

FINANCIAL STATEMENTS

AND

REPORTS OF THE EXTERNAL AUDITOR

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2011



DOCUMENTATION
for the 38th Session of the Assembly in 2013

FINANCIAL STATEMENTS

AND

REPORTS OF THE EXTERNAL AUDITOR

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2011



DOCUMENTATION
for the 38th Session of the Assembly in 2013

Published in separate English, Arabic, Chinese, French, Russian
and Spanish editions by the
INTERNATIONAL CIVIL AVIATION ORGANIZATION
999 University Street, Montréal, Quebec, Canada H3C 5H7

For ordering information and for a complete listing of sales agents
and booksellers, please go to the ICAO website at www.icao.int

**Doc 9987, *Financial Statements and Reports of the External
Auditor for the financial period ending 31 December 2011***

Order Number: 9987

Not for sale

© ICAO 2012

All rights reserved. No part of this publication may be reproduced, stored in a
retrieval system or transmitted in any form or by any means, without prior
permission in writing from the International Civil Aviation Organization.

**FINANCIAL STATEMENTS AND
REPORTS OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2011**

INTERNATIONAL CIVIL AVIATION ORGANIZATION

FINANCIAL STATEMENTS AND REPORTS OF THE EXTERNAL AUDITOR

FOR THE YEAR ENDED 31 DECEMBER 2011

TABLE OF CONTENTS

		PAGE
PART I	PRESENTATION BY THE SECRETARY GENERAL	I - 1
PART II	OPINION OF THE EXTERNAL AUDITOR	II - 1
PART III	FINANCIAL STATEMENTS	
Statement I	Statement of Financial Position	III - 1
Statement II	Statement of Financial Performance	III - 2
Statement III	Statement of Changes in Net Assets	III - 3
Statement IV	Statement of Cash Flow	III - 4
Statement V	Statement of Comparison of Budget and Actual Amounts	III - 5
	Notes to the Financial Statements	III - 6
PART IV:	TABLES	
Table A	Regular Activities by Fund	IV - 1
Table B	Aviation Security Trust Funds	IV - 3
Table C	Regular Programme – Assessments Receivable from Contracting States	IV - 4
Table D	Technical Co-operation Project Activities by Group of Funds	IV - 7
Table E	Technical Co-operation Project Activities by Trust Funds and Management Service Agreements	IV - 8
Table F	Technical Co-operation Project Activities - Civil Aviation Purchasing Service Funds	IV - 10
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 2011	
PART VI	SECRETARY GENERAL'S COMMENTS IN RESPONSE TO THE REPORT OF THE EXTERNAL AUDITOR	

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 Contracting States. The newest member, The Republic of South Sudan, joined in November 2011. 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 Contracting 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 2011. As required by Financial Regulation 13.3, the External Auditor's opinion and his report on the 2011 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 is 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 2011 for the second time. 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. It was determined that two segments would be 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 2011.

2.7 **Statement I** presents the financial position of the Organization. Assets totalling CAD 223.2 million at 31 December 2011 are mainly composed of cash and cash equivalents amounting to CAD 193.4 million and of assessments and other amounts receivable totalling CAD 22.9 million. Total liabilities amounts to CAD 253.2 million, of which an amount of CAD 149.4 million represents advance receipts mostly for technical co-operation projects, and a long-term liability of CAD 78.8 million for employee benefits recognized for the second time on this statement with the application of IPSAS.

2.8 This statement also shows an accumulated deficit of CAD 30.0 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 38.7 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 2011. There were significant changes made to this statement last year 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 2011 to take into account the impact of the recognition of long-term receivables at fair value as required by IPSAS. Total 2011 deficit amounts to CAD 7.6 million. Table A shows the deficit by Fund or Group of Funds for regular activities. Expenses include an amount of CAD 11.3 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 2011, CAD 2.6 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 8.7 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 2.4 million) and the AOSC Fund (CAD 1.0 million) are provided in the following paragraphs.

2.10 With regard to the net surplus of other Funds (CAD 4.5 million), the main reason is 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.

2.11 With regard to the Technical Co-operation Projects segment, there is no annual surplus or deficit for the year 2011 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, 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 29.7 million. The balance of the net accumulated deficit at the end of 2011 was CAD 30.0 million.

2.13 **Statement IV** gives the breakdown of the variation of cash flow from CAD 210.9 million at 31 December 2010 to CAD 193.4 million at 31 December 2011. 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 89 495 thousand for the year 2011. 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 2011, in thousands of Canadian dollars, is summarized as follows:

Original Appropriations	89 495
Carried over from 2010	<u>11 451</u>
Approved Revised Appropriations	100 946
2011 Outstanding Commitments	(7 786)
Carry-over Surrendered	(279)
Carried over to 2012	<u>(2 410)</u>
Revised 2011 Appropriations	<u>90 471</u>

3.3 **Carry-over from 2010.** In accordance with Financial Regulation 5.6 and 5.7, an amount of CAD 11 451 thousand was approved by the Secretary General to supplement the 2011 appropriations, financed by savings from 2010, primarily for outstanding commitments and for mandatory and other mission-critical activities that were not budgeted for in 2011.

3.4 **2011 Outstanding Commitments.** The value of obligations entered into in 2011 but delivery against which is only expected in 2012, is CAD 6 970 thousand. Employee entitlements in an amount of CAD 816 thousand consisting primarily of accrued leave and repatriation grants are foreseen to be paid to staff separating from ICAO in 2012. Therefore, an amount of CAD 7 786 thousand (also see Figure 1, column (e)), has been reserved and carried forward to 2012, pursuant to Financial Regulation 5.7 to clear legal obligations incurred during 2011.

3.5 **Carry-over Surrendered.** The amount of CAD 279 thousand for carry-over surrendered (also see Figure 1, column (f)) is composed of the following:

- a) CAD 95 thousand not reimbursed to the Regular Programme by the AOSC Fund. This is the difference between the amount approved by the Council in C-DEC 192/5 (CAD 1 617 thousand) for the cost recovery in 2011 and the amount approved by the Assembly (Annex 4 of Doc 9955);
- b) CAD 184 thousand not spent out of the Incentive Scheme for Long Outstanding Arrears Account. Due to the delay in recruitment, the amount approved in Annex 4 of Doc 9955 was under spent and the resulting saving has been returned to the Incentive Fund.

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 2012.** 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 2 410 thousand is within this limit. The amount being carried forward is to fund resources required for: the Safety challenge Loss of Control and Performance Based Navigation; the new Ethics Office; Safety and Security audits that were deferred to 2012 due to travel restrictions and States' requests for postponement; the Public Key Directory Programme; Market-Based Measures of the Environment Programme; and a smaller portion for the mission-critical activities not budgeted for in 2012.

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 90 471 thousand.

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

FIGURE 1

	2011 Budget (a)	Actual ¹ (b)	Budget Exchange (c)	Actual at Budget Rate ² (d) = (b)+(c)	2011 Outstanding Commitments (e)	Carryover Surrendered (f)	Total (g) = (d)+(e)+(f)	Difference (h) = (g) - (a) \$
REVENUE								
Assessed Contributions	82 024	80 679	1 055	81 734			81 734	(290)
Other Revenue				0				
ARGF	4 370	4 370		4 370			4 370	-
Miscellaneous	3 101	1 980		1 980		279	2 259	(842)
	89 495	87 029	1 055	88 084	-	279	88 363	(1 132)
EXPENSES								
Staff salaries and employment benefits	74 018	68 609	887	69 496	4 847	279	74 622	604
Supplies, consumables and others	650	134	8	142	8		150	(500)
General operating expenses	20 585	15 731	100	15 831	2 931		18 762	(1 823)
Travel	4 108	3 909	31	3 940			3 940	(168)
Meetings	1 151	773	19	792	0		792	(359)
Other expenses	434	260	10	270	0		270	(164)
	100 946	89 416	1 055	90 471	7 786	279	98 536	(2 410)

¹From Table A, Financial Statements

²Includes Budget Exchange loss of \$1.055 million due to impact of US dollar transactions budgeted at USD1.00=CAD1.038

3.10 **Explanation of Differences – Revenues.** The overall budget of CAD 89 495 thousand (column (a) above) refers to the three main funding sources of the Regular Programme Budget for 2011: Assessed Contributions, ARGF Surplus, and Miscellaneous Income, and includes the 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 low interest rates during the triennium - thus resulting to a much lower interest income earned.

3.11 **Explanation of Differences – Expenses.** The overall budget of CAD 100 946 thousand (Figure 1, column (a)) includes the 2011 original appropriations of CAD 89 495 thousand and carried over from 2010 of CAD 11 451 thousand. Actual expenses for *Staff Salaries and Employee Benefits* exceeded the budget mainly because of additional funding provided Air Navigation Bureau in response to the recommendations of the High Level Safety Conference (HLSC) and also of the additional resources required for the Electronic Documents and Records Management System (EDRMS) and other ICT requirements funded by overall efficiency gains of the Organization in other objects of expenditures such as *General Operating Expenses and Meetings*.

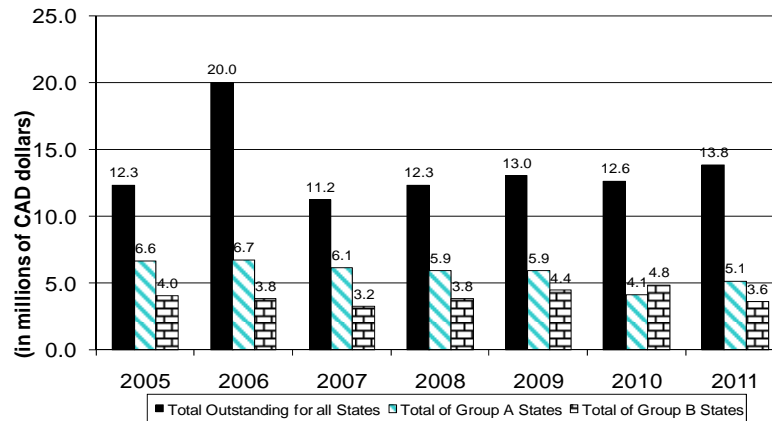
3.12 **Budget Exchange.** Since 2010, Member States are being invoiced partly in USD and partly in CAD. The USD/CAD exchange rate on 1 January 2011 (the date when invoices were raised in USD) was lower than the rate used in developing the 2011 budget causing a reduction to total assessed contributions of CAD 1 055 million (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 Contracting 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 2011 the fluctuation of the Canadian dollar against the U.S. dollar was CAD 1.000 at the beginning of the year and CAD 1.024 at the end of the year.

Assessments and Other Voluntary Contributions

3.14 During the year 2011 assessments totalling CAD 76 206 thousand were received and a balance of CAD 4 773 thousand remained outstanding at the year-end against the current year's assessments. At the beginning of the year, CAD 12 614 thousand was receivable from States in respect to 2010 and prior years; payment of CAD 3 603 thousand was received, leaving a balance outstanding of CAD 9 011 thousand. The assessments receivable for all years totalled CAD 13 784 thousand as at 31 December 2011 (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 94 per cent. Figure 2 shows the status of the assessed contributions receivable at the end of each year since 2005.

