and its production and distribution costs remaining too high.

Recommendation n°24: while there is no clear solution, one potential avenue for cutting costs would be to find a balance between a fairly limited hardcopy circulation and broader electronic circulation. It remains to be seen whether the main advertisers would be willing to participate in such a change, particularly with respect to the electronic version of the journal.

The Secretary General has taken a different option, deciding to publish the ICAO Journal in English only, thus managing to break even for the first time for the last 2012 issue of the Journal – this does not fully answer the Council’s request (breaking even by maximizing revenues).

The Secretary General proposes not to accept this recommendation.

Priority 3

7.5.3. Other magazines

226. MRTD reports: dealing with the major topic of machine-readable travel documents (MRTDs) since 2006, these reports (two or three per year depending on the year) have been making efforts to generate advertising revenues from service providers involved in this field. For 2012, a surplus of CAD 195,000 was expected: in the end the two issues published generated only CAD 124,000 in revenues instead of the CAD 285,000 expected, while costs came to CAD 36,000, resulting in a surplus of only CAD 88,000.
227. Regional reports: their purpose is to give a description of the activities of the regional offices of ICAO, as well as share updates, outlooks and analysis of civil aviation as a whole with contracting States and the international aeronautics community. They also aim to garner advertising and generate financial surpluses. Six issues have been published in recent years. There were difficulties with the publication of the sixth report, dedicated to Africa, in late 2011, even though advertising revenue had already been collected. Therefore, the accounting net profit for 2012 records only the costs engaged (CAD 31,000) and no income. If both 2011 and 2012 are taken into consideration, total revenues of CAD 93,000 and expenditure of CAD 63,000 are recorded, giving a surplus of approximately CAD 30,000, which is well below that forecast.
228. The Training Report was published twice in 2010 and came out only once in 2011. Unlike other periodicals, this is written by a consultant, who is however part of the ICAO (holding an SSA contract within the ANB, in the AST Training department). In 2011 the surplus generated was CAD 92,000 and should be CAD 14,000 in 2012. This result is much lower than expected (CAD 90,000) due to reduced advertising revenues (CAD 70,000 instead of the forecast CAD 175,000).

Finding n°25: For all periodicals, results are below forecasts due to advertising revenue targets not being met.

Recommendation n°25: Since advertising revenues are systematically below forecast, the entire system needs revising (prices, partners, contract clauses and distribution costs).

Although he considers the factors listed are not necessarily attributable to advertising revenues being below forecast, the Secretary General proposes to accept this recommendation, and will revise the advertising system by June 2014.

Priority 2

8. BANGKOK REGIONAL OFFICE

229. This audit was conducted in Bangkok from 4 to 15 June 2012. The External Auditor had conducted a previous audit on this office from 15 to 26 June 2009.

8.1. Specific information about the APAC region

230. The Bangkok regional office is accredited to 38 States in the Asia Pacific region, and maintains ties with one non-member State (Tuvalu), and 14 territories governed by Chile, the United States, France, New Zealand and the United Kingdom. Compared with the other regional offices, two characteristics are immediately evident that can explain, at least in part, differences between APAC and other regional offices:

- The first specificity of the APAC region is the wide economic and political diversity: Lots of different types of governments, a near absence of common regional languages, which is rare among groups of States with common interests (that may explain the absence of a permanent regional civil aviation conference like the European Civil Aviation Conference and the Latin American Civil Aviation Commission);
- The second characteristic is the fact that, in terms of time zones, Bangkok is completely out of phase with Montreal (12 hours), which greatly limits information exchange with contacts at headquarters.

231. For the APAC regional office, cooperation with civil aviation authorities is carried out through entities that at times resemble most of the other regional offices, but sometimes are specific to the APAC region.

232. Typical consultation bodies, which exist in other regions, include:

- first, the Asia Pacific Air Navigation Planning and Implementation Regional Group (APANPIRG), which meets annually, and its three sub-groups, which also meet annually: the first covers ATM⁶¹/AIS⁶²/SAR⁶³; the second CNS⁶⁴ and MET⁶⁵; the third, the Regional Airspace Safety Monitoring Advisory Group (RASMAG) covers airspace safety matters;

⁶¹ ATM: Air Traffic Management

⁶² AIS: Aeronautical Information Service

⁶³ SAR: Search and Rescue

⁶⁴ CNS: Communication, Navigation and Surveillance

⁶⁵ MET : Meteorological Services for Air Navigation

- Regional Aviation Safety Group-Asia Pacific (RASG-APAC), which meets annually, but depends on the Asia Pacific Regional Aviation Safety Team (APRAST), whose work focuses on flight safety matters, holds two physical meetings and two teleconferences each year, and in turn depends on two working groups (Accident Investigation, Safety Reporting Group). The guidelines adopted by RASG are implemented, most often with funding from the three COSCAP sub regional technical cooperation projects at the sub regional level (seven south Asian nations, four north Asian nations, and thirteen administrations in the south-east Asian nations);
- the three COSCAP subregional technical cooperation projects mentioned above, which currently cover 24 administrations in the APAC region.

233. Bodies specific to the APAC region that are not found in other regional offices include:

- Cooperative Aviation Security Programme – Asia Pacific (CASP-AP) was created in 2003 following the 11 September 2001 events, to improve aviation security in this priority region. This programme brings together 24 administrations in the APAC region (even if the number is identical, it does not concern the same countries covered by COSCAP projects, an indication of the widely diverse interests of APAC countries mentioned above).
- an annual meeting of directors of civil aviation authorities, known as the DGCAA conference, which has no permanent structure, and whose secretariat functions are performed by the APAC office.

8.2. Budgetary management of the regional office

234. During the preparation of the triennium budget, appropriations were approved by the Assembly for the entire ICAO on the basis of a results based budget (RBB), with three basic “strategic objectives” (safety, security and sustainability), which were in turn distributed among a total of 37 “programmes”.
235. When each annual budget of the triennium is implemented, the approved appropriations are categorized, as for the rest of the Organization, as “blocks”⁶⁶, and within each block, allotted by budgetary account (i.e accounts representing subtotals of various expense accounts).
236. With regard to application of this procedure to the particular case of regional offices for the 2012 reporting period, an IOM from the Finance branch, dated 11 January 2012, notes that “as in 2011 and in accordance with the RBB structure of the Regular Programme Budget for triennium 2011-2013, allotments are issued by programme”. However, in the model distribution structure into eight blocks of the budgets for regional offices proposed in Annex 2 of the same IOM, the very notion of reference to a programme does not appear (beside the eight blocks, there are 18 budgetary accounts – which are subtotals of various expense accounts – costs for hospitality, travel, training, etc.).
237. The external auditor observed on site in Bangkok that the very concept of “programme” did not have, despite the instructions of the above mentioned IOM (requiring distribution “by programme” of appropriations), any effect on actual

⁶⁶ Funds for offices are currently categorized in eight blocks: capital expenditures, hospitality and retreats, rental & maintenance of premises, telecommunications, training, travel, meetings and operational expenditures.

budget implementation. Indeed, the Bangkok office is theoretically associated, according to budgetary document 9955, pp. 63 and 64, with the implementation of 14 of the 37 programmes listed in the triennium 2011-2013 budget. However, each of the eight budgetary blocks indiscriminately covers all programmes (the concept of “programme” thus is not used in the regional office), and the staff member locally responsible for entering data in Agresso (as “work orders”) has indicated to the external auditor that no reference was made at the time to assigning expenses to a specific programme. This staff member would then have had difficulty in allocating work orders by programme, since during interviews with the External Auditor none of the technical officers, who are the most frequent source of such expenses and are in theory responsible for participating in implementing programmes in the triennial budget, was able to demonstrate any knowledge, even vague, of the list of 14 programmes that APAC regional office is supposed to implement on the basis of the budget approved by the Assembly.

238. From a budgetary perspective, the largely fictitious nature of the very concept of “programme” in the sense of the RBB had already been suggested in the External Auditor’s annual report for the 2011 reporting period during the audit of the ANB office⁶⁷. Here, however, in contrast to what was observed for ANB, it involves a pure and simple failure to divide the budget into programmes. Overall, the budgetary implementation report (by reintegrating expenses directly paid by headquarters on behalf of the regional office) for the APAC office can be presented as follows:

Table 37: Budget approved, allocated and implemented for the 2011 reporting period – APAC Office (in Canadian dollars)

	Total Appropriations	Total Allotments	Total Expenditures
Acctblock(T)			
General Service Posts	646,073	616,335	717,157
International Professional Posts	1,972,404	1,571,986	1,540,858
Staff Costs	2,618,477	2,188,321	2,258,015
Capital Expenditures	59,179	40,454	0
Exchange gain/loss	0	0	3,370
Hospitality & Retreats	21,551	20,559	18,082
Meetings	0	30,000	28,692
Operational Expenditure	177,968	194,760	186,944
Outsourcing and Consultancy	0	0	-7,355
Rental & Maintenance of Premises	86,204	62,935	42,978
Telecommunication	31,640	17,711	13,703
Training	3,036	2,896	2,801
Travel	139,090	142,686	128,169
Non-Staff Cost	518,667	512,001	417,384
Grand Total	3,137,145	2,700,322	2,675,399

(Source: ICAO)

239. It is clear in this table that any reference to the 14 programmes approved by the budget has disappeared, and it was confirmed to the External Auditor that it is impossible to allocate the same costs by programme.

⁶⁷ Observation 12: “examination of the actual work of the ANB shows that a significant part of this work is hardly or not represented through the current budget structuring into programmes/projects: in general it involves core activities and contingency planning in particular.”

240. This analysis can be applied to the other offices, since they are subject to the same IOM and use the same Agresso module under the same conditions.