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

3.15 Of the total outstanding contributions of CAD 13 784 thousand at 31 December 2011 (CAD 13 773 thousand excluding the Working Capital Fund), CAD 479 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</u> <u>of States</u> <u>2011</u>	<u>Amount</u> <u>outstanding as</u> <u>at 31 December</u> <u>2011</u>	<u>Number</u> <u>of States</u> <u>2010</u>	<u>Amount</u> <u>outstanding as</u> <u>at 31 December</u> <u>2010</u>
Group A: States that have concluded agreements with the Council to liquidate their arrears over a period of years	17	5 096	17	4 105
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	11	3 652	12	4 795
Group C: States with contributions in arrears for less than three full years	33	3 079	12	1 135
Group D: States with contributions outstanding only for the current year	26	1 456	45	2 076
Sub-total	87	13 283	86	12 111
The Former Socialist Federal Republic of Yugoslavia	-	501	-	501
Total Outstanding Contributions	87	13 784	86	12 612

3.16 As at 31 December 2011, 17 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 2011.

3.17 Major contributions (*) received for the Regular Programme and other Funds in Segment 1 for 2011 are summarized in thousands of CAD below.

FIGURE 4

Contracting State	<u>Assessment</u> <u>Received</u>	<u>Contributions</u> <u>In-Kind</u> <u>(Premises)</u>	<u>Contributions in</u> <u>Cash and In</u> <u>Kind</u>	<u>Total</u>
			<u>AVSEC</u>	
Canada	2 065	20 884	735	23 684
United States	20 242	-	1 321	21 563
Japan	7 352	-	5	7 357
Germany	5 312	-	5	5 317
United Kingdom	4 599	-	405	5 004
France	3 984	716	-	4 700
China	3 287	-	105	3 392
Italy	2 850	-	-	2 850
Spain	2 000	-	8	2 008
Republic of Korea	1 757	-	5	1 762
Thailand	405	1 130	-	1 535
Netherlands	1 498	-	23	1 521
Total	55 351	22 730	2 612	80 693

(*) Twelve highest contributions

3.18 Total expenses in 2011, 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 (2)</u>	<u>Total</u>
Regular Budget	23 827	10 654	11 066	43 869	-	89 416
Voluntary Funds	3 379	2 785	201	17 600	5 880	29 845
Premises	-	-	-	23 337	-	23 337
Seconded Staff (in-kind) (1)						
Canada	-	277	-	-	-	277
China	210	105	-	-	841	1 156
France	274	35	-	-	388	697
Italy	-	-	-	-	280	280
Saudi Arabia	183	5	-	-	-	188
Singapore	194	-	-	-	74	268
Spain	-	5	-	-	123	128
Sweden	175	-	-	-	-	175
Switzerland	-	198	-	-	-	198
United States	107	13	-	-	15	135
Others	173	453	-	-	-	626
Sub-total Seconded Staff	1 316	1 091	-	-	1 721	4 128
Total Expenses	28 522	14 530	11 267	84 806	7 601	146 726

(1): 10 highest contributions by alphabetical order

(2): Other strategic objectives

Cash Surplus

3.19 The cumulative surplus excluding reserves in Net Assets for the Regular Programme Budget at 31 December 2011 reflected in Table A of Part IV to this document amounted to CAD 10.1 million. Cumulative surplus less the Working Capital Fund balance of CAD 6.1 million and assessments receivable from Contracting States of CAD 13.8 million resulted in a cash deficit of CAD 9.8 million at 31 December 2011, noting that an amount of CAD 10.2 million is recorded as a reserved surplus to finance 2011 outstanding commitments and appropriations carried over to 2012.

Ancillary Revenue Generation Fund (ARGF)

3.20 The surplus achieved by ARGF in 2011 amounts to CAD 4 990 thousand of which CAD 4 556 thousand was transferred to the General Fund.

3.21 A summary of the ARGF revenue and expenses by business activities for 2011 in thousands of CAD is as follows:

FIGURE 6

	Revenue	Expense	Net Surplus
Publications, Distribution & Printing (including Dangerous Goods Licensing)	8 296	4 067	4 229
Delegation & Conference Services & Rental & Other Activities	2 799	2 414	385
Events & Symposia	1 382	580	802
Periodicals	755	676	79
Training	602	492	110
Licensing Agreements & Partnerships in Statistics	520	128	392
Websites	436	220	216
ARGF Governance	64	1 287	(1 223)
Sub-total	14 854	9 864	4 990
ARGF Inter-billing Elimination	(173)	(173)	-
Total	14 681	9 691	4 990
Amount Transferred to Regular Programme	-	4 556	(4 556)
Net	14 681	14 247	434

3.22 ARGF surplus exceeded the budget by CAD 806 thousand and the budgetary comparison is presented in the figure below in thousands of CAD.

FIGURE 7
ARGF Budget and Actual for 2011

	Actual	Budget	Variance
Revenue	14 681	15 302	(621)
Expense	9 691	11 118	1 427
Net Surplus	4 990	4 184	806

3.23 Approximately 60% of ARGF products, including publications are priced in USD and therefore revenue is impacted by movement in currency rates. Additionally, difference in budgeted rate of exchange and actual rate causes variation. The average CAD/USD rate in 2011 was 0.99. This compares to a budget rate of 1.038.

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 administrative overhead charges on 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 and the budgetary comparison is presented in the following figure in thousands of CAD.

FIGURE 8

AOSC Fund Budget and Expenditures for 2011¹

	Submitted to the Assembly ²	Revised Budget 2011 ³	Actual Expenditure/ Income 2011	Balance of Revised Budget
Appropriation/Expenditure				
Major Programme	10 706	9 211	8 845	366
Income		8 397	7 856	
Excess/(Deficit) of Income over Expenditure		(814)	(989)	

¹ Excludes AOSC Efficiency Fund.

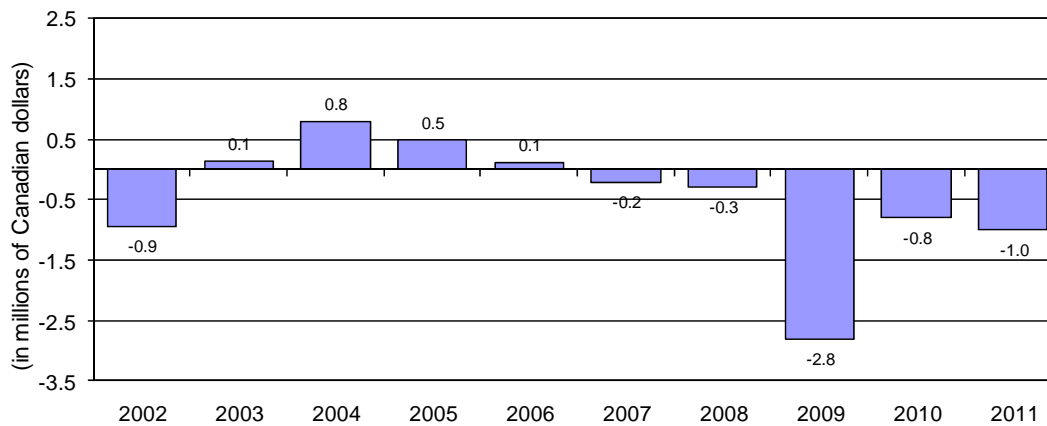
² Approved by the Assembly in 2010 (A37).

³ Noted by the Council at its 194th Session (C-WP/13764).

3.25 As indicated above, the Assembly approved the Indicative Budget Estimates (expenditure) of the AOSC Fund amounting to CAD 10 706 thousand for the financial year 2011. During the year, pursuant to Financial Regulation 9.5, the Secretary General submitted to the Council an update of the 2011 Budget Estimates (expenditure) for 2011 in C-WP/13764. The revised estimated expenditures for 2011 amounted to CAD 9 211 thousand and the estimated income to CAD 8 397 thousand.

3.26 There is a shortfall of CAD 0.5 million in AOSC income versus budget mainly because of the expected implementation of USD 128.6 million in TC projects in 2011, implementation of 45.5 % or USD 58.5 million did not materialize during the year yielding a shortage in forecasted income. On the expenditure side, staff costs savings amount to CAD 0.4 million resulting in a total negative variance of CAD 1.0 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 instructed the Secretary General to progressively allocate the identifiable costs to the AOSC Fund and the Regular Programme, as appropriate, in order to minimize the amount of cross-funding that was occurring between these Funds.

3.29 **Technical Co-operation Programme.** The Technical Co-operation Bureau (TCB) manages the Technical Co-operation Programme, a permanent priority activity of ICAO as stated in Assembly Resolution A36-17, which complements the role of the Regular Programme by supporting Member States in their implementation of ICAO regulations, policies and procedures. 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 to follow in 2012. The whole bureau is expected to be fully certified by year 2014.

3.31 Action has also been initiated to recruit Technical Co-operation officers in five of the seven regional offices and an assessment will be made on the need for officers in the two remaining offices. A Secretariat Working Group has been established to develop new co-ordination procedures between TCB and the Regional Offices. A Management Plan for the Technical Co-operation Bureau has been prepared in close co-ordination with the Technical Co-operation Committee, describing the goals and objectives for the years 2012 to 2014 as well as specific planned actions aimed at increasing efficiencies and quality of services. Further efforts are required to improve the AOSC financial situation through a review of the TCB organizational structure, staffing levels, cost savings and efficiency measures. It should also be

noted that the remaining modules of Agresso are now being implemented for TCB which will allow for more timely and transparent financial reporting.

3.32 Technical co-operation projects represent one of the main activities of the Organization. Projects are financed by voluntary contributions and the inflows and outflows of financial resources totalled CAD 104.8 million in 2011. Tables D to F in Part IV of this document provides more detail on these projects, summarized by the following figures in millions of CAD.

FIGURE 10

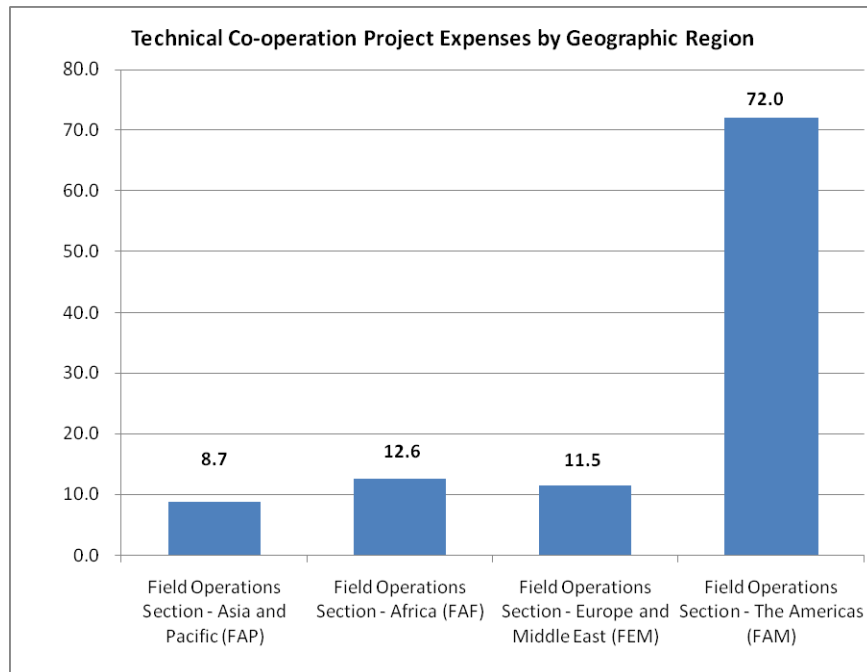
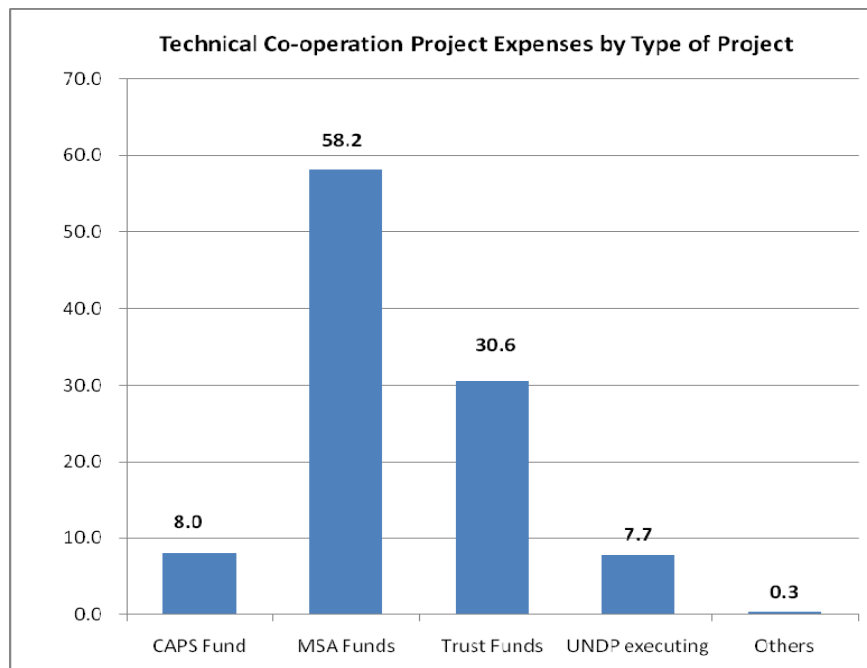


FIGURE 11



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 in this document. 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.

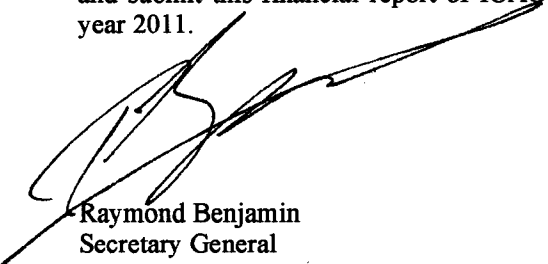
The Council has the responsibility to consider and to recommend the Financial Statements to the Assembly for approval and has the power to request amendments to these statements after issuance by the Secretary General.

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 2011.



Raymond Benjamin
Secretary General

Montreal, Canada
30 March 2012

PART II: OPINION OF THE EXTERNAL AUDITOR

Cour des comptes
Le Premier président

Paris, 30 MARS 2012

To the Assembly of
the International Civil Aviation Organization

AUDIT OPINION

We have audited the financial statements of the International Civil Aviation Organization (ICAO), for the 12 month period ended December 31st, 2011. These financial statements include a statement of financial position at December 31st, 2011, 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, 2011 and notes including a summary of the accounting principles and other information.

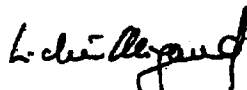
Within the general framework of Article 61 of the Chicago Convention and by virtue of Article XII of the ICAO Financial Regulations, the Secretary General of ICAO is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector 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, 2011, 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, 2011 in conformity with the IPSAS.


Didier MIGAND

PART III: FINANCIAL STATEMENTS

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011
(in thousands of Canadian dollars)

	Note	2011	2010
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2.1	193 393	210 915
Assessed contributions receivable from Member States	2.2	5 761	6 693
Receivables and advances	2.3	11 053	12 579
Inventories	2.4	952	987
Others	2.3	1 936	2 960
		213 095	234 134
NON-CURRENT ASSETS			
Assessed contributions receivable from Member States	2.2	5 581	3 863
Receivables and advances	2.3	496	521
Property, plant and equipment	2.5	3 046	699
Intangible assets	2.6	958	92
		10 081	5 175
TOTAL ASSETS		223 176	239 309
LIABILITIES			
CURRENT LIABILITIES			
Advanced receipts	2.8	149 391	163 356
Accounts payable and accrued liabilities	2.9	19 354	22 289
Employee benefits	2.10	4 060	4 612
Credits to contracting/servicing governments	2.11	1 397	1 528
Deferred revenue	2.12	168	343
		174 370	192 128
NON-CURRENT LIABILITIES			
Employee benefits	2.10	78 817	76 900
		78 817	76 900
TOTAL LIABILITIES		253 187	269 028
NET ASSETS			
Accumulated deficit	2.13	(43 659)	(35 416)
Reserves	2.13	13 648	5 697
		(30 011)	(29 719)
NET ASSETS (NET ACCUMULATED DEFICIT)		(30 011)	(29 719)
TOTAL LIABILITIES AND NET ASSETS		223 176	239 309

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 2011

(in thousands of Canadian dollars)

	Note	2011	2010
REVENUE			
Contributions for project agreements		104 776	122 847
Assessed contributions		80 679	77 483
Other revenue producing activities	3.2	13 401	13 173
Other voluntary contributions		8 339	5 976
Administrative fee revenue		16	
Other revenue	3.2	3 122	3 798
TOTAL REVENUE		210 333	223 277
EXPENSES			
Staff salaries and employee benefits	3.3	126 016	137 359
Supplies, consumables and others	3.3	63 133	67 796
General operating expenses	3.3	16 989	17 098
Travel	3.3	8 442	7 940
Meetings		865	2 128
Training		1 020	1 173
Grants and other transfers			440
Other expenses		1 204	762
Currency exchange difference		294	393
TOTAL EXPENSES		217 963	235 089
DEFICIT FOR THE YEAR		(7 630)	(11 812)

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 2011

(in thousands of Canadian dollars)

	Note	Accumulated Deficit	Reserves	Net Assets (Net Accumulated Deficit)
Balance at 31 December 2010		(35 416)	5 697	(29 719)
Movements in fund balances and reserves in 2011				
Variation to carry forward balance	2.13	1 256	(1 256)	
Variation of actuarial gain/(loss)	2.10		7 091	7 091
Other reclassifications and transfers	2.13	(1 869)	2 013	144
Variation of translation adjustment	2.13		103	103
Deficit of the year		(7 630)		(7 630)
Total movements during the year		(8 243)	7 951	(292)
Balance at 31 December 2011		(43 659)	13 648	(30 011)

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 2011

(in thousands of Canadian dollars)

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Deficit for the year		(7 630)	(11 812)
(Increase) decrease in contributions receivable	2.2	932	(1 542)
(Increase) decrease in receivables and advances	2.3	1 526	17 199
(Increase) decrease in inventories	2.4	35	3
(Increase) decrease in other assets	2.3	1 024	172
(Increase) decrease in non-current contributions receivable (net of discount)	2.2	(1 718)	1 254
(Increase) decrease in non-current receivables and advances	2.3	25	22
Increase (decrease) in advanced receipts	2.8	(13 964)	2 074
Increase (decrease) in accounts payable and accrued liabilities	2.9	(2 935)	(11 424)
Increase (decrease) in short-term employee benefits	2.10	(552)	(79)
Increase (decrease) in credits to contracting/servicing governments	2.11	(131)	(988)
Increase (decrease) in deferred revenue	2.12	(175)	(242)
Increase (decrease) in long-term employee benefits	2.10	1 917	10 232
Actuarial gain (loss) reflected in reserves	2.10	7 091	(5 881)
Interest income		(697)	(719)
Depreciation and amortization		575	90
Disposal of property, plant and equipment			(19)
Foreign currency translation adjustment		103	(1 918)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(14 574)	(3 578)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and Intangibles	2.5 & 2.6	(3 789)	(881)
Proceeds of disposal of property, plant and equipment			19
Interest income		697	719
NET CASH FLOWS FROM INVESTING ACTIVITIES		(3 092)	(143)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfers from net assets to liabilities and other transfers		144	(1 234)
NET CASH FLOWS FROM FINANCING ACTIVITIES		144	(1 234)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(17 522)	(4 955)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		210 915	215 870
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		193 393	210 915

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 2011

(in thousands of Canadian Dollars)

Strategic Objective / Supporting Implementation Strategy	Appropriations								Expenditures ¹			Balance
	Original A37-26	Carry-over from Prior Year ^a	2011 Appropriations Before Transfers	2011 Outstanding Commitments ^b	Carry-Over Surrendered ^c	Transfers among SO/SIS ^d	Carried over to following year ^e	2011 Appropriations Revised	Total	Budget Exchange Difference ²	At budget rate of exchange	
Safety	22 934	4 409	27 343	(2 633)	(114)	403	(734)	24 265	23 827	438	24 265	(0)
Security	13 474	621	14 095	(126)	(71)	(2 410)	(586)	10 902	10 654	248	10 902	0
Environmental Protection and Sustainable Development of Air Transport	11 479	940	12 419	(853)	(48)	135	(403)	11 250	11 066	184	11 250	0
Sub-Total	47 887	5 970	53 857	(3 612)	(233)	(1 872)	(1 723)	46 417	45 547	870	46 417	(0)
Programme Support	20 135	2 775	22 910	(1 730)	-	1 088	(501)	21 767	21 697	70	21 767	0
Management & Administration	14 527	2 170	16 697	(2 007)	(46)	1 403	(186)	15 861	15 773	88	15 861	0
Management & Administration - Governing Bodies	6 946	536	7 482	(437)	-	(619)	-	6 426	6 399	27	6 426	0
Sub-Total	41 608	5 481	47 089	(4 174)	(46)	1 872	(687)	44 054	43 869	185	44 054	0
Total	89 495	11 451	100 946	(7 786)	(279)	(0)	(2 410)	90 471	89 416	1 055	90 471	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 \$1.6 million instead of \$1.7million (C-DEC192/5). \$0.2million unspent due to delay in recruitment transferred back to Incentive Scheme for Long-Outstanding Arrears Account

^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 and forward exchange gains/losses.

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

Material differences between 2011 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 2011

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).
2. These are the second set of financial statements prepared fully in accordance with IPSAS. The adoption of IPSAS effective 1 January 2010 has required changes to be made to the accounting policies previously followed by ICAO. This includes the preparation of financial statements on a full accrual basis of accounting.
3. As permitted on the initial adoption of IPSAS, transitional provisions have been applied 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.
4. The following Accounting Standards have been adopted prior to their required implementation dates: Intangible Assets (IPSAS 31); Financial Instruments: Presentation (IPSAS 28), Recognition and Measurement (IPSAS 29) and Disclosures (IPSAS 30).
5. Except as otherwise stated in these statements, the measurement basis used in preparing the financial statements is the amortized cost. 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 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 Contracting States. These contributions are revenue from non-exchange transactions recognized in the year for which the assessments are levied. Contributions for Technical Co-operation Project (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 percent 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 percent 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 Contracting 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.
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. Property, Plant and Equipment (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 Intangible	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.