241. For allocation of budgetary expenses of regional offices by strategic objective, Annex 1 of IOM C/FIN of 12 January 2012 indicates that work orders shall be allocated by strategic objective, as follows:

Table 38: Regional offices expenses by objectives (as %)

REGIONAL OFFICES WORK ORDER CODES	Cost Centre	Work Order	SAF	SEC	SUS
Asia and Pacific Office - Bangkok (APAC)	4021	RE021	50%	30%	20%
Eastern and Southern Africa Office - Nairobi (ESAF)	4022	RE022	50%	30%	20%
European and North Atlantic Office (EUR/NAT)	4023	RE023	50%	30%	20%
Middle East Office - Cairo (MID)	4024	RE024	50%	30%	20%
Nth & Cent. American and Caribbean Office - Mexico (NACC)	4025	RE025	50%	30%	20%
South American Office - Lima (SAM)	4026	RE026	50%	30%	20%
Western and Central African Office - Dakar (WACAF)	4027	RE027	50%	30%	20%

*SAF= safety; SEC= security; SUS= sustainability

(Source: ICAO)

242. This 50-30-20 allocation well reflects the RBB approved by the Assembly, as is clear on page 64 of above-mentioned document 9955 (and, for 2011, the “appropriation” of CAD 3,137,000 is indeed included):

**Table 39: Regular Budget Resources 2011-2013
(in thousands of Canadian dollars)**

	2011	2012	2013	TOTAL
Safety	1 569	1 592	1 657	4 818
Security	941	955	994	2 890
Sustainability	627	637	663	1 927
	3 137	3 184	3 314	9 635

(Source: ICAO)

243. The same Annex 1 of IOM C/FIN of 12 January 2012 specifies, by way of exception, that any request for a travel authorization shall indicate, depending on the reason for the trip, allocation among the three strategic objectives. The external auditor performed a detail test on certain work orders related to travel authorizations and observed that, in this case, it involves an estimate of the “actual” allocation, (certainly fixed and thus somewhat approximate), between the safety, security and sustainability objectives⁶⁸, and does not necessarily correspond to the 50-30-20 allocation mentioned above. This procedure however concerns only accounts that may include travel expenses, i.e., “travel”, “meetings” and “training”.

⁶⁸ For example, for a travel authorization dated 15 May 2012 for \$1,030, the notation “Result Code: REC021-SAF, SUS” led to dividing the “work order” between two Agresso entries for CAD 50,502 or 50% security and 50% safety.

244. For all other expenses, the office cannot provide any indication of the above-mentioned SAF-SEC-SUS allocation (and it is difficult to imagine how it could do it realistically, for example, for expenses such as water, electricity, maintenance of premises, telecommunications, etc.).

245. Theoretically, use of “actual” allocations (only for operations that include travel) should result in budget implementation that deviates more or less significantly from the budget allocation approved by the Assembly.

246. This is not the case. As the following tables show, Agresso restores the initial division 50-30-20, and “compensates” the real situation observed when trips, missions and training are entered, with no regard for the actual allocation of office activity with regard to the three strategic objectives.

247. For safety (50%):

Table 40: Budget approved, allocated and implemented for “safety” objective (CAD)

Acctblock(T)	2011_Safety			
	Appropriation	Allotment	Expenditure	% Stratobj
General Service Posts	323,037	308,167	358,578	50%
International Professional Posts	986,202	785,993	770,429	50%
Staff Costs	1,309,239	1,094,160	1,129,008	50%
Capital Expenditures	29,589	20,227	0	
Exchange gain/loss	0	0	1,685	50%
Hospitality & Retreats	10,775	10,279	9,169	51%
Meetings	0	15,000	8,657	30%
Operational Expenditure	88,984	97,380	93,472	50%
Outsourcing and Consultancy	0	0	-3,677	50%
Rental & Maintenance of Premises	43,102	31,467	21,489	50%
Telecommunication	15,820	8,855	6,852	50%
Training	1,518	1,448	2,359	84%
Travel	69,545	71,343	75,850	59%
Non-Staff Cost	259,333	256,000	215,856	52%
Grand Total	1,568,572	1,350,160	1,344,863	50%
	50%	50%	50%	

(Source: Agresso)

248. For security (30%):

Table 41: Budget approved, allocated and implemented for “security” objective (CAD)

Acctblock(T)	2011_Security			
	Appropriation	Allotment	Expenditure	% Stratobj
General Service Posts	193,822	184,900	215,147	30%
International Professional Posts	591,721	471,596	462,258	30%
Staff Costs	785,543	656,496	677,405	30%
Capital Expenditures	17,754	12,136	0	
Exchange gain/loss	0	0	1,011	30%
Hospitality & Retreats	6,465	6,168	5,042	28%
Meetings	0	9,000	527	2%
Operational Expenditure	53,390	58,428	56,083	30%
Outsourcing and Consultancy	0	0	-2,206	30%
Rental & Maintenance of Premises	25,861	18,880	12,893	30%
Telecommunication	9,492	5,313	4,111	30%
Training	911	869	265	9%
Travel	41,727	42,806	12,860	10%
Non-Staff Cost	155,600	153,600	90,586	22%
Grand Total	941,143	810,096	767,991	29%
	30%	30%	29%	

(Source: Agresso)

249. For sustainability (20%):

Table 42: Budget approved, allocated and implemented for “sustainability” objective (CAD)

Acctblock(T)	2011_Sustainability			
	Appropriation	Allotment	Expenditure	% Stratobj
General Service Posts	129,215	123,267	143,431	20%
International Professional Posts	394,481	314,397	308,172	20%
Staff Costs	523,695	437,664	451,603	20%
Capital Expenditures	11,836	8,091	0	
Exchange gain/loss	0	0	674	20%
Hospitality & Retreats	4,310	4,112	3,870	21%
Meetings	0	6,000	19,508	68%
Operational Expenditure	35,594	38,952	37,389	20%
Outsourcing and Consultancy	0	0	-1,471	20%
Rental & Maintenance of Premises	17,241	12,587	8,596	20%
Telecommunication	6,328	3,542	2,741	20%
Training	607	579	177	6%
Travel	27,818	28,537	39,459	31%
Non-Staff Cost	103,733	102,400	110,942	27%
Grand Total	627,428	540,064	562,545	21%
	20%	20%	21%	

(Source: Agresso)

250. The actual effects of Annex 2 of the IOM C/FIN of 12 January 2012 are clearly limited: Travel authorization request should require purpose to allocate expenses among the strategic objectives. As indicated above, the only areas for which the regional office actually allocates are meetings, training and travel. For these three accounting items, the three tables above effectively show distribution that is

noticeably different from the theoretical 50-30-20: for example, in the table above about sustainability, these entries indicate shares of 68%, 6% and 31% respectively instead of 50-30-20%, but the overall “adjustment” is done systematically, by arbitrarily modulating the title “non-staff costs” so that the final line gives the desired purely visual result (50-30-20), not taking into account.

251. This analysis is corroborated by the fact that, in the case of APAC, and on the basis of concrete data from regional staff members, the RBB presentation and reporting system clearly overweighs security and sustainability. To take an extreme hypothesis, if actual activity were entirely dedicated to a single strategic objective, or even to none, such a system would continue to indicate, after implementation, a 50-30-20 distribution.
252. In total, this entire artificial mechanism may give an illusion, in the eyes of the Member States of the Assembly and the Council, that the budget is actually based on the allocation of appropriations from the regular budget to strategic objectives, while everything shows that, in reality, the budget is managed (and rather well managed) like a traditional budget, by blocks of expenses (salaries, maintenance, travel costs, equipment, etc.), without taking any account of objectives (and all the more so for programmes). In other words, the General Secretariat and finance branch have maintained traditional budgetary management, using blocks of expenses, which works well and correctly protects the Organization against any risk of exceeding available appropriations, and have created a theoretical RBB (Result-Based Budgeting) presentation system that has no connection with reality as far as the regional offices are concerned, while the Council is given, as far as the regional offices are concerned, both for voting purposes and budget implementation reports, RBB documents whose only connection with reality is the fact that they have the same balance as the “actual” budget managed by the General Secretariat according to conditions that are alien to an RBB structure.

Finding n°26: The RBB (Result-Based Budgeting) structure does not give an accurate budgetary picture of the regional offices work: the concept of RBB, which rests on an allocation of appropriations approved by the Assembly among 37 programmes grouped into three strategic objectives, is, with regard to the regional offices, fictional. In fact, the budget is integrally structured and implemented according to the traditional budget formula of expense by type (rather than by objective), and the entire system of budgetary allocation and internal control for regional offices is based on control by “blocks” of expenses, independently of their strategic objective or “programmes” in the triennial budget.

Recommendation n°26: The next triennial budget should provide, for regional offices, in parallel with the formal RBB structure, tables and charts showing expenses by expenditure blocks (salaries, travel, meetings, equipment purchases, etc.), as they are actually implemented and monitored by ICAO.

The Secretary General proposes to accept this recommendation, and underlines the fact that the next triennium budget structure will be largely simplified, which should reduce the gap between theoretical RBB structure and actual budget implementation

Priority 2

8.3. Property

253. Initially located in Melbourne, Australia, the APAC office was transferred to Bangkok, Thailand in December 1954. From 1954 to 1985, its office was located on Rajdamnoen Avenue in Sala Santitham and was moved to Rajapark Building on Asoke Road from 1985 to 1989 on an interim basis.
254. Its current address is 252/1 Vibhavadee Rangsit Road. It consists of two buildings specifically built for its use and made available by the government of the Kingdom of Thailand. The first building, constructed in 1989 (3,108 m²), consists of offices and the second, constructed in 2002 and inaugurated in 2004 (3,600 m²), consists of conference rooms⁶⁹.
255. The staff members thus have comfortable surroundings (120 m² per person, including shared space and unoccupied rooms) and the office can handle all meetings and conferences for Bangkok, or some forty per year, or some 2,000 persons per year in the conference rooms. Occupation and use rates for these facilities are thus moderate⁷⁰.
256. While ICAO does not pay rent, which is covered by the government (annual estimate is 34,949,760 Thai baht (THB), or CAD 1,114,000), it does pay for water and electricity: CAD 56,825 in 2010 and CAD 68,861 in 2011. The share of charges that can be imputed to the two buildings is three quarters for the office building and one quarter for the conference building. The size of the building thus has an indirect effect on ICAO's costs.
257. The condition of the first building has led those in charge to make plans for significant repair work. The issue will be how to determine who will be responsible for the costs: the only document between the government and ICAO in this area dates from 22 September 1965. This document covers well the availability of the premises, and specifies the division of maintenance and repair work costs between the Kingdom of Thailand and ICAO, but the site indicated in this document, which has not been updated since 22 September 1965, does not correspond to the premises occupied today.

⁶⁹ Apart from various rooms (entrance hall, dining room, offices, the building has a large conference room with a capacity of 193 and three smaller rooms which together have capacity of 135.

⁷⁰ The regional office occasionally rents its premises to third parties. In December 2010, the office rented its conference room for two days to the International Federation of Air Line Pilots' Associations (IFALPA) for CAD 1,768. The number of rentals is low, for the goal is clearly not to generate additional revenue. The rooms can also be rented free of charge to Thai government offices, but this is also rare.

Finding n°27: The contract that constitutes the legal foundation of the ICAO’s site in Bangkok is ambiguous⁷¹, since it was not updated during the two subsequent moves that have taken place since 1965.

Recommendation n°27: An update to the agreement between the Thai government and ICAO would be legally useful (even if, “politically” speaking, the risk is probably low that the clauses will be reconsidered by the Kingdom of Thailand), in order to confirm that the measures agreed upon in 1965 for another building do indeed cover the new buildings, particularly with the prospect of expensive repair work.

The Secretary General proposes to accept this recommendation: official request has already been submitted to the Thai authorities in order to amend the existing agreement.

Priority 3

9. TECHNICAL COOPERATION IN THE APAC REGION

258. The Secretary-General’s IOM⁷² of 29 January 2010 and a subsequent addendum which was approved by the Secretary General on 6 April 2011 set new rules about the involvement of regional offices in regional and bilateral technical cooperation efforts. The Lima and Bangkok offices have been designated experimental “pilot offices” for implementing this reform. One of the goals of the audit was to verify, on site, implementation of this memorandum in Bangkok.

9.1. General characteristics of technical cooperation projects in the APAC region

259. In terms of administrative costs recovered from technical cooperation projects recorded in the AOSC fund, the APAC region is not financially pre-eminent, as the following table shows:

Table 43: Distribution by region of administrative costs paid into the AOSC fund on behalf of technical cooperation projects (in Canadian dollars)

Region	2010	2011
Americas	4,250,672	3,415,223
Africa	791,034	1,109,091
Asia-Pacific	927,749	865,374
Europe and Middle East	1,245,698	625,858

(Source: ICAO)

260. The table above shows that the Asia Pacific region was, according to this criterion, in third position in 2010 and 2011, far behind the Americas (in fact, South America, which remains the uncontested leader in terms of implementation volume

⁷¹ Those in charge of the APAC office assert that while article III section 4 indicates a site of the regional office that is different from the current one, article 1, section 1 §k specifies “the expression ‘Regional Office’ means the premises occupied by the Regional Office”, and that this thus covers any other address the regional office may occupy. Nevertheless, since the document is dated 22 September 1965, article 1 section 1 §k may also be interpreted as meaning “the premises occupies at the time of the agreement”, which the address given in article III section 4 would seem to confirm.

⁷² Inter-Office memorandum

of technical cooperation and thus of recovery of administrative costs to the AOSC fund).

261. ICAO points out that income derived from overhead charges as stand-alone criteria for measure of success is not appropriate. A more appropriate measure would be to also take into account implementation volume and type of programme (experts/equipment/training, etc.). For example, in the Asia and Pacific region, the projects are numerous as compared to other regions, but small in volume and are comprised mainly of the provision of experts and training components. A higher average overhead rate applies to this type of projects.

262. In addition, the list of current operationally active projects in the APAC region at the time of the audit included 28 projects, of which only seven exceeded MUS\$ 1. Of these seven projects, four are regional “cooperative” programmes (three sub-regional COSCAP programmes on safety and one CASP-AP programme on security), and three bilateral projects, including one CAPS project for the purchase of radars for Pakistan, one trust fund project to improve the ability of the Indonesian DGAC to monitor air safety and one project to enhance the Philippine civil aviation authority’s safety oversight capabilities. The following table summarizes these seven projects, operationally active during the audit (June 2012):

Table 44: Main technical cooperation projects in the APAC region (in US dollars)

	Project Name	Code	Type	Total
Regional projects	COSCAP North Asia	RAS/02/901	Trust Fund	3,807,388
	COSCAP South Asia	RAS/97/902		5,763,052
	COSCAP Southeast Asia	RAS/97/903		4,468,736
	CASP-AP	RAS/04/901	Trust Fund	2,162,436
Bilateral projects	CAPS Pakistan	PAK/007/01	CAPS	10,000,000
	MSA Indonesia	INS/07/802	MSA	5,595,363
	MSA Philippines	PHI/95/901		3,812,400

(Source: ICAO)

263. Not to be misleading by inadvertently inflating the Asia and Pacific programme volume for the year in which the audit was conducted, it must be underlined that, with the exception of the Pakistan CAPS, whose contract for the procurement of radars has not yet been signed, all figures listed in the table above reflect total approved project budgets (without overheads). However, the Regional Projects figures comprise the total approved budgets for the five-year period for which duration the respective Programme Documents were signed.

264. The first TC officer on the staff of the Bangkok regional office began work in May 2011. It is therefore too early to draw conclusions about implementation of the IOM of 29 January 2010 and subsequent addendum on this position. The External Auditor’s interview with this officer however suggests that he has succeeded, in a little over a year, in becoming an effective and diligent member of both the TCB central services at headquarters and the group of international coordinators of principal projects, and that he has successfully negotiated on behalf of TCB.

9.2.Regional “cooperative” projects on safety and security

265. The involvement of the regional office in cooperative development of operational safety and continuing airworthiness programmes (COSCAP), which bring together a total of 24 administrations in the APAC region, is natural, and predates the reorganization of the relationship between regional offices and TCB.

For the north Asian COSCAP project, the coordinator is based in Beijing, China, and the relationship with the regional office is not intensive. For the south Asian COSCAP project, the coordinator is based in Dhaka, Bangladesh, and he participates relatively regularly in various meetings, including APANPIRG⁷³ groups in Bangkok, and exchanges information with the regional office. The coordinator of the south-east Asian COSCAP project is based on Bangkok DGAC and contact and information exchange take place nearly every day.

266. CASP-AP, which brings together 24 administrations, has some particularities:

- created in 2003, in response to 11 September 2001 events, it should theoretically be the first of a series of regional programmes which, like COSCAP projects, are intended to be extended to all other regions: eleven years later, nothing has come of it, and CASP-AP remains the only active regional cooperation project in terms of aviation security. It is estimated that 42% of terrorism worldwide originates in this area. CASP-MID is in the process of being established;

- from the beginning, the programme coordinator has, with the approval of the steering committee, worked out at the regional office, resulting in a very close relationship with the APAC regional officers with whom he shares offices, to the extent that when the AVSEC post was vacant (March 2011 to March 2012), the predecessor of the current coordinator performed certain missions funded by the regional office on behalf of the AVSEC officer at the request of the regional director. Due to this close relationship, it was possible to organize distribution of security tasks very pragmatically when a new AVSEC officer was hired in March 2012: at the request of ATB/AVSEC, the priority for the new officer is to “handle” top ten priority States in the APAC region, including six participating in the CASP-AP cooperative project. The principle for distribution of tasks between the two specialists in aviation security is based on a simple premise: the AVSEC officer from the regional office handles requests and requirements that can be resolved over the short term by supplying various “off-the-shelf” products available from ATB/AVSEC, while the CASP-AP coordinator is responsible for handling requests requiring “customized” services over the longer term. This pragmatic, complementary relationship largely relies on a good understanding between the two staff members involved;

- available funding from the CASP-AP fund is much higher than what the regional office alone can provide for aviation security in the region: according to Agresso data, CASP-AP projects (RAS 04-901 fund) actually received USD 301,000 in 2010 and USD 551,000 in 2011, not including grants from the European Union (which transit through another fund). However, these amounts include significant outside grants (from Canada in particular). Examining only the 24 administrations that contribute to the programme, we find that their contributions, theoretically distributed according to UNDP⁷⁴ criteria, are highly irregular, as shown in the following table:

⁷³ APANPIRG: Asia/Pacific Air Navigation Planning and Implementation Regional Group

⁷⁴ UNDP: United Nations Development Programmes

Table 45: Contributions to CASP-AP (in US dollars)