Employee Benefits

28. ICAO recognizes the following accrued employee benefits:
- short-term employee benefits which are expected to be settled wholly within twelve months after the end of the accounting period in which employees render the related service;
 - post-employment benefits; and
 - other long-term employee benefits such as end-of-service benefits.
29. Most employees of ICAO are members of the United Nations Joint Staff Pension Fund (UNJSPF). The Pension Fund is a multi-employer funded, defined benefit plan. UNJSPF is not in a position to identify and allocate each participant's share of the underlying financial position and performance of the plan on an IPSAS 25 basis with sufficient reliability for accounting purposes and, therefore, as permitted by IPSAS this plan is treated as if it were a defined contribution plan.
30. ICAO uses a reserve account in Net Assets to record actuarial gains and losses related to afterservice health insurance benefits (ASHI).

Provisions and Contingent Liabilities

31. Provisions are made for future liabilities and charges where ICAO has a present legal or constructive obligation as a result of past events and it is probable that ICAO will be required to settle the obligation.
32. 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

33. 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.

34. 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 expenses.
35. **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.
36. **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 Contracting 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 Contracting 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 General Fund of the Regular Programme.
 - **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.

37. **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 contributions for project agreements.
38. 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 Contracting States. These contracts differ from MSA and Trust Fund agreements in that they are for a short duration and for a fixed contract amount. 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

39. 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:

	2011	2010
	<i>In thousands of CAD</i>	
Cash in banks	98 649	87 802
Term deposits	94 744	123 113
Total Cash and Cash Equivalents	193 393	210 915

40. As at 31 December 2011, the term deposits had an average interest rate of 0.31 percent (0.27 percent on 31 December 2010) and an average term maturity of 107 days (70 days in 2010). Cash in banks at year end includes an amount of CAD 2 367 thousand held on behalf of ECAC.

Note 2.2: Assessed Contributions Receivable From Member States

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

	2011	2010
	<i>In thousands of CAD</i>	
Current	5 761	6 693
Discounted non-current	5 581	3 863
Total Net Contributions Receivable	11 342	10 556

42. 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:

	2011	2010
	<i>In thousands of CAD</i>	
Assessed Contributions – Regular Programme	13 784	12 614
Assessed Contributions – Joint Financing Agreements	18	79
Total Contributions Receivable before allowances and amortization	13 802	12 693
Less:		
Allowance for doubtful accounts	(501)	(501)
Discount on long-term receivables	(1 959)	(1 636)
Total Net Contributions Receivable	11 342	10 556

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

Year of Assessment	2011		2010	
	<i>In thousands of CAD</i>	%	<i>In thousands of CAD</i>	%
2011	4 773	34.7	-	-
2010	1 561	11.3	3 639	28.9
2009	855	6.2	1 227	9.7
2008	694	5.0	920	7.3
2007 and earlier	5 901	42.8	6 828	54.1
Total	13 784	100.0	12 614	100.0

44. There were no movements of the allowance for doubtful accounts during 2011.

	2010	Utilization	Increase/ (Decrease)	2011
	<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.

45. There were no write-offs of contributions receivable during 2011. 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.
46. There was no balance in the allowance for reductions in contribution revenue during 2011.
47. The movements of the discounted long-term contributions receivables during 2011 are as follows:

	2010	Utilization	Increase/ (Decrease)	2011
	<i>In thousands of CAD</i>			
Discounted Long-Term Contributions Receivable	3 863	2 041	(323)	5 581

48. 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 percent to the scheduled future installment payments for most of Group A States and 2.5 percent for five of Group B States.
49. 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 2 041 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 decrease of CAD 323 thousand is the discount of the long-term accounts receivable balance which has been recognized as a reduction of revenue for the period ended 31 December 2011. There was one new agreement entered into during the course of the year.

Note 2.3: Receivables, Advances and Other Assets

50. Receivables and advances:

	2011	2010
	<i>In thousands of CAD</i>	
Advances to Employees	1 255	1 361
Receivables from United Nations Agencies	3 323	1 906
Others	6 475	9 312
Total:	11 053	12 579

51. Advances to employees are for education grants, rental subsidies, travel and other staff entitlements.
52. Receivables from UN Agencies are related to other international organizations, mainly United Nations organizations.
53. Other receivables include amounts due from revenue generation activities such as the sales of publications, rental of conference rooms and space to delegations.
54. 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 748 thousand at 31 December 2011. The discounted amount due from AFCAC reflected in the accounts totals CAD 577 thousand, of which an amount of CAD 496 thousand represents the non-current portion of the receivable (CAD 521 thousand as at 31 December 2010).

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

	2011	2010
	<i>In thousands of CAD</i>	
Recoverable Provincial Sales Tax	465	1 667
Recoverable Federal Sales Tax	296	738
Prepaid Expenses	716	329
Recoverable United States Income Tax	422	163
Recoverable France Sales Tax	37	57
Others	-	6
Total	1 936	2 960

Note 2.4: Inventories

56. 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.

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

	2011	2010
	<i>In thousands of CAD</i>	
Publications on hand–finished goods	700	652
Raw material and work in process	123	135
Total Publications	823	787
Total Commissariat Items	129	200
Total Inventories	952	987

58. 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.

	2011	2010
	<i>In thousands of CAD</i>	
Publications Reconciliation:		
Opening Balance	787	759
Direct Material	639	807
Direct Labour	1 444	1 682
Indirect Costs	239	183
Total Inventory Purchased and Produced	3 109	3 431
Less: Cost of Publications Sold	(2 218)	(2 581)
Less: Impairments	(68)	(63)
Closing Balance	823	787

	2011	2010
	<i>In thousands of CAD</i>	
Commissariat Items Reconciliation:		
Opening Balance	200	231
Inventory Purchased	373	443
Total Inventory Purchased	573	674
Less: Cost of Items Sold	(437)	(474)
Less: Write down of damaged inventory due to flood	(7)	-
Closing Balance	129	200

59. Publications and commissariat items and quantities derived from ICAO's inventory tracking systems are validated by physical stock count.
60. Inventories are valued net of any identified impairments. During 2011, impaired publication inventory valued at CAD 68 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. Commissariat damaged goods from the 30 December 2011 flood was identified and removed from the Commissariat inventory records. This write-down represents a receivable from the insurance company.

Note 2.5: Property Plant & Equipment

61. The cost of property, plant and equipment (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.
62. 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 1 January 2011¹	Acquisitions during the Year	Accumulated Depreciation	Closing Balance 31 December 2011
	<i>In thousands of CAD</i>			
Furniture & Fixtures	25	52	7	70
IT Equipment	426	1 901	385	1 942
Office Equipment	112	181	34	259
Motor Vehicles	142	92	52	182
Leasehold Improvement	75	488	53	510
Machinery	-	91	8	83
Total	780	2 805	539	3 046

¹Before accumulated depreciation.

63. No impairment of PP&E was identified in 2011.
64. 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.

65. 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 percent of the rental and operating costs to the Government of Canada. The Government of Canada assumes 75 percent of the rental and operating costs, 100 percent 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 percent of the ownership on the basis that ICAO would reimburse 25 percent 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 percent 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.
66. ICAO also owns 47 percent of the property of the EURNAT Regional Office in Paris at an original cost of CAD 1 145 thousand and the remaining 53 percent 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 63, 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.
67. 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 2011	Accumulated Depreciation	Closing Balance 31 December 2011
<i>In thousands of CAD</i>			
Building	1 145	1 145	-
Furniture and Fixtures	94	59	35
IT & Office Equipment	2 500	2 402	98
Motor Vehicles	493	403	90
Equipment Under Finance Leases	461	216	245
Total	4 693	4 225	468

68. The minimum future annual payments from 2012 to 2014 under finance lease obligations for equipment amount to CAD 108, 102 and 33 thousand respectively for a total minimum payment of CAD 243 thousand, less interest of CAD 16 thousand for a capital lease obligation of CAD 227 thousand. The obligations under ICAO Headquarters lease is presented in Note 6.

Note 2.6: Intangible Assets

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

	Opening Balance 1 January 2011¹	Acquisition During the Year	Accumulated Amortization	Closing Balance 31 December 2011
	<i>In thousands of CAD</i>			
Software acquired	101	838	127	812
Software under development (WIP)	-	146	-	146
Total	101	984	127	958

¹ Before accumulated amortization.

70. 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

71. 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:

	2011	2010
	<i>In thousands of CAD</i>	
Composition:		
Assessed contributions receivable (current)	5 761	6 693
Assessed contributions receivable (non-current)	5 581	3 863
Receivables and advances (current)	11 053	12 579
Receivables and advances (non-current)	496	521
Other assets	1 936	2 960
Total Financial Assets	24 827	26 616

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

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

2.7.2 Credit Risk

73. 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.
74. 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.
75. 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 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

76. ICAO is exposed to interest rate risk through term-deposits. In 2011, 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

77. At 31 December 2011, cash, cash equivalent and investments are denominated in CAD (7 percent) and in USD (87 percent) which are the base currencies used by the Organization (12 percent in the CAD and 80 percent in USD base currencies at 31 December 2010). Non-CAD or USD holdings have the primary objective of supporting operating activities in other currencies than CAD. In addition, 43 percent of contributions receivable are denominated in CAD and 57 percent in USD base currencies (32 percent in CAD and 68 percent in USD base currencies at 31 December 2010).
78. 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.
79. 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

80. A Working Capital Fund in the amount of USD 6 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 Contracting 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

81. Advance receipts comprise:

	2011	2010
	<i>In thousands of CAD</i>	
Voluntary Contributions for TC Projects	144 941	156 769
Assessed Contributions	549	1 784
Other Advances	3 901	4 803
Total	149 391	163 356

82. Advance receipts comprise voluntary contributions for Technical Co-operation projects for which funding are received in advance. Revenue is only recognized when goods are delivered or when services are rendered by ICAO as per the terms of the agreements signed between ICAO and contributors. This liability also includes any balance of unutilized contributions to be remitted to contributors.

83. Assessed contributions represent payments received from States before the year to which they relate.
84. Other advances include an advance payment of CAD 957 thousand from a Member State (France), CAD 1 019 thousand from publication sales, CAD 716 from a private sector company, CAD 576 from Member States for PKD activities and other advances.

Note: 2.9: Accounts Payables and Accrued Liabilities

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

	2011	2010
	<i>In thousands of CAD</i>	
Suppliers Payables	11 021	16 923
Accruals and Other Payables	8 333	5 366
Total	19 354	22 289

86. 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.
87. 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 218 thousand representing the estimated education costs payable to employees but not yet claimed at year end.
88. The Organization's employees and retirees have the option to participate in the Organization's comprehensive medical care benefits plan. The cost of the plan is shared between participants and ICAO. Effective 1 April 2011, the Organization has contracted an insurance company as third party administrator to provide claims processing and customer service under the plan. In previous years, this service was provided by another insurance company, which also maintained reserves required to pay future costs. Upon transitioning to the new administrator, ICAO took over the reserve management as an interim measure. At as 31 December 2011, a net amount of CAD 1.3 million is included in the Accruals and Other Payables to cover all outstanding claims at that date under the previous and new plans, and based on management's best estimates, the amounts recorded in the accounts are sufficient to cover all liabilities incurred under the plans. It is foreseen that in the future, a reserve account will be established on the basis of actual results of the plans and on a review that uses actuarial and insurance information data.
89. 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.