STATES	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	0	0	0	0	0	0	0		
Australia	0	0	0	0	0	35,000	0		
Bangladesh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Bhutan	0	0	0	4,980	0	0	0		
Brunei	0	0	0	0	0	34,980	0		
Cambodia	0	0	35,000	35,000	35,000	0	0		45,000
HK China	35,259	35,259	35,269	0	0	0	29,975		29,975
Fiji	0	0	0	10,000	0	30,000	35,000		
Macao, China	23,520	23,235	23,235	0	0	35,000	30,000	30,000	30,000
India	0	0	0	0	0	34,967	35,000		20,000
Indonesia	0	0	35,000	35,000	35,000		20,000	20,000	
Japan	0	0	0	35,000		35,000		1,788	
Kiribati	0	0	0	0	0	0			
Lao, PDR	0	0	4,308	0	4,946	0	15,896		
Maldives	6,678	0	15,264	15,000	15,000	10,000			
Malaysia	0	0	0	35,000	34,975	0		34,985	
Mongolia	0	0	16,184	0	0	0			
Myanmar	0	0	0	0	0	0	17,010	€11,525.87	
Nepal	0	0	9,975	0	11,340	0	4,975		5,970
Philippines	35,000	35,000	35,000	0	0	0			
Rep. Korea	0	0	35,000	19,990	49,990	0			75,000
Singapore	0	0	0	0	0	52,500		30,000	
Sri Lanka	0	0	20,000	0	0	0	3,000		
Thailand	0	0	0	105,000	0	0			
Timor-Leste	0	0	0	0	0	34,961	19,975	19,975	
Viet Nam	0	17,598	37,823	48,881	0	0			15,000
TOTAL	100,457	111,092	302,058	343,851	186,251	302,408	210,831	136,748	220,945

(Source: ICAO)

267. This table shows that over a nine-year period, none of the countries participating in the “cooperative” programme paid its annual contribution without interruption.

9.3. Bilateral MSA project for Indonesia

268. This project, one of the seven current projects in the APAC region with a budget exceeding MUSD 1, was about to terminate when the TC officer at the APAC office was hired in May 2011. At the request of TCB, the new officer organized a meeting in Jakarta with Indonesian representatives to negotiate extension of the project. They agreed to extend the project by two years, and the TC officer having completed his task, the file was forwarded to headquarters, to TCB, which took charge of coordinating the project with ANB. This project came to a conclusion on 31 December 2012.

9.4. Bilateral MSA project for the Philippines

269. The purpose of the PHI/95/901 project is to assist with the enhancement of the safety oversight capabilities of the Civil Aviation Authority of the Philippines (CAAP). Given its advanced progress, it was not necessary for the TC officer from the Bangkok office to intervene, although he keeps abreast of developments.

Finding n°28: overall, in contrast to the observation made the previous year on the integration of the Lima regional office in the technical cooperation effort under the authority of the South America region, the involvement of the Bangkok regional office in the technical cooperation effort in the APAC region appears to have made good progress since the hiring of the TC officer. The new rules of the internal office memorandum (IOM) dated 29 January 2010, now also apply to the other regional offices following addendum of 6 April 2011. In principle, these evolutions do not apply to the Paris and Cairo regional offices (given that there are no technical cooperation projects in those two regions).

Recommendation n°28: it is recommended to ensure that the integration of the technical cooperation activities within the regional offices is implemented in a harmonized manner between the various offices.

The Secretary General position remains unclear: on one hand, he considers that, for five regional offices out of seven, this integration has been completed. But on the other hand, he declares that technical officers in the regional offices deal no longer with technical cooperation, but with technical assistance (and that is the reason why, from 2012, they are financed by regular budget and no longer by AOSC fund – see finding n°3 above).

Priority 3

10. FOLLOW UP TO PREVIOUS RECOMMENDATIONS OF THE EXTERNAL AUDITOR

270. As at June 2012, 26 accepted recommendations were outstanding, five of which dated back to 2009. In the course of 2012, ICAO closed 12 recommendations, two of which dated back to 2009. As at 1 March 2013, the total number of outstanding recommendations arising from reports between 2009 and 2011 was 14.
271. Three accepted recommendations from 2009 have still not been implemented. These include a recommendation to update the technical cooperation manuals, for which the revised target date is now August 2013. Although the updating process seems to be progressing, the external auditor recommends the process be sped up in order to ensure that this recommendation is finalised in 2013. This is also the case for the recommendation concerning the implementation of Agresso modules for TCB, for which the date of implementation has been postponed several times (the latest revised target date is now June 2013).
272. The external auditor notes that EAO is carefully monitoring the recommendations, which is a positive point. Progress has been made as to the regularisation of monitoring. However, EAO is not responsible for verifying the manner in which measures are being implemented, nor their coherence with the recommendation. In addition, the decision to close a recommendation rests with the presiding department, although EAO, which receives notification as to the reported finalisation of measures, can communicate with the service on implementation. Monitoring by the EAO is therefore formal in nature.
273. The external auditor has carried out a sample of checks on recommendations which have been accepted and closed in 2012 to determine if resultant measures were coherent with the recommendations. The outcome of this audit was:
- one recommendation had been reported as closed when no action had in fact been taken (recommendation no. 5 concerning IT, in the External Auditor's Annual

Report for 2010). The explanation given is that this recommendation was originally accepted subject to the availability of funds.

- other actions had been classified as "closed", either on the basis of intended actions (the next triennium budget presentation⁷⁵), or the use of the IKS tool. However, it appears that the use of this tool is inconsistent, or non-existent in, for example, the case of regional offices.

- a number of actions (seven) were closed in March 2013. The external auditor has not been in a position to evaluate the effectiveness of the actions so recently taken.

274. The external auditor noted two further points:

- Concerning the number of recommendations: the Secretariat is of the opinion that the external auditor has issued recommendations in such quantity that it is difficult to follow them in their entirety. However, the external auditor deemed it necessary to make recommendations which in other organisations would have been issued by internal audit (for example in the case of regional offices, technical cooperation or IT). The external auditor only acted to rectify shortcomings in the internal audit notably due to a lack of resources. This imbalance between work carried out by the external auditor rather than by internal audit could be redressed if the recommendation to increase the role of the internal audit, which was rejected, had been accepted;

- there may be a problem of "effective acceptance" of the recommendation in some cases. It appears that the Secretariat does not want to implement some formally accepted recommendations because these involve changes to the running of the organisation that are not easy to implement. However, regardless of whether the Secretariat does not want to suggest their rejection to the Council, or that they consider them to be useful albeit difficult to implement, they accept them, but then it is found that there is not sufficient will in the Organisation to implement the recommendations. In this context, the external auditor has for two years personally undertaken to follow up the recommendations, which had in theory been the responsibility of the audit committee (EAAC), with the support of the internal audit. However, the effective implementation of the recommendations rests ultimately with the Organisation itself;

275. The external auditor thinks that some of the recommendations, although they have been rejected, remain relevant to the Organisation. This is the case with recommendation no. 1 of the annual report for the year 2010, in which it was proposed that "due to the limited flexibility that characterises the short-term financial position of ICAO, which was clearly in evidence in the implementation of IPSAS, it would be useful to prepare three-year cash flow forecasts, so that financial limitations can be evaluated more precisely." This recommendation was rejected on the grounds that ICAO was not liable to run into liquidity problems, but was repeated in recommendation no. 1 of the annual report for 2011, since the external auditor did not have a risk of default in mind in making the recommendation, but rather the practicality of establishing such three-year forecasts, given in particular the Organisation's commitment to the after service health insurance (ASHI) program. The external auditor reaffirmed this recommendation in 2012.

⁷⁵ E.g.: rec 3 of 2011 report.

276. A detailed report of the status of recommendations is given in Annex II.

Observation no. 29: In the database maintained by EAO, recommendations have been declared closed when no measures have been taken to implement them, or when implementation depends on measures yet to come.

Recommendation no. 29: ICAO should not declare closed a recommendation that has not been fully and satisfactorily implemented.

Priority 2

ANNEX I – EXTERNAL AUDITOR’S OPINION (ORIGINAL)

Cour des comptes

Le Premier président

Paris,

29 MARS 2013

To the Assembly of
the International Civil Aviation Organization

AUDIT OPINION

We have audited the financial statements of the International Civil Aviation Organisation (ICAO), for the 12 month period ended December 31st, 2012. These financial statements include a statement of financial position at December 31st, 2012, a statement of financial performance, a statement of changes in net assets, a statement of cash flow, a statement of comparison of budget and actual amounts for the period ended December 31st, 2012 and notes including a summary of the accounting principles and other information.

Within the general framework of Article 61 of the Chicago Convention and by virtue of Article XII of the ICAO Financial Regulations, the Secretary General of the ICAO is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector Accounting Standards (IPSAS). This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of financial statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

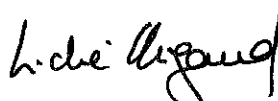
Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing (ISA). These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the financial statements are free from material misstatements.

An audit consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The design of the audit procedures is based on the external auditor's professional judgment, as well as the risk evaluation that the financial statements include significant misstatements, resulting either from frauds or errors. In the context of this risk evaluation, the auditor considers the internal control in place for the preparation and presentation of the financial statements, in order to design appropriate audit procedures and not in order to express any opinion on the internal control. An audit also consists in evaluating that the accounting method applied and the presentation of the financial statements are appropriate and that the significant accounting estimates are reasonable.

.../

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Based on our audit, the financial statements give a fair view of the financial position of the ICAO at December 31st, 2012, as well as the financial performance, the cash flow and the comparison of budget and actual amounts for the 12 month period ended December 31st, 2012 in conformity with the IPSAS.