	2011	2010
	<i>In thousands of CAD</i>	
Opening balance at 1 January	1 966	3 737
Receipts during the year	3 403	8 501
Subtotal:	5 369	12 238
Less: disbursements during the year	3 002	10 272
Closing balance at 31 December	2 367	1 966

Note 2.10: Employee Benefits

90. Employee benefits liabilities comprise After Service Health Insurance (ASHI) benefits, end of service benefits for annual leave, repatriation benefits payable and other short term amounts.

	2011	2010
	<i>In thousands of CAD</i>	
Composition:		
Current	4 060	4 612
Non-current	78 817	76 900
Total	82 877	81 512

2.10.1 Valuation of Employee Benefit Liabilities

91. Employee benefit liabilities are determined by professional actuaries or calculated by ICAO based on personnel data and past payment experience.

2.10.2 Valuations of Post-Employment and Other Separation Related Benefits

92. Liabilities arising from end of service benefits, annual leave and repatriation benefits, and post-employment benefits (ASHI) 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. 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.
94. Other employee 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.
95. The movement of employee benefits liabilities during 2011 is as follows:

	Opening Balance 1 January 2011	Utilization	Increase/ (Decrease)	Actuarial Loss/(Gain)	Ending Balance 31 December 2011
	<i>In thousands of CAD</i>				
Post-Retirement Plan (ASHI)	65 837	(1 129)	5 127	(7 091)	62 744
End of Service - Annual Leave	5 276	(816)	679	2 820	7 959
End of Service - Repatriation Benefits	8 836	(662)	983	1 696	10 853
Other Employee Benefits for International Experts	1 563	(1 509)	1 267	-	1 321
Total Employee Benefits Liabilities	81 512	(4 116)	8 056	(2 575)	82 877

96. 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 2011	Total 2010
<i>In thousands of CAD</i>				
ASHI	2 746	2 381	5 127	4 788
Annual Leave	491	188	679	560
Repatriation Benefits	662	321	983	999
Other Employee Benefits	1 267	-	1 267	533
Total:	5 166	2 890	8 056	6 880

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

	2011	2010
<i>In thousands of CAD</i>		
ASHI	(7 091)	5 881
Annual Leave	2 820	665
Repatriation Benefits	1 696	(17)
Total	(2 575)	6 529

97. Actuarial losses for Annual Leave and Repatriation Benefits plus Current Service Costs and Interest cost including ASHI total CAD 11 305 in 2011 (CAD 6 995 in 2010) and are included in the expense of the Revolving Fund.

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

98. IPSAS require that the impact of one point in trend assumption be disclosed in the financial statements:

Current Service Cost	Minus one percentage point: decrease of CAD 944 thousand Plus one percentage point: increase of CAD 1 230 thousand
Accrued Benefit Obligation	Minus one percentage point: decrease of CAD 9 616 thousand Plus one percentage point: increase of CAD 12 638 thousand

2.10.4 Actuarial Assumptions and Methods

99. 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 2011.
100. 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	2.50 per cent for accounting and funding (3.50 per cent in 31 December 2010 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 4 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 1.024. (CAD 1.00 in prior valuation).
Medical and Dental Claims Cost	Average annual costs per person at age 60 are CAD 1.350 thousand (CAD 1.388 thousand in 2010) for drug costs for dental costs and 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 (50 per cent in 2010) and 78 per cent (65 per cent in 2010) 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 (70 per cent in 2010). 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	2.50 per cent per year (3.50 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 15.5 thousand per employee with annual increase of 3.25 per cent per year.
Travel Costs	CAD 6.8 thousand per employee with annual increase at 3.25 per cent per year.

2.10.5 United Nations Joint Staff Pension Fund

- 101.** 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. 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.
- 102.** The actuarial method adopted for the UNJSPF is the Open Group Aggregate method to determine whether the present and estimated future assets of the Fund will be sufficient to meet its present and estimated future liabilities, using various sets of assumptions as to future economic and demographic developments. The actuarial study is carried out at least once every three years; a review of the 2009 annual report of the UNJSPF reveals that an actuarial valuation has been carried out every two years from as early as 1997. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the United Nations Joint Staff Pension Board on the audit every two years. The most recent actuarial valuation at the time of preparing these accounts was the one carried out at 31 December 2009 and reveals an actuarial deficit of 0.38 percent of pensionable remuneration, the first deficit since 31 December 1995 and is largely attributable to investment performance in recent years. As part of the normal actuarial valuation cycle, during 2011, the Pension Board reviewed an analysis of the actuarial assumptions and methods to be used for the next actuarial valuation at 31 December 2011. In addition, during 2011, a special study called an asset liability management study is also being completed. This study provides a sophisticated statistical analysis of projected plan liabilities compared to plan assets over the next 60 years.
- 103.** At 31 December 2009, the funded ratio, assuming zero pension adjustments was 140 per cent (147 per cent two years earlier) while the funded ratio which takes the rate of pension adjustment into account, and is based on a real interest rate (i.e., net of nominal interest assumption and assumed rate of pension adjustment) of 3.5 per cent, was below 100 per cent.
- 104.** ICAO's 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 the participants and 15.8 per cent for member organizations, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund.
- 105.** Such deficiency payments are payable only 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. At the time of this report, the United Nations General Assembly had not invoked this provision.
- 106.** The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligation, or plan assets to participating organizations in the plan. ICAO, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has accounted for this plan as if it were a defined contribution plan in line with IPSAS 25, Employee Benefits.

107. During 2011, contributions paid to UNJSPF amounted to USD 18.1 million (equivalent to CAD 18.0 million), USD 17.7 (equivalent to CAD 18.3 million) in 2010. Two thirds of these amounts are the employer share of contributions.

2.10.6 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. Credits amounted to CAD 1.4 million as at 31 December 2011 (CAD 1.5 million as at 31 December 2010).

Note 2.12: Deferred Revenue

110. Deferred revenue totaling CAD 168 thousand (CAD 343 thousand at 31 December 2010) under a professional liability insurance arrangement will be recognized upon substantial completion of the related technical co-operation projects.

Note 2.13: Net Assets (Net Accumulated Deficit)

111. 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.
112. Reserves for Regular Activities are composed of:

	2011	2010
	<i>In thousands of CAD</i>	
Carry Forward of Appropriations (Statement V)	10 195	11 451
Accumulated actuarial gain/(loss) on ASHI (Note 2.10.2)	1 210	(5 881)
Amounts set aside in the Incentive Fund	2 250	239
Total:	13 655	5 809

113. Amounts set aside in the Incentive Fund comprise an amount of CAD 2.0 million as additional funding for Regular Programme activities during 2012 and 2013 (Assembly Resolution A36-29 refers).
114. Included in the Technical Co-operation Project Activities Reserves is the translation adjustment from USD to CAD to reflect the Technical Cooperation Project Activities in the reporting currency. The balance of CAD (7) thousand (CAD 112 thousand at 31 December 2010)

represents the translation adjustment of the balance sheet items at the 31 December rate and revenue/expense items at the average rate.

NOTE 3: REVENUES AND EXPENSES

Note: 3.1 Contributions – Services in Kind

- 115.** 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.
- 116.** 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:

	2011	2010
	<i>In thousands of CAD</i>	
Canada	20 884	20 033
Egypt	157	146
France	716	766
Peru	411	296
Senegal	40	86
Thailand	1 130	1 300
Total	23 338	22 627

- 117.** Included in the above contribution in kind from Canada, is an amount equivalent to CAD 1 928 thousand (CAD 1 929 thousand in 2010) from the Government of Quebec towards the provision of premises in the Bell Tower office in Montreal provided for the Technical Co-operation Bureau.
- 118.** 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:

	2011	2010
	<i>In thousands of CAD</i>	
Aviation Security	1 092	952
Aviation Safety	1 316	1 142

- 119.** Also, the Government of Mexico provides a contribution in cash towards the rental of the Regional Office in Mexico City. The contribution in 2011 amounted to CAD 133 thousand (CAD 107 thousand in 2010) and is included in revenue.

Note: 3.2 Other Revenue

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

	2011	2010
	<i>In thousands of CAD</i>	
Publication Sales and Printing Services	5 011	4 845
Delegation Services	2 073	2 423
Events and Symposia	1 380	1 227
Publication Royalties	655	854
Dangerous Goods Licensing Fee	795	726
Periodicals	755	839
Commissariat Sales	580	617
Websites	436	407
Licensing Agreements & Partnership in Statistics	394	413
Training/Courses	605	407
Others	717	415
Total	13 401	13 173

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

	2011	2010
	<i>In thousands of CAD</i>	
Service Fee	556	480
Professional Liability Insurance Fee	343	399
Travel Agent Fee	47	334
Interest – Income and Exchange Gain	1 283	1 360
Others	893	1 225
Total	3 122	3 798

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 457 and to CAD 118 for the amortization of intangible assets (CAD 81 and CAD 9 respectively for 2010).

3.3.4 Travel

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

NOTE 4: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

126. 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 activities and Budget. The other approved publicly available budget relates to the AOSC Fund of the Technical Cooperation Programme.
127. 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.
128. 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 2011 is presented below.

	Operating	Investing	Financing	Total
	<i>In thousands of CAD</i>			
Actual Amount on Comparable Basis (Statement V)	(90 471)	-	-	(90 471)
Basis Differences – Exchange Rate	1 055	-	-	1 055
Presentation Differences	82 407	86	-	82 493
Entity Differences	(7 565)	(3 178)	144	(10 599)
Actual Amounts in the Statement of Cash Flow (Statement IV)	(14 574)	(3 092)	144	(17 522)

129. 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.
130. 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.
131. 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.