Didier MIGAUD

ANNEX II – FOLLOW UP OF RECOMMENDATIONS

Actions outstanding as at 1 March 2013

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
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Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
D/ATB, D/ANB, all Directors	Annual Report 2011, rec 14 ANB & ATB	Avril 2012	<p>The non-budgetary funding of the activities of ANB and ATB leads to the following recommendations:</p> <ul style="list-style-type: none"> - The revenue-generating activities should be re-examined, along with the payment of missions and conferences by third parties, so as to ensure that there are no conflicts of interest (notably with regard to training centres and suppliers of aeronautical services). In this respect, the Secretary General's decision to appoint an ethics officer should undoubtedly be beneficial; - Given the growing importance of the MRTD programme over recent years, its funding should be reconsidered so as to include specific appropriation of funding for this programme in the next regular triennial budget that is commensurate with the level of Secretariat effort required; - Finally, in the framework of the next triennial budget, care should be taken to ensure that mandatory contributions correspond to priority ICAO actions, while extra-budgetary funding, which by definition is more unstable, should be geared more towards actions which do not require long-term stability. 	<p>The Ethics Officer has taken up his duties. He will ensure that conflicts of interest issues are covered in mandatory training to be provided to all ICAO staff members and that relevant guidance on this issue is made available. All Bureaus will then be responsible for avoiding any conflict of interest.</p> <p>On MRTD: The regular programme budget currently provides fund for 1.00 P4, 0.50 G8 and 0.25 G5, as well as about \$100,000 non-staff costs (travel, meetings and consultancy) per year with the assumption that MRTD activities could generate more revenues than those staff and non-staff costs. Additional 1.00 G7 and two consultants (SSAs) dedicated to the MRTD programme are also funded by RGA. The funding options for the MRTD Programme will be reopened for review during the preparation of the next triennium budget, taking into account the new MRTD Programme strategy.</p> <p>On the issue of funding priorities: Past experience shows that the process of using both regular budget and extra-budgetary resources to support the work programme can be managed effectively. Moreover, the actions taken under several of the other recommendations will help to ensure improved visibility and transparency of the entire process for the Council.</p>	Sep. 2013	<p>Completed except for the part on the funding of the MRTD programme which has a scheduled completion date of February 2013</p> <p>A new strategy for the MRTD Programme is under development. It is anticipated that this strategy will be submitted to the ICAO Council for approval at its 198th Session in 2013.</p> <p>The budget allocated to MRTD programme to be determined in the context of business plan/budget. Draft budget of the Organization for 2014 to 2016 to be presented to the Council/FIC in January 2013</p>		No

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
RD-Bangkok	Audit of the APAC Regional Office (Bangkok) Rec 14	Nov.2009	Update of job descriptions - We recommend that the Office keep its job descriptions updated with any changes made to the tasks assigned to staff.	N/A	Dec. 2011	A new format of post description for P and GS staff was introduced by Headquarters with effect from 1 April 2012. Three generic post descriptions of ICAORD, DRD, and Administrative Officer and one specific (RO/CNS, P-3) have been prepared by HQ in new format in coordination with the Regional Office. Post descriptions of two GS positions, namely, Personal Associate to ICAORD and Programme Analysis Associate (ATM) were updated in accordance with the new format for vacancy announcement. The remaining post descriptions of GS staff will be reviewed and updated in line with the new format by mid 2013. In the meantime, GS staff has been informed of the redistribution of tasks assigned to them through the internal memorandum.	06/2013	Yes

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
TCB	Audit TCB Rec 15	Nov.2009	We recommend regularly updating technical cooperation project operations manuals so as to make the process secure as well as ensuring archival under the best conditions. This way, staff members would have updated versions so as to properly undertake their activities.	The preliminary review and update to the Field Operations Manual was completed in early April. The manual shall be reviewed annually for required updates. While minor edits for the final version are on-going, the current version can be viewed in TCB Share Point site. The review and update of the Administrative Manual will be completed by the end of 2011, subject to the full implementation of Agresso.	Dec. 2011	The update of the Field Operations Manual has been completed. The update of TCB's Administrative Manuals is an on-going process. Procedures are being reviewed as part of the ISO 9001 implementation process. A preliminary review of the related Field Operations Manuals was carried out during 2010 and 2011 in response to this recommendation. However, with the implementation of the ISO 9001:2008 in TCB, the review and update of all TCB Manuals is in fact an ongoing process, as TCB's operational and administrative procedures are being reviewed for compliance with ISO 9001 requirements. The implementation of ISO in the Field Operations Section is scheduled to be completed in December 2013 and the entire Bureau should be ISO-certified by December 2014.	08/2013	Yes

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
TCB	Audit TCB Rec 17	Nov.2009	We recommend fully and quickly implementing all of the Agresso modules, especially those relating to budget aspects.	Preliminary testing and training for the Agresso Budget Planner has been conducted in TCB. Agresso is to deliver a software update prior to go-live date.	Jun. 2011	The implementation of the Agresso Budget Planner in the UC has been delayed due to loss of the Super User. Preliminary testing and training for the Agresso Budget Planner has been completed. Phase 2 - Reporting and roll out to FOS by BSU is scheduled for 1-Jan-13. The implementation of Phase 2 is pending completion of Budget Planner configuration and review, for which purposes a consultant has been recruited to adapt the module to TCB's requirements. This is expected to be finalized by mid-2013.	06/2013	Yes
C/FIN	Annual Report 2010 Rec 4 HR	Jun. 2011	When presenting budgetary hypothesis related to established posts to the Council, the Secretary General should systematically indicate the actual posts charged to the regular budget.	In future, C/FIN will provide in the budget an indication of the actual headcount compared to the budgeted headcount.	Mar. 2013	This will be provided for during the discussion phase of the budget for the next triennium 2014-2015-2016. (Not due until 2013)	03/2013	-

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
C/FIN	Annual Report 2011 Rec 2 Budget	Apr. 2012	A more rigorous and transparent approach must be taken to the preparation of the budget for the triennium 2014-2016. This would consist of: - starting by coming up with an exhaustive definition of the perimeter of activity covered by the budget and of the resources available other than assessed contributions; - not setting any restrictive rule for real growth in budget estimates until the first step is complete and applying it only to the Member States' assessed contributions, since the other resources are, by definition, variable.	This recommendation is rational and we will share the External Auditor's views with the Council to guide their decision-making during the budget discussions, i.e. that (1) the activities to be covered by the budget should be agreed upon as a first step; (2) the zero real growth principle should be applied only to Member States' assessments and not to the size of the budget; and (3) the size of the budget and Member States' assessment having been established, other sources of revenue should be identified to bridge the budgetary deficit.	Oct. 2013	This will be discussed during the submission of the draft budget of the Regular Programme to the Finance Committee and the Council. (Recommendation not due until 2013)	03/2013	No
C/FIN	Annual Report 2011 Rec 6 Information Technology	Apr. 2012	Considering the proportion of the budget which ICT now constitutes at ICAO (i.e. approximately 11.5 per cent of the Organization's regular budget), when preparing the budget for the next triennium, ICAO should implement a budget and accounting system enabling more accurate and reliable tracking of all ICT expenditure incurred by any structure (ICT, ANB, ATB, FIN, regional offices, etc.).	The use of the accounts specifically created for IT expenditures in Agresso will be reinforced.	Oct. 2013	This will be taken into consideration when the draft budget of the Regular Programme be presented to the Finance Committee and to the Council. (Not due until 2013)	03/2013	-

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
C/FIN	Annual Report 2011 Rec 11 ANB & ATB	Apr. 2012	The structure of the budget should be considerably simplified, while complying with the financial regulations, by ensuring that the number of programmes/projects is decreased to the strict minimum compatible with financial regulations (art. IV) and, insofar as is possible, by avoiding allocating the same programme to several sections. As for projects, given the fact that they largely relate to low-level management of programmes and which must therefore retain a certain degree of flexibility, they should not be disclosed in the Budgetary Document and the latter should be limited to presenting a list of results and outcomes expected for each programme over the triennium.	The structure for the next triennium's budget will be modified and Council approval sought. The proposed Strategic Objectives and Budget Model will take into consideration the functions of each Strategic Objective, instead of Programmes, and the inclusion of Deliverables/Milestones, which will then resolve the issue raised on performance indicators.	Oct. 2013	The budget for the next triennium will be presented by functions and no longer by programmes. There will be a maximum of 25 functions (five per strategic objective) - that will be less than the 37 programmes in the 2011-2013 budget. This will resolve the issue of presentation gap between the budget and actual activities. (Not due until 2013)	03/2013	No

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
C/FIN	Annual Report 2011 Rec 12 ANB & ATB	Apr. 2012	As part of the simplification recommended in the previous observation for the formulation of the budget for the next triennium, the activities of the Air Navigation Bureau should encompass less programmes/projects within the current three strategic objectives so as to reduce the gap between the presentation of the budget and actual activities.	The structure for the next triennium's budget will be modified and Council approval sought. The proposed Strategic Objectives and Budget Model will take into consideration the functions of each Strategic Objective, instead of Programmes, and the inclusion of Deliverables/Milestones, which will then resolve the issue raised on performance indicators. A budget structure by functions will solve the issue of presentation gap between the budget and actual activities.	Oct. 2013	The budget for the next triennium will be presented by functions and no longer by programmes. There will be a maximum of 25 functions (five per strategic objective) - that will be less than the 37 programmes in the 2011-2013 budget. This will resolve the issue of presentation gap between the budget and actual activities. (Not due until 2013).	03/2013	
C/FIN	Annual Report 2011 Rec 13 ANB & ATB	Apr. 2012	When preparing the budget for the next triennium, and given the significant proportion of "un budgeted" professionals, more accurate and transparent anticipation should be made of the headcount actually available to perform the missions programmed by the Organization.	Some of the present activities have been made possible due to extra-budgetary resources. These include a significant amount of 'volunteered' resources such as seconded staff, and reliance on 'carry-over' funds, both of which are not really predictable at the time the budget is drafted. A customized IKSIN report will be created to provide greater transparency into this matter. The expected target date is the end of the third quarter of 2012. The current practice of including a 'consultancy/outsourcing' line for each programme in the budget will be continued.	Sep. 2012	We will provide headcount information regarding secondees/gratis personnel.	03/2013	Yes

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
C/FIN	Annual Report 2011 Rec 15 ARGF	Apr. 2012	It is recommended that, further to a proposal backed by the Secretary General, the Council should adopt a drafting of the Financial Regulations that eliminates all ambiguity regarding transactions allocated to the Fund, either as receipts or expenditure. More generally, the Council should ask the Secretary General to prepare a summary document clearly defining the objectives, policies and rules for allocating activities to the ARGF.	The Financial Rules are not all inclusive and cannot be all inclusive to include every possible business opportunity that may present itself in the future. However, it will be clarified that the list of activities is only indicative and not all inclusive. RGA Administrative Instructions will be developed, which will also include accounting guidelines for the fund.	Jan. 2014	A draft overall policy paper was produced in September. LEB has also been involved and their output is expected in November. This will be consolidated in a policy paper and administrative guidelines by the end of 2012.	12/2012	
D/ADB	Annual Report 2011 Rec 7 Information Technology	Apr. 2012	In preparing the budget for the next triennium, with regard to ICT duties, ICAO needs to reassess the ratio of ICAO staff to consultants in order to optimally ensure the sustainability and control of essential ICT functions, whereas the rest can be outsourced or handled by consultants.	ICT is in the process of finalizing an ICAO ICT Master Plan, which will also include a resources plan. This plan will be presented to SMG for approval and will be considered in the budget preparation exercise for the next triennium.	Dec. 2013	The ICT Strategic plan for ICAO, also called the IT Master Plan, has been completed. The plan, which includes a resources plan and budget, was agreed by the Information Management Committee and approved by the Secretary General in September 2012. The information will be taken into account for the preparation of the budget.	12/2013	No

Responsible office	Origin of rec.	Date	Content	Action Agreed	Original Target Date	Status on March 2013	Revised Target Date	Overdue
ADB	Annual Report 2011 Rec 17 ARGF	avr-12	In accordance with the internal auditor's recommendation in 2009, a single business plan should be drawn up for RGA activity, which, in the future, would help make the budget forecast more detailed and more accurate. Grouping all the entities contributing to the Fund's activity (i.e. the RGA unit for marketing, the RSED service for publications and the COS service for conference services) under a single authority (ADB), as recommended by the External Auditor during his audit and agreed by the Secretary General on 1 November 2001, should facilitate this process.	A single business plan will be developed for the next triennium.	31/12/2013	All entities contributing to the fund's activities (e.g. RGA, printing, COS etc.) have been grouped under ADB. A governance framework, including all stakeholders of revenue-generating activities of the Organization, has been established in December 2011. A single business plan will be developed for the next triennium.	12/2013	No
EAO	Annual Report for 2011 Rec 4	Avril 2012	Even though a policy on consultants and individual contractors, which clearly defines the conditions under which consultants may be hired has been implemented, ICAO should ensure that managers act in full compliance with these guidelines.	A yearly audit will be conducted by Internal Audit to ensure compliance with guidelines.		The planned internal audit on the implementation of ICAO's Policy on Consultants started in January 2013 and will be completed by the end of March.	03/2013	-

Actions closed as at 1 March 2013

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
D/ANB, D/ATB, ICAORDs	Annual Report 2010 Rec 7 Regional Offices	Jun. 2011	<p>Following a series of discussions with Regional Directors, Deputy Directors and technical officers, the External Auditor observed that two approaches could be adopted to achieve a better balance between the specialized staff assigned to regional offices and the resources available to them, thus allowing States in the region to make full use of their skills:</p> <ul style="list-style-type: none"> - The relative share of total resources allocated to missions and travel; - The number of State visits made to each State in each region, for each specialist field. <p>The resulting raw data, which do not, however, take into account of significant qualitative factors, would indicate some adjustment is called for between available staff and the resources assigned for the performance of their duties.</p> <p>The External Auditor suggests that the Council should request</p>	<p>a) Roles of the Regional Directors and Technical Officers. The role of the regional offices is evolving significantly. This includes the increased involvement of the Regional Offices in the field of aviation safety (in particular the creation of Regional Aviation Safety Groups), CMA process, security, sustainability and Technical Cooperation. This is also taking place in a context where emphasis is put on ensuring a consistent response from ICAO no matter whether the response is provided by HQ or a Regional Office. This evolution of the role of the Regional Office has an impact on the responsibility and accountability of the Regional Directors and on the tasks undertaken by the regional Technical Officers. The job description for Regional Director has been amended recently and reflects some of the changes.</p> <p>b) State missions State missions cannot be considered in isolation as they are only one of the tools that the organization is using to assess the level of implementation of SARPS and Regional Air Navigation</p>	<p>a) All visits to States, whether for State mission, ICVM, Audit, assistance or any other purpose and whether they are conducted by the Regional Office or HQ, and Regional Office staff participation in ICAO and non-ICAO events are:</p> <ul style="list-style-type: none"> i. Planned based on a risk and needs model ii. Prepared and coordinated between Regional Offices and HQs (including funding sources) <p>b) During the process of developing the Business Plan and the programme budget, targets in terms of budgetary resources, technical staff and number of missions (particularly country missions, per specialist field and per region, and Regional Office staff participation in ICAO and non-ICAO events) will be set for Regional Directors</p>

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
			<p>the Secretary General to examine these two approaches further in order to define, justify and validate quantitative targets in terms of budgetary resources, technical staff and number of missions (particularly country missions, per specialist field and per region) to be set for Regional Directors, having first matched targets to available resources. If necessary, the Regional Office Manual should be amended accordingly.</p>	<p>Plans in States and to support their implementation. We are moving toward a system whereby visits to States, whether for State mission, ICVM, Audit or any other purpose and whether they are conducted by the Regional Office or HQ, are:</p> <ul style="list-style-type: none"> i. Planned based on a risk and needs model and not on a fixed schedule. ii. Prepared and coordinated to maximize benefit including the fact that the ICAO officer undertaking the visit may be asked to undertake tasks beyond his or her field of activity. 	

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
D/ANB, D/ATB, ICAORDs	Annual Report 2010 Rec 8 Regional Offices	Jun. 2011	Following on from the previous recommendation, the Council should request the Secretary General to propose concrete steps to standardize the activity of Regional Directors, above and beyond the theoretical standards defined in the Regional Office Manual, taking into account their personal profiles, but giving greater consideration to specific regional requirements, in particular, by defining standards in each region for distributing budgetary resources between management and technical officers and State missions by technical field.	<p>a) ICAO will review the evolving role of the Regional Offices and of the responsibilities and accountabilities of the Regional Directors. This includes the clarification of their role in assessing deficiencies in the regions (infrastructure, ATM and compliance with ICAO SARPS) and in working with States for their resolution.</p> <p>b) Review of the role and responsibilities of the Regional Technical Officers to ensure that they remain in line with the evolving responsibilities of the Regional Offices.</p> <p>c) Continue the training visits of Regional Officers to Headquarters and associated activities to review post descriptions while they are in HQ.</p>	<p>The responsibilities and accountabilities of the Regional Directors have been reviewed and their role in assessing the deficiencies in their region and in working with their States for their resolution has been clarified. A new generic Post Description reflecting the new responsibilities and accountabilities have been developed for both the Regional Directors and their Deputy.</p> <p>As similar effort has been made for the Regional Officer and the opportunity of their regular training session at HQ have been taken to review and update their Post Description.</p> <p>A focal point for environmental protection (related to States' action plans for CO2 emission reduction activities) was designated in each Regional Office in 2011. In addition, under the new post descriptions for Deputy Regional Directors, he/she serves as an air transport and environment focal point.</p>

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
D/ANB, D/ATB, ICAORDs	Annual Report 2010 Rec 9 Regional Offices	Jun. 2011	It is not for the External Auditor to judge individual local situations. Nevertheless, it does seem that the activity of each technical officer present should undergo a systematic critical review by the regional programme managers and/or internal audit so that the necessary adjustments may be made.	d) Strengthening the coordination among Regional Offices and between Regional Offices and Headquarters (IKSN in collaborative work programme development between ROs and HQ Missions to States. e) Amendment of the Regional Office Manual to reflect the changes above. This will take place whenever the various elements above are validated and supporting procedures are tested and confirmed.	A Coordination among Regional Offices and between Regional Offices and Headquarters is being strengthened through the implementation of IKSN and development of procedures for implementation activities (Action Plans, ICVMs etc...). the role and responsibility of Regional Offices in the field of aviation security and environmental protection and sustainable development of air transport were clarified during a coordination meeting held at HQ in September 2012. The Regional Office Manual is being updated whenever the various elements above are validated and supporting procedures are tested and confirmed.
D/ANB, D/ATB, ICAORDs	Annual Report 2010 Rec 11 Regional Offices	Jun. 2011	Care should be taken to implement the uniform methodology effectively, by upgrading all practices - especially in the APIRG region - and extending the maintenance of online databases with new improved procedures. In ICAO's response to the External Auditor's preliminary report, the Lima Regional Office notes that the "GANDD database will also need to be upgraded to introduce the new deficiency methodology".	a) Improvement of the quality, scope, consistency and interoperability of the databases on regional deficiencies; b) Systematic analysis and use of the information which is collected, to support ICAO safety strategy, the CMA process and the prioritization of the activities and priorities of the Regional Offices.	A unified system to collect deficiencies in the Air Navigation field, based on a methodology approved by Council, is now operational and available on iSTARS (https://portal.icao.int/ISTARS/ANDEF/default.aspx). The data collected is used to support ICAO Safety Strategies, the CMA process and the prioritization of activities in the Regional Offices.