132. 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.
133. 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

134. 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.
135. The Regular Activities segment includes administrative fee revenue totaling CAD 6.1 million (CAD 7.2 million in 2010) 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 2011 amounted to CAD 1 447 thousand (CAD 3 060 thousand at 31 December 2010). These amounts are eliminated for presentation purposes.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

NOTE 5.2

FINANCIAL POSITION BY SEGMENT

AT 31 DECEMBER 2011

(in thousands of Canadian dollars)

		Regular Activities		Technical Co-operation Project Activities		Elimination		Total	
		2011	2010	2011	2010	2011	2010	2011	2010
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	2.1	43 250	51 686	150 143	159 229			193 393	210 915
Assessed contributions receivable from Member States	2.2	5 761	6 693					5 761	6 693
Inter-segment balances		1 447	28		3 032	(1 447)	(3 060)		
Receivables and advances	2.3	6 184	5 762	4 869	6 817			11 053	12 579
Inventories	2.4	952	987					952	987
Others	2.3	1 585	2 732	351	228			1 936	2 960
		59 179	67 888	155 363	169 306	(1 447)	(3 060)	213 095	234 134
NON-CURRENT ASSETS									
Investments									
Assessed contributions receivable from Member States	2.2	5 581	3 863					5 581	3 863
Receivables and advances	2.3	496	521					496	521
Property, plant and equipment	2.5	3 046	699					3 046	699
Intangible assets	2.6	958	92					958	92
		10 081	5 175					10 081	5 175
TOTAL ASSETS									
		69 260	73 063	155 363	169 306	(1 447)	(3 060)	223 176	239 309
LIABILITIES									
CURRENT LIABILITIES									
Advanced receipts	2.8	4 450	6 664	144 941	156 692			149 391	163 356
Accounts payable and accrued liabilities	2.9	11 322	11 054	8 032	11 235			19 354	22 289
Employee benefits	2.10	2 771	3 121	1 289	1 491			4 060	4 612
Inter-segment balances		339	3 060	1 108		(1 447)	(3 060)		
Credits to contracting/servicing governments	2.11	1 397	1 528					1 397	1 528
Deferred revenue	2.12	168	343					168	343
		20 447	25 770	155 370	169 418	(1 447)	(3 060)	174 370	192 128
NON-CURRENT LIABILITIES									
Employee benefits	2.10	78 817	76 900					78 817	76 900
		78 817	76 900					78 817	76 900
TOTAL LIABILITIES									
		99 264	102 670	155 370	169 418	(1 447)	(3 060)	253 187	269 028
NET ASSETS									
Accumulated deficit	2.13	(43 659)	(35 416)					(43 659)	(35 416)
Reserves	2.13	13 655	5 809	(7)	(112)			13 648	5 697
NET ASSETS (NET ACCUMULATED DEFICIT)									
		(30 004)	(29 607)	(7)	(112)			(30 011)	(29 719)
TOTAL LIABILITIES AND NET ASSETS									
		69 260	73 063	155 363	169 306	(1 447)	(3 060)	223 176	239 309

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 2011
 (in thousands of Canadian dollars)

	Note	Regular Activities		Technical Co-operation Project Activities		Elimination		Total	
		2011	2010	2011	2010	2011	2010	2011	2010
		REVENUE							
Contributions for project agreements		5	278	104 770	123 136		(567)	104 776	122 847
Assessed contributions		80 679	77 483					80 679	77 483
Other revenue producing activities	3.2	13 401	13 173					13 401	13 173
Other voluntary contributions		8 339	5 976					8 339	5 976
Administrative fee revenue		6 103	7 216			(6 087)	(7 216)	16	
Other revenue	3.2	3 104	2 460	18	1 338			3 122	3 798
		111 632	106 586	104 788	124 474	(6 087)	(7 783)	210 333	223 277
EXPENSES									
Staff salaries and employee benefits	3.3	95 301	93 417	30 715	43 942			126 016	137 359
Supplies, consumables and others	3.3	1 327	444	61 806	67 352			63 133	67 796
General operating expenses	3.3	15 582	15 381	1 407	1 717			16 989	17 098
Travel	3.3	5 577	5 424	2 865	2 516			8 442	7 940
Meetings		865	2 128					865	2 128
Training				1 020	1 173			1 020	1 173
Grants and other transfers			1 007				(567)		440
Administrative overhead charges				5 938	7 247	(5 938)	(7 247)		
Other expenses		565	571	640	191			1 204	762
Currency exchange difference		46	26	397	336	(149)	31	294	393
		119 262	118 398	104 788	124 474	(6 087)	(7 783)	217 963	235 089
DEFICIT FOR THE YEAR		(7 630)	(11 812)					(7 630)	(11 812)

Details may not add to the totals due to rounding

NOTE 6: COMMITMENTS AND CONTINGENCIES

Note 6.1: Commitments

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

	2011	2010
	<i>In thousands of CAD</i>	
Minimum obligations for property leases:		
1 – 5 years	13 839	13 945
Beyond 5 years	-	2 324
Total Property Leases Obligations	13 839	16 269

137. 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 percent for the HQ building and 100 percent for the Bell Tower which is also part of HQ. Lease commitments therefore apply to the 25 percent 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.

138. Future year obligations related to non-property leases (including finance leases) amounted to CAD 257 thousand (CAD 381 thousand at 31 December 2010). The non-property leases mainly represent the rental of photocopiers and printing equipment, as reported in Note 2.5.

139. The future minimum lease revenues under non-cancellable operating leases total CAD 1.6 million for 2012. These lease revenues comprise rental of premises to Delegations.

Note 6.2: Legal or Contingent Liabilities and Contingent Assets

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

141. 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 2.4 million (USD 1.1 million at 31 December 2010). 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.

142. There is one case pending before the United Nations Appeals Tribunal and ten cases pending before the Advisory Joint Appeals Board, which would not represent a liability at this time. In the opinion of management, the final outcome of these claims is not determinable and, accordingly, these items are not recorded in the accounts. Settlements, if any, resulting from the resolution of these claims will be accounted for in the year in which the liability is determined.

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 Manage- ment Personnel, 2011	13	2 408	315	628	3 351	53	-

- 143.** Key management personnel includes members of the Senior Management Group (SMG) of the Secretariat, which comprises the Secretary General, Directors and Chiefs reporting directly to the Secretary General. Senior managers have the authority and responsibility for planning, directing and controlling the activities of ICAO. Key management personnel also include the President of Council, Chiefs and other key officers who can influence decisions made by senior management. The Council consists of 36 Member States without personal appointment.
- 144.** 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.
- 145.** 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.
- 146.** Key management personnel are ordinary members of UNJSPF with the exception of D-2 level and above who do not participate in the UNJSPF. Amounts paid by ICAO in lieu of contributions to the plan, which represents 15.8 percent of the pensionable remuneration, are included in total remuneration.

Note 7.2: Related Party Transactions

- 147.** 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

- 148.** ICAO's reporting date is 31 December 2011. 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

Table A

 REGULAR ACTIVITIES BY FUND
 ASSETS, LIABILITIES, NET ASSETS AT 31 DECEMBER 2011 AND
 REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2011
 (in thousands of Canadian dollars)

	Regular Budget	Capital Fund	Revolving Fund	Administrative/O perational Services Cost Fund	AFI Plan Fund	Ancillary Revenue Generation Fund	AVSEC Activities *	Incentive for Settlement of Arrears Account	Information and Communication Technology (ICT) Fund
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	15 259		1 400	52	491	6 492	7 114	3 563	1 691
Assessed contributions receivable from Member States	5 743								
Inter-fund balances	635			812					
Receivables and advances	2 018			1 182	43	2 098	127		
Inventories						823			
Others	1 578					7			
	<u>25 232</u>		<u>1 400</u>	<u>2 046</u>	<u>534</u>	<u>9 420</u>	<u>7 242</u>	<u>3 563</u>	<u>1 691</u>
NON-CURRENT ASSETS									
Assessed contributions receivable from Member States	5 581								
Receivables and advances	496								
Property, plant and equipment		2 805		19		71			110
Intangible assets		751				179			
	<u>6 077</u>	<u>3 556</u>		<u>19</u>		<u>250</u>			<u>110</u>
TOTAL ASSETS	<u>31 309</u>	<u>3 556</u>	<u>1 400</u>	<u>2 065</u>	<u>534</u>	<u>9 670</u>	<u>7 242</u>	<u>3 563</u>	<u>1 801</u>
LIABILITIES									
CURRENT LIABILITIES									
Advanced receipts	938			783		1 173			
Accounts payable and accrued liabilities	10 040			186	61	452	27	5	40
Employee benefits			2 739	32					
Inter-fund balances						339			
Credits to contracting/service governments									
Deferred revenue				168					
	<u>10 978</u>		<u>2 739</u>	<u>1 169</u>	<u>61</u>	<u>1 964</u>	<u>27</u>	<u>5</u>	<u>40</u>
NON-CURRENT LIABILITIES									
Employee benefits			78 817						
			<u>78 817</u>						
TOTAL LIABILITIES	<u>10 978</u>		<u>81 556</u>	<u>1 169</u>	<u>61</u>	<u>1 964</u>	<u>27</u>	<u>5</u>	<u>40</u>
NET ASSETS									
Accumulated surplus/(deficit)	10 136	3 556	(81 366)	896	473	7 706	7 214	1 308	1 761
Reserves	10 195		1 210					2 250	
NET ASSETS (NET ACCUMULATED DEFICIT)	<u>20 331</u>	<u>3 556</u>	<u>(80 156)</u>	<u>896</u>	<u>473</u>	<u>7 706</u>	<u>7 214</u>	<u>3 558</u>	<u>1 761</u>
TOTAL LIABILITIES AND NET ASSETS	<u>31 309</u>	<u>3 556</u>	<u>1 400</u>	<u>2 065</u>	<u>534</u>	<u>9 670</u>	<u>7 242</u>	<u>3 563</u>	<u>1 801</u>
REVENUE									
Contributions for project agreements				5					
Assessed contributions	80 679								
Other revenue producing activities						14 598			
Other voluntary contributions					184		2 366		
Administrative fee revenue				6 103					
Other revenue	6 350	3 411	2 607	1 762	9	83	285	61	39
	<u>87 029</u>	<u>3 411</u>	<u>2 607</u>	<u>7 871</u>	<u>193</u>	<u>14 681</u>	<u>2 651</u>	<u>61</u>	<u>39</u>
TOTAL REVENUE	<u>87 029</u>	<u>3 411</u>	<u>2 607</u>	<u>7 871</u>	<u>193</u>	<u>14 681</u>	<u>2 651</u>	<u>61</u>	<u>39</u>
EXPENSES									
Staff salaries and employee benefit	68 608		11 305	8 509	602	5 609	891		319
Supplies, consumables and others	134			9		232			
General operating expenses	15 731	494		183	115	7 820	79	5	92
Travel	3 909			129	327	317	390		15
Meetings	773				37	2	3		
Grants and other transfers									
Administrative overhead charges					5		199		
Other expenses	260			2	3	261	2		
Currency exchange difference				11		5			
	<u>89 416</u>	<u>494</u>	<u>11 305</u>	<u>8 842</u>	<u>1 089</u>	<u>14 246</u>	<u>1 564</u>	<u>5</u>	<u>426</u>
TOTAL EXPENSES	<u>89 416</u>	<u>494</u>	<u>11 305</u>	<u>8 842</u>	<u>1 089</u>	<u>14 246</u>	<u>1 564</u>	<u>5</u>	<u>426</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR	<u>(2 387)</u>	<u>2 917</u>	<u>(8 698)</u>	<u>(971)</u>	<u>(895)</u>	<u>434</u>	<u>1 087</u>	<u>56</u>	<u>(387)</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 2011 AND
REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2011
(in thousands of Canadian dollars)Table A
(continued)