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
C/FIN	Annual Report 2010 Rec 2 Financial Analysis	Jun. 2011	The External Auditor recommends that productivity measurement tools be developed, as the only means of setting and monitoring targets for improving productivity, which are essential for the nominal execution of the 2011-2013 triennial budget.	ICAO is implementing a project management and reporting tool; the ICAO Knowledge Sharing Network (IKSN). The tool will enable the reporting of project status against deliverables and timelines.	IKSN was implemented and the first report was shared with the Council in the 196th session. All Projects are in IKSN, Bureaus are updating/inputting Task & Sub-Task level information.
C/FIN	Annual Report 2011 Rec 3 Budget	Apr. 2012	Prepare the next triennium budget on the basis of a clearer budget structure, particularly by reducing the number of programmes and bringing them closer to what the bureaux actually do (see the discussion of the activities of the ATB and ANB bureaux below, which illustrates the gap between budget theory and actual activity). This should make it possible to define simple, relevant and measurable performance indicators, without which Results-Based Budgeting will remain merely a formal exercise.	The structure for the next triennium's budget will be modified and Council approval sought. The proposed Strategic Objectives and Budget Model will take into consideration the functions of each Strategic Objective, instead of Programmes, and the inclusion of Deliverables/Milestones, which will then resolve the issue raised on performance indicators.	At the 8th meeting of its 196th session, the Council approved a new set of Strategic Objectives for 2014-2015-2016. This will be the foundation of the budget for the next triennium. During the same Council session, the Council has been briefed on the new budget model, i.e. by function for each Strategic objective and no longer by Programme but with the inclusion of Activities/Deliverables/Milestones.

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
C/FIN	Annual Report 2011 Rec 10 ANB & ATB	Apr. 2012	The general application of a uniform tool such as the IKSN tool (ICAO Knowledge Shared Network) which is currently in the development phase, could provide ICAO with an instrument which ensures realistic monitoring of part of the organisation's service-based activity (and namely the development of documents or IT systems). Where applicable, if ICAO succeeds in implementing this tool, it could also serve to provide a response to any questions posed by the Council on the advancement of activities related to strategic objectives, thus replacing the former KPI, and enable monitoring of "expected results".	ICAO will continue the deployment of IKSN throughout the Organization. This together with high level planning documents such as GASP and GANP and the sessional reports to the Council on each strategic objective, will provide the Council with the information required to ensure that the work of the Organization continues to fulfil the needs of the States, also ensuring consistency with the results expected in the budget.	IKSN has been implemented in the Bureaus and Regional Offices, all Project data is in the system, while Task and Sub-Task level information is being reviewed/updated. Council was given static views of IKSN, on the Council site, during the 196th Session, going forward it is the Secretariat's intent to provide Council with active views/access to IKSN from the Council site, three times per year (during each Committee Phase through the Council Phase). Target date for Council active view is 198th Session.

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
D/ANB	Audit of the WACAF Rec 1 Regional Office (Dakar)	Jun. 2009	Coordination between the missions carried out by the regional office and those organised by the division in charge of air safety audits should be reinforced, to avoid the too frequent repetition of partially redundant audits and to take advantage of the experience acquired by the regional offices. In this context, the role of the regional offices in the preparation or monitoring of the audits scheduled by Headquarters could be specified.	N/A	Completed – the Roles and responsibilities of Regional Continuous Monitoring Coordinators (RCMCs) have been developed and outlined in the Continuous Monitoring and Oversight Section (CMO) quality procedures. ICAO Doc 9735 has been revised accordingly to provide the roles and responsibilities of Regional Offices in CMA. Training sessions for Regional Office staff assigned as RCMC has been provided as well as seminars provided in each region. Formal ongoing coordination of activities are conducted with each Regional Office, in order to prioritize the scope and level of assistance or monitoring activity required in each State.
RD-Dakar	Audit of the WACAF Rec 3 Regional Office (Dakar)	Jun. 2009	For full compliance with IPSAS 12 (inventories) and 17 standards (property, plant and equipment), the office should modify the way its physical inventory is kept.	N/A	Training was completed with the obtention the six IPSAS certificates by the Administrative Officer (Mrs P. Boimond-Basse) among which are the Accounting for Inventories (completed on 28/11/2012) together with the Accounting for Property, Plant & Equipment (completed on 21/11/2012). The 2012 inventories is being processed according to IPSAS compliance and based on the updated 2011 inventory . Modification of physical inventories completed for 2011, and on-going for 2012 to be completed 1st week Jan 2013.

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
D/ADB	Annual Report 2010 Rec 5 Information Technology	Jun. 2011	A specialist consultancy study should be undertaken of the user support function (Service Desk), comprising a cost-benefit analysis, to gain a better understanding of the quality of service rendered to users, identify their needs and work out a better balance between in-house functions and outsourcing.	A Service Management specialist consultancy will be contracted to assess the ICAO user support functions and the balance between in-house functions and outsourced services, provided the necessary resources can be found.	ADB is not in a position to complete this recommendation as no resources are available for this task.
D/ADB	Annual Report 2010 Rec 6 Information Technology	Jun. 2011	In view of the financial amounts involved (nearly 7 per cent of regular budget appropriations), the Council should request and approve a medium-term IT master plan identifying and prioritizing all IT projects, combined with a financial evaluation and an implementation schedule. The Secretary General would have an important catalyst role to play, being the only person able to mobilize all the user services and the ICT Section and to make trade-offs when needed, between priorities and resources available.	IT medium-term Master Plan will be produced.	The ICT Strategic Plan for ICAO, also called the IT Master Plan, has been presented to the Finance Committee of the Council on 18 January 2013.

Office in charge	Origin of rec	Date	content	Action Agreed	Status -March 2013
D/ADB	Annual Report 2011 Rec 9 Information Technology	Apr. 2012	Once the ICAO's master plan for ICT has been finalized, the Secretary General's office will have to request its validation by the Council. Given the current organization system, in which the ICT Section has only limited authority with the central and regional offices, with regard to ICT projects and applications, and as part of the reorganization of senior management suggested in observation 4, the ICT Section should report to a manager on an appropriate level.	An ICT Master Plan will be completed by the end of 2012 and will be sent to the Council for information at its Spring Session in 2013. With regard to the establishment of a senior management post for ICT matters, the Secretary General has decided to establish a post to oversee Information Management and General Administrative Services in ADB.	The ICT Strategic plan for ICAO, also called the IT Master Plan, was agreed by the Information Management Committee and presented to the Finance Committee of the Council, on 18 January 2013. The post of Deputy Director, Information Management and General Administrative Services, has been established in ADB.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

**PART VI: SECRETARY GENERAL'S COMMENTS IN RESPONSE TO THE REPORT OF
THE EXTERNAL AUDITOR**

**SECRETARY GENERAL'S COMMENTS
IN RESPONSE TO THE REPORT OF THE EXTERNAL AUDITOR**

Rec. No.	Recommendation	Secretary General's Comments
1.	In such a context, it would make sense to anticipate the financing of future payments by creating a specific funding vehicle (that may be outsourced or managed within the United Nation organization) that could be used in addition of Member States contributions to meet this obligation.	The financing of ASHI is discussed at the UN level where the overall ASHI liability exceeds \$5 billion with approximately 20% funded. Ways and means to finance part of the liability and to invest funds are under consideration at the UN level and ICAO will consider any proposed global UN approach with interest. The ICAO Council has been informed of the level of the liability and possible means to finance part of the liability.
2	The decreasing trend in ARGF reserves as well as this activity's business plan have to be taken into consideration when deriving the estimates of the transfers from ARGF surplus figures that will be included in the 2014-2016 triennial period budget.	The decreasing trend in ARGF reserves and other relevant factors will be taken into consideration in estimating the net revenue of the ARGF and the transfers from ARGF to the Regular Budget for the next triennial budget.
3	Council should request from the Secretary General to be provided with a summary detailing all estimation and allocation changes impacting AOSC net result on an annual basis. This summary should clearly show how regular budget contributes to the financing of technical cooperation activities.	The Regular Budget does not contribute to the financing of technical cooperation activities. In fact, the Council is already provided with a budget for the AOSC at the start of the year. Mid-year, the budget is updated with current forecast. Both the budget and the mid-year forecast include an estimate of the allocation charges impacting AOSC's net result.
4	This situation may require ICAO to revise its position regarding bad and doubtful debt allowances, especially if no significant improvement is noted in the debt collection process in 2013. For instance, the Member States that lost their voting rights (representing a MCAD 5.4 receivable as at 31 December 2012) could be subject to an allowance. We informed the Secretary General on this issue in our management letter.	ICAO's position remains appropriate in the circumstances. As shown in the example mentioned in the finding, a Member State that loses its voting right during an Assembly is not a clear indication that it will not discharge its obligation toward the Organization in the future. No Member States formally indicated their unwillingness to discharge their obligations. Another factor to consider is that assessments receivable from Member States having an agreement with ICAO to settle their obligations are discounted over a period of years which take into consideration the impact of assessments currently due, but which will be collected in future years. This discount, including one allowance for doubtful account, amounts to approximately 17% of total assessments receivable at 31 December 2012. Nonetheless, ICAO Secretariat will consider Council advice on this issue and also practices adopted by other UN organizations in similar situations. It

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		should be noted that Member States will have to pay any amount determined to be doubtful of recovery to the extent that it creates a negative surplus.
5	The wage bill represents nearly 80% of budget expenditure. The General Secretariat and the finance department should be invited by the Council to submit an annual management report explaining clearly and in detail, in an auditable form, major changes to the payroll as compared to the previous year under the program funds from the regular budget and other major funds related to the regular budget (AOSC, ARGF, etc.), and the evolution of discrepancy between standard costs used to establish the triennial budget and standard costs actually recorded each year on year.	An annual report will be prepared and presented to the Council in line with the External Auditor's recommendation.
6	Considering the proportion of the budget which ICT now constitutes at ICAO (i.e. approximately 11.5 per cent of the Organization's regular budget), when preparing the budget for the next triennium, ICAO should implement a budget and accounting system enabling more accurate and reliable tracking of all ICT expenditure incurred by any structure (ICT, ANB, ATB, FIN, regional offices, etc.).	This recommendation is already implemented for expenditures relating to IT hardware, software, outsourcing, etc, however the recommendation cannot be accepted for IT staff costs. For example, IT posts in the Regional Offices and in bureaus cannot be separately identified and staff working on IT matters are allocated to the Strategic Objectives which they support. The Secretariat does not accept that these should be allocated to Supporting Implementation Strategies.
7	In preparing the budget for the next triennium, with regard to ICT duties, ICAO needs to reassess the ratio of ICAO staff to consultants in order to optimally ensure the sustainability and control of essential ICT functions, whereas the rest can be outsourced or handled by consultants.	A Council working paper on a review of the implementation of the consultants policy is to be presented to the Council at its current session. This paper will review challenges, provide an update of the policy and other measures for improvement as well as outline findings and recommendations of the recently concluded internal audit on the matter.
8	In order to better ensure the durability and expertise of IT services deemed essential, the risk of using a large majority of consultants should be identified, documented and the appropriate mitigating actions put in place.	The use of consultants will continue to be the preferred business model for ICT. The risk of using consultants will be identified and documented, and mitigating actions will be identified, subject to available resources, in the ICAO risk register.

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9	Unplanned audits that are added during the year should, in principle, remain exceptional. This would imply more in-depth reflection during the preparation of the annual programme submitted to the Council.	<p>EAO agrees that the audits included in the annual work programme should be carried out as planned and that any changes should in theory be exceptional. However some flexibility is also required to be able to make changes or to add audits during the year based on emerging risks and changing priorities.</p> <p>EAO will regularly monitor the work programme to ensure that planned audits are completed, resources permitting.</p>
10	The auditors and evaluators should fully dedicate their activity on audit and evaluation, and administrative tasks (external auditor focal point and follow up of JIU) should be transferred to more suitable services in ICAO.	The Secretariat considers that (i) there are synergies between the oversight activities of EAO and the other tasks, and (ii) transferring the latter to another ICAO service would require the financing of additional resources, making this recommendation impractical at a time of strong pressure on ICAO staff resources.
11	External auditor considers that EAO should increase its audits in the areas of technical cooperation and regional offices, and also ensure a better coverage of IT systems, an area which is still very scantily audited by EAO.	The current audit activity is restricted by the level of resources. Implementing this recommendation would require a higher consultancy budget and the recruitment of an additional Internal Audit Professional, and no abolishment of positions in the budget for the next triennium. However, it has to be noted that an audit of TCB consultants was carried out in 2012. An evaluation of Technical Cooperation administrative support processes is planned in 2013. Since 2011, one IT audit has been planned every year. Being more active in these two areas would require more resources.
12	In view of the size of the managed financial volumes, in terms of both the regular budget and other resources, ICAO could consider the setup of instruments for comprehensive financial monitoring and management of ADB activities, which are dependent on non-budgetary resources (COS and RGA).	<p>This recommendation will allow ensuring an efficient use of resources and effective management of ADB activities.</p> <p>In cooperation between FIN and ADB, a comprehensive financial monitoring and management system will be established.</p>
13	The setup of objective fool-proof system for measuring the available translation potential of interpreters, and an effective assignment of interpreters to enhance planning, together with adequate means for monitoring the work done by each interpreter, are a prerequisite for any concrete attempt at using this potential rationally and in a necessarily concerted way. Using	<p>Adjustments to the availability data in Agresso are being implemented.</p> <p>The data will be validated and the reports modified if necessary.</p>

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	the data available in EDEN and Agresso, LPB should provide as soon as possible reliable information on these important parameters.	
14	<p>ADB is working on issues regarding evaluation and benchmarking of translation services, particularly compared with other United Nations organizations. When this reflection is completed and the objective methodological bases defined, measuring translators' productivity and controlling translation quality should be two priorities.</p> <p>These priorities must be accompanied by precise schedule markers, to put an end to the present situation of resistance to change.</p>	A policy and system to measure translators' productivity and to control translation quality will be developed.
15	Within the limits set out for support services in the next triennial budget, the Organization should consider granting ICT enough posts to ensure a satisfactory control of the main IT applications, including by reallocation from other sections.	The Secretariat supports this recommendation. Options to grant ICT enough posts to perform its tasks will be identified within the available support budget.
16	Given the growing importance of IT applications in ICAO's various activities, this is now a major area of risk: the external auditor shares the conclusions of the internal audit office on the need for further effort in this area, and welcomes the perspective of implementing a core Disaster Recovery Plan in the first half of 2013.	ICT will prepare a disaster recovery plan and set standard recovery goals taking into consideration available resources.
17	The Priority Board should meet more regularly. Indeed, the following observations show that it could usefully be referred to for discussion of a number of major issues relating to publications.	Increased coordination for the production of publications, to establish planning schedules and modifications in work programmes and unforeseen changes in priorities.
18	It is time for the rules governing the style, format and presentation of ICAO publications to be reviewed and streamlined: firstly to avoid the Organisation's "commercial" publications adversely affecting the Organisation's external image, and secondly to take into account the increasing share of electronic	Updated standard for branding of ICAO publications will be prepared.

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	distribution in the work of publication. In this regard, texts focussing on these two aspects (Staff Notice 4562 and Doc 7231/11) should be updated.	
19	The inclusion of publications policy in the reflection on the public information strategy plan would be appropriate.	The communication plan will take into account the publications policy.
20	In order for the "paperless environment" policy to be cost effective, the move to electronic publications is not sufficient. The Council should take a decision to drastically limit the number of documents made available in paper form to the Council itself, the Assembly, and the various "standing bodies" (AN commission, AT commission, work groups, etc.)	The Secretariat supports this recommendation. In addition, sufficient resources for training, infrastructure and support need to be provided to the Secretariat to achieve this goal.
21	The possibility of updating articles 9 and 10 of Document 7231/11 concerning publication regulations should be investigated, particularly with regard to the issue of the circulation of certain publications with high added value.	Doc 7231/11 is being revised with the recent decision of the Secretary General to eliminate Air Cargo.
22	An evaluation of the cost-benefit ratio of a specific intelligence system for copyright protection of ICAO publications on the Internet would be worthwhile.	ICAO will consider implementation of a partial digital rights management system (DRM).
23	The codes of ethics featured in ICAO contracts used when canvassing advertisers should be reinforced, with more specific provisions added. The head of any ICAO publication that carries advertising should be systematically consulted and engage their own liability by giving their agreement.	<p>The several participants and owners within ICAO are being consulted by RGA.</p> <p>The responsibility for selecting advertisers in publications rests with the originating Bureaus and Communications.</p>
24	While there is no clear solution, one potential avenue for cutting costs would be to find a balance between a fairly limited hardcopy circulation and broader electronic circulation. It remains to be seen whether the main advertisers would be willing to participate in such a change, particularly with respect to the electronic version of the journal.	<p>Costs have been reduced by the decision of the Secretary General to publish and distribute the ICAO journal in English only.</p> <p>Advertising sales from an electronic magazine are expected to be a fraction of those from hard copy.</p>

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25	Since advertising revenues are systematically below forecast, the entire system needs revising (prices, partners, contract clauses and distribution costs).	The factors listed are not necessarily attributable to advertising revenues below forecast. The advertising system in ICAO will be revised.
26	The next triennial budget should provide, for regional offices, in parallel with the formal RBB structure, tables and charts showing expenses by expenditure blocks (salaries, travel, meetings, equipment purchases, etc.), as they are actually implemented and monitored by ICAO.	The Secretariat will provide information by nature of expense in addition to the RBB format.
27	An update to the agreement between the Thai government and ICAO would be legally useful (even if, "politically" speaking, the risk is probably low that the clauses will be reconsidered by the Kingdom of Thailand), in order to confirm that the measures agreed upon in 1965 for another building do indeed cover the new buildings, particularly with the prospect of expensive repair work.	An official request has been submitted to the Thai authorities concerned to amend the Agreement between the Government of Thailand and ICAO to include the provision of the Conference Building. Amendment is in process.
28	It is recommended to ensure that the integration of the technical cooperation activities within the regional offices is implemented in a harmonized manner between the various offices.	The Policy on Technical Assistance and Technical Cooperation approved by the Council will govern the implementation of technical assistance and technical cooperation activities. In addition, through the Monitoring and Assistance Review Board (which includes the participation of the Regional Offices whenever possible), the Secretary General will allocate resources from the Regular Budget for the delivery of technical assistance. The technical cooperation officers in five of the seven Regional Offices, previously funded by the TC AOSC Fund, have been absorbed by the Regular Budget.
29	ICAO should not declare closed a recommendation that has not been fully and satisfactorily implemented.	Some flexibility needs to be retained since it may be necessary to close recommendations which are no longer relevant due to changing circumstances or as a result of the passage of time. EAO will continue to hold quarterly meetings with each bureau director to discuss actions taken and to agree which recommendations can be closed.