	Joint Finance Funds	Public Key Directory	Safe	TSSF	Other Funds	Total	Elimination	2011	2010
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	1 561	679	2 151	560	2 237	43 250		43 250	51 686
Assessed contributions receivable from Member States	18					5 761		5 761	6 693
Inter-fund balances						1 447		1 447	28
Receivables and advances	157	8	11	27	513	6 184		6 184	5 762
Inventories					129	952		952	987
Others						1 585		1 585	2 732
	<u>1 736</u>	<u>688</u>	<u>2 161</u>	<u>587</u>	<u>2 880</u>	<u>59 179</u>		<u>59 179</u>	<u>67 886</u>
NON-CURRENT ASSETS									
Assessed contributions receivable from Member States						5 581		5 581	3 863
Receivables and advances						496		496	521
Property, plant and equipment					41	3 046		3 046	699
Intangible assets					28	958		958	92
					<u>69</u>	<u>10 081</u>		<u>10 081</u>	<u>5 175</u>
TOTAL ASSETS	<u>1 736</u>	<u>688</u>	<u>2 161</u>	<u>587</u>	<u>2 948</u>	<u>69 260</u>		<u>69 260</u>	<u>73 062</u>
LIABILITIES									
CURRENT LIABILITIES									
Advanced receipts	18	576			961	4 450		4 450	6 664
Accounts payable and accrued liabilities	320	111	1	14	64	11 322		11 322	11 054
Employee benefits						2 771		2 771	3 121
Inter-fund balances						339		339	3 060
Credits to contracting/service governments	1 397					1 397		1 397	1 528
Deferred revenue						168		168	343
	<u>1 736</u>	<u>688</u>	<u>1</u>	<u>14</u>	<u>1 025</u>	<u>20 447</u>		<u>20 447</u>	<u>25 769</u>
NON-CURRENT LIABILITIES									
Employee benefits						78 817		78,817	76 900
						<u>78 817</u>		<u>78,817</u>	<u>76 900</u>
TOTAL LIABILITIES	<u>1 736</u>	<u>688</u>	<u>1</u>	<u>14</u>	<u>1 025</u>	<u>99 264</u>		<u>99 264</u>	<u>102 669</u>
NET ASSETS									
Accumulated surplus/(deficit)			2 160	573	1 923	(43 659)		(43 659)	(35 416)
Reserves						13 655		13 655	5 809
NET ASSETS (NET ACCUMULATED DEFICIT)			<u>2 160</u>	<u>573</u>	<u>1 923</u>	<u>(30 004)</u>		<u>(30 004)</u>	<u>(29 607)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1 736</u>	<u>688</u>	<u>2 161</u>	<u>587</u>	<u>2 948</u>	<u>69 260</u>		<u>69 260</u>	<u>73 062</u>
REVENUE									
Contributions for project agreements						5		5	278
Assessed contributions						80 679		80 679	77 483
Other revenue producing activities					582	15 180	(1 779)	13 401	13 173
Other voluntary contributions		1 184	2 654		1 950	8 339		8 339	5 976
Administrative fee revenue						6 103		6 103	7 216
Other revenue	32	37	79	9	1 102	15 866	(12 763)	3 104	2 460
	<u>32</u>	<u>1 221</u>	<u>2 733</u>	<u>9</u>	<u>3 635</u>	<u>126 173</u>	<u>(14 542)</u>	<u>111 632</u>	<u>106 586</u>
TOTAL REVENUE	<u>32</u>	<u>1 221</u>	<u>2 733</u>	<u>9</u>	<u>3 635</u>	<u>126 173</u>	<u>(14 542)</u>	<u>111 632</u>	<u>106 586</u>
EXPENSES									
Staff salaries and employee benefit	3	1 156	61	433	2 058	99 554	(4 253)	95 301	93 417
Supplies, consumables and others			939		12	1 327		1 327	444
General operating expenses		39	42	33	700	25 333	(9 751)	15 582	15 381
Travel	114	26	133		216	5 577		5 577	5 424
Meetings					51	865		865	2 128
Grants and other transfers									1 007
Administrative overhead charges			94		240	538	(538)		
Other expenses	2		19		15	565		565	571
Currency exchange difference	3				26	46		46	26
	<u>122</u>	<u>1 221</u>	<u>1 288</u>	<u>467</u>	<u>3 318</u>	<u>133 803</u>	<u>(14 542)</u>	<u>119 262</u>	<u>118 398</u>
TOTAL EXPENSES	<u>122</u>	<u>1 221</u>	<u>1 288</u>	<u>467</u>	<u>3 318</u>	<u>133 803</u>	<u>(14 542)</u>	<u>119 262</u>	<u>118 398</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR	<u>(90)</u>		<u>1 445</u>	<u>(457)</u>	<u>317</u>	<u>(7 630)</u>		<u>(7 630)</u>	<u>(11 811)</u>

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION

Table B

REGULAR ACTIVITIES
 AVIATION SECURITY TRUST FUNDS (AVSEC ACTIVITIES)
 ASSETS, LIABILITIES, NET ASSETS AT 31 DECEMBER 2011 AND
 REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2011
 (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>2011</u>	<u>2010</u>
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	1 018	4 854	16	19	613	238	356	7 114	6 053
Receivables and advances		2		123	2			127	96
Others									7
	<u>1 018</u>	<u>4 856</u>	<u>16</u>	<u>143</u>	<u>615</u>	<u>238</u>	<u>356</u>	<u>7 242</u>	<u>6 156</u>
TOTAL ASSETS	<u>1 018</u>	<u>4 856</u>	<u>16</u>	<u>143</u>	<u>615</u>	<u>238</u>	<u>356</u>	<u>7 242</u>	<u>6 156</u>
LIABILITIES									
CURRENT LIABILITIES									
Accounts payable and accrued liabilities		33		1	(6)			27	28
		<u>33</u>		<u>1</u>	<u>(6)</u>			<u>27</u>	<u>28</u>
TOTAL LIABILITIES		<u>33</u>		<u>1</u>	<u>(6)</u>			<u>27</u>	<u>28</u>
NET ASSETS									
Accumulated surplus/(deficit)	1 018	4 824	16	142	621	238	356	7 214	6 128
NET ASSETS (NET ACCUMULATED DEFICIT)	<u>1 018</u>	<u>4 824</u>	<u>16</u>	<u>142</u>	<u>621</u>	<u>238</u>	<u>356</u>	<u>7 214</u>	<u>6 128</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1 018</u>	<u>4 856</u>	<u>16</u>	<u>143</u>	<u>615</u>	<u>238</u>	<u>356</u>	<u>7 242</u>	<u>6 156</u>
REVENUE									
Other revenue producing activities									
Other voluntary contribution:	210	1 319		380	458			2 366	2 399
Other revenue	22	237		8	3	6	8	285	150
TOTAL REVENUE	<u>232</u>	<u>1 556</u>		<u>388</u>	<u>460</u>	<u>6</u>	<u>8</u>	<u>2 651</u>	<u>2 550</u>
EXPENSES									
Staff salaries and employee benefit:		506		379			6	891	1 171
Supplies, consumables and others									1
General operating expenses		79						79	62
Travel		103			265		22	390	306
Meetings					3			3	2
Administrative overhead charges	15	92			92			199	
Other expenses		2						2	2
Currency exchange difference									238
TOTAL EXPENSES	<u>15</u>	<u>782</u>		<u>379</u>	<u>360</u>		<u>27</u>	<u>1 564</u>	<u>1 782</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR	<u>217</u>	<u>774</u>		<u>8</u>	<u>100</u>	<u>6</u>	<u>(19)</u>	<u>1 087</u>	<u>768</u>

Details may not add to totals due to rounding

INTERNATIONAL CIVIL AVIATION ORGANIZATION
REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
AND CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2011

(in thousands of Canadian dollars)

Contracting States Assembly Resolutions A37-26 and A37-27	General Fund					Balance of Advances due to the Working Capital Fund	Total Balances Receivable	Contributions Received in Advance
	Scales 2011	Assessments 2011	Contributions Received for 2011	Balance of Assessments Receivable for 2011	Balance of Prior Years' Assessments Receivable			
AFGHANISTAN	0.06	49		49	124		172	
ALBANIA	0.06	49	4	45			45	
ALGERIA	0.11	89	89					
ANDORRA	0.06	49		49	12		60	
ANGOLA	0.06	49	17	32			32	
ANTIGUA AND BARBUDA	0.06	49		49	670	1	719	
ARGENTINA	0.25	202	202					
ARMENIA	0.06	49	49					
AUSTRALIA	1.72	1 393	1 393					
AUSTRIA	0.65	526	526					
AZERBAIJAN	0.06	49	49					
BAHAMAS	0.06	49		49	18		66	
BAHRAIN	0.13	105		105	4		109	
BANGLADESH	0.06	49	17	31			31	
BARBADOS	0.06	49		49	12		60	
BELARUS	0.06	49	49					
BELGIUM	0.82	664	664					
BELIZE	0.06	49	49					
BENIN	0.06	49	49					
BHUTAN	0.06	49		49	18		67	
BOLIVIA	0.06	49		49	44		92	
BOSNIA AND HERZEGOVINA	0.06	49		49	61		110	
BOTSWANA	0.06	49	49					
BRAZIL	1.33	1 077	1 054	22			22	
BRUNEI DARUSSALAM	0.06	49		49			49	
BULGARIA	0.06	49		49	17		66	
BURKINA FASO	0.06	49	49					
BURUNDI	0.06	49		49	19		67	
CAMBODIA	0.06	49		49	147		196	
CAMEROON	0.06	49	49					
CANADA	2.55	2 065	2 065					
CAPE VERDE	0.06	49	49					
CENTRAL AFRICAN REPUBLIC	0.06	49	49					
CHAD	0.06	49	49					9
CHILE	0.28	227	190	37			37	
CHINA	4.06	3 287	3 287					
COLOMBIA	0.22	178		178		1	179	
COMOROS	0.06	49	49					
CONGO	0.06	49	49					
COOK ISLANDS	0.06	49	49		61		61	
COSTA RICA	0.06	49	49					1
COTE D'IVOIRE	0.06	49	49					
CROATIA	0.07	57	25	31			31	
CUBA	0.07	57	57					
CYPRUS	0.06	49	49					
CZECH REPUBLIC	0.27	219	219					
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA	0.06	49		49	18		67	
DEMOCRATIC REPUBLIC OF THE CONGO (*)	0.06	49		49	516		564	
DENMARK	0.56	453	453					
DJIBOUTI	0.06	49		49	687		735	
DOMINICAN REPUBLIC	0.06	49	49					
ECUADOR	0.06	49	49					
EGYPT	0.17	138	138					7
EL SALVADOR	0.06	49	49					
EQUATORIAL GUINEA	0.06	49	49					
ERITREA	0.06	49		49	12		60	
ESTONIA	0.06	49	49					1
ETHIOPIA	0.08	65	22	43			43	
FIJI	0.06	49	49					
FINLAND	0.50	405	405					
FRANCE	4.92	3 984	3 984					
GABON	0.06	49	49					
GAMBIA (*)	0.06	49		49	319		368	
GEORGIA	0.06	49	49		261		261	
GERMANY	6.56	5 312	5 312					

INTERNATIONAL CIVIL AVIATION ORGANIZATION
REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
AND CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2011

(in thousands of Canadian dollars)

Contracting States Resolutions A37-26 and A37-27	Assembly	General Fund				Balance of Assessments Receivable for 2011	Balance of Prior Years' Assessments Receivable	Balance of Advances due to the Working Capital Fund	Total Balances Receivable	Contributions Received in Advance
		Scales 2011	Assessments 2011	Contributions Received for 2011						
GHANA		0.06	49	49						
GREECE		0.50	405		405		2	407		
GRENADA (*)		0.06	49		49	327		375		
GUATEMALA		0.06	49	49					2	
GUINEA		0.06	49	48	1	137		138		
GUINEA-BISSAU		0.06	49	49						
GUYANA		0.06	49	49						
HAITI		0.06	49		49			49		
HONDURAS		0.06	49		49			49		
HUNGARY		0.22	178	178						
ICELAND		0.06	49	49						
INDIA		0.73	591	543	48			48		
INDONESIA		0.26	211	211						
IRAN (ISLAMIC REPUBLIC OF)		0.20	162		162	44		206		
IRAQ (*)		0.06	49		49	912		960		
IRELAND		0.65	526	526						
ISRAEL		0.39	316	316					326	
ITALY		3.52	2 850	2 850						
JAMAICA		0.06	49	49						
JAPAN		9.08	7 352	7 352						
JORDAN		0.06	49	49						
KAZAKHSTAN		0.06	49	26	22			22		
KENYA		0.06	49		49	30		79		
KIRIBATI		0.06	49		49	135		184		
KUWAIT		0.23	186		186	36	2	224		
KYRGYZSTAN		0.06	49	49		93		93		
LAO PEOPLE'S DEMOCRATIC REPUBLIC		0.06	49		49	2		51		
LATVIA		0.06	49	49						
LEBANON		0.06	49		49			49		
LESOTHO		0.06	49		49	2		50		
LIBERIA		0.06	49	48	1	188		189		
LIBYAN ARAB JAMAHIRIYA		0.09	73		73	1	2	75		
LITHUANIA		0.06	49	33	15			15		
LUXEMBOURG		0.31	251	251						
MADAGASCAR		0.06	49	49						
MALAWI (*)		0.06	49		49	371		419		
MALAYSIA		0.47	381	381						
MALDIVES		0.06	49		49	1		50		
MALI		0.06	49	49						
MALTA		0.06	49		49	34		83		
MARSHALL ISLANDS		0.06	49		49	240		288		
MAURITANIA		0.06	49	49						
MAURITIUS		0.06	49	49						
MEXICO		1.72	1 393	1 393						
MICRONESIA (FEDERATED STATES OF)		0.06	49		49	110		158		
MONACO		0.06	49	49						
MONGOLIA		0.06	49		49	2		51		
MONTENEGRO		0.06	49		49	65		114		
MOROCCO		0.10	81	81						
MOZAMBIQUE		0.06	49		49	15		64		
MYANMAR		0.06	49	49						
NAMIBIA		0.06	49		49	18		67		
NAURU		0.06	49		49	530		578		
NEPAL		0.06	49		49	50		98		
NETHERLANDS		1.85	1 498	1 498						
NEW ZEALAND		0.30	243	243						
NICARAGUA		0.06	49	49						
NIGER		0.06	49	49						
NIGERIA		0.06	49	49						
NORWAY		0.61	494	494						
OMAN		0.07	57	57						
PAKISTAN		0.15	121		121	50		171		
PALAU		0.06	49		49	266		314		
PANAMA		0.06	49		49	2		50		
PAPUA NEW GUINEA		0.06	49		49	46		95		

TABLE - C
(continued)

IV-6

INTERNATIONAL CIVIL AVIATION ORGANIZATION
REGULAR PROGRAMME
ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES
AND CONTRIBUTIONS RECEIVED IN ADVANCE
AS AT 31 DECEMBER 2011

(in thousands of Canadian dollars)

Contracting States Resolutions A37-26 and A37-27	Assembly	General Fund					Balance of Assessments Receivable for 2011	Balance of Prior Years' Assessments Receivable	Balance of Advances due to the Working Capital Fund	Total Balances Receivable	Contributions Received in Advance
		Scales 2011	Assessments 2011	Contributions Received for 2011							
PARAGUAY		0.06	49	49							
PERU		0.10	81	81						5	
PHILIPPINES		0.16	130	130							
POLAND		0.59	478	478						173	
PORTUGAL		0.48	389	389							
QATAR		0.41	332			332	26		358		
REPUBLIC OF KOREA		2.41	1 951	1 757		195			195		
REPUBLIC OF MOLDOVA		0.06	49	49			94		94		
ROMANIA		0.15	121	121							
RUSSIAN FEDERATION		1.46	1 182	1 182							
RWANDA (*)		0.06	49			49	50		99		
SAINT KITTS & NEVIS		0.06	49	46		3			3		
SAINT LUCIA		0.06	49	49							
SAINT VINCENT AND THE GRENADINES		0.06	49			49	33		82		
SAMOA		0.06	49	49							
SAN MARINO		0.06	49	49							
SAO TOME AND PRINCIPE (*)		0.06	49			49	519		568		
SAUDI ARABIA		0.77	623	623							
SENEGAL		0.06	49	49						23	
SERBIA		0.06	49	49							
SEYCHELLES		0.06	49	49							
SIERRA LEONE		0.06	49	48		1	205		206		
SINGAPORE		1.07	866	866							
SLOVAKIA		0.11	89	89							
SLOVENIA		0.07	57	57							
SOLOMON ISLANDS (*)		0.06	49			49	79		127		
SOMALIA		0.06	49	49							
SOUTH AFRICA		0.42	340	340							
SPAIN		2.47	2 000	2 000							
SRI LANKA		0.07	57	57							
SUDAN		0.06	49			49	126		175		
SURINAME (*)		0.06	49	49		49	329		378		
SWAZILAND		0.06	49	17		32			32		
SWEDEN		0.74	599	599							
SWITZERLAND		0.95	769	769							
SYRIAN ARAB REPUBLIC		0.06	49			49	95		144		
TAJIKISTAN		0.06	49			49	5		54		
THAILAND		0.50	405	405						1	
the former Socialist Federal Republic of Yugoslavia (1)							501		501		
THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA		0.06	49	49							
TIMOR-LESTE		0.06	49			49	135		184		
TOGO		0.06	49	49							
TONGA		0.06	49	49							
TRINIDAD AND TOBAGO		0.06	49			49			49		
TUNISIA		0.06	49	43		6			6		
TURKEY		0.63	510	510							
TURKMENISTAN		0.06	49			49	12		60		
UGANDA		0.06	49	46		2			2		
UKRAINE		0.10	81	78		3			3		
UNITED ARAB EMIRATES		1.07	866	866							
UNITED KINGDOM		5.68	4 599	4 599							
UNITED REPUBLIC OF TANZANIA		0.06	49	49							
UNITED STATES OF AMERICA		25.00	20 242	20 242							
URUGUAY		0.06	49			49	12		60		
UZBEKISTAN		0.06	49	47		2			2		
VANUATU		0.06	49	49							
VENEZUELA		0.22	178	178							
VIET NAM		0.10	81	81							
YEMEN		0.06	49	49							
ZAMBIA		0.06	49	2		47			47		
ZIMBABWE		0.06	49			49	64		112		
REPUBLIC OF SOUTH SUDAN (**)		0.06	7			7		4	11		
TOTAL (***)		100.06	80 976	76 213		4 763	9 010	12	13 784	549	

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 2011.

** 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 2011 AND
 REVENUE, EXPENSES AND SURPLUS (DEFICIT) FOR 2011
 (in thousands of Canadian dollars)

	United Nations Development Programme	Trust Funds and Management Service Agreements	Civil Aviation Purchasing Services Funds	Total 2011	Total 2010
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	924	136 329	12 891	150 143	159 229
Inter-fund balances					3 032
Receivables and advances	1 849	2 913	107	4 869	6 817
Others	44	306		351	228
TOTAL ASSETS	2 817	139 548	12 998	155 363	169 306
LIABILITIES					
CURRENT LIABILITIES					
Advanced receipts	58	132 273	12 610	144 941	156 692
Accounts payable and accrued liabilities	1 509	6 135	388	8 032	11 235
Employee benefits	149	1 139		1 289	1 491
Inter-fund balances	1 108			1 108	
TOTAL LIABILITIES	2 824	139 548	12 998	155 370	169 418
NET ASSETS					
Reserves	(7)			(7)	(112)
NET ASSETS (NET ACCUMULATED DEFICIT)	(7)			(7)	(112)
TOTAL LIABILITIES AND NET ASSETS	2 817	139 548	12 998	155 363	169 306
REVENUE					
Contributions for project agreements	7 710	89 117	7 943	104 770	123 136
Other revenue	6		11	18	1 338
TOTAL REVENUE	7 717	89 117	7 955	104 788	124 474
EXPENSES					
Staff salaries and employee benefits	2 830	27 711	174	30 715	43 942
Supplies, consumables and others	3 875	50 858	7 073	61 806	67 352
General operating expenses	375	991	40	1 407	1 717
Travel	223	2 602	40	2 865	2 516
Training	53	967		1 020	1 173
Administrative overhead charges	359	5 077	503	5 938	7 247
Other expenses	2	635	2	640	191
Currency exchange difference		274	123	397	336
TOTAL EXPENDITURE	7 717	89 117	7 955	104 788	124 474
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 2011
(in thousands of United States dollars)

Fund	Type of Fund	Balance as at 01-Jan-2011	Adjustment	Receipts		Expenses		Transfer from or to Other Funds	Refund of Contributions	Unrealized Exchange Gain or Loss	Balance as at 31-Dec-2011
				Contributions ⁽¹⁾	Interest and Other Income	Project Costs	Administrative Overhead				
Afghanistan	MSA	3 481			(46)	1 311	54			32	2 102
Andorra	MSA										(0)
Angola	MSA	28		363		175	18			1	199
Argentina	MSA	9 210		22 124	256	14 354	1 083	(170)		(246)	15 738
Bahamas	MSA			93	0	75	7			0	10
Bahamas	TF	3					3				(0)
Bangladesh	TF	16									16
Barbados	TF	46									46
Bhutan	MSA	2					2				
Bolivia	MSA	1 264		3 475	0	3 003	259	(445)			1 032
Bolivia	TF	(311)				(0)	0	323		0	12
Bosnia and Herzegovina	TF										
Botswana	TF	150			0	73	8				68
Brazil	MSA	3 124			578	276	8	(172)		(506)	2 740
Cambodia	MSA	1									1
Cameroon	MSA	79				0			(79)		(0)
Cape Verde	MSA	322			0	170	21			0	131
Chad	MSA	(73)		118	0	1	0				44
China	MSA			26							26
China	TF	37									37
Colombia	MSA	22		95	(1)	90	5			(6)	15
Comoros	MSA	9					0				9
Costa Rica	MSA	1 363		20 554	2	797	222		(545)		20 355
Costa Rica	TF	4			0						4
Cuba	TF										0
Cyprus	MSA	15					0				15
Czech Republic	MSA	35					0				35
Côte d'Ivoire	MSA			20	(0)	25	2			0	(7)
Côte d'Ivoire	TF	3					3				
Democratic Republic of the Congo	MSA	(18)		84		20	2				44
Denmark	MSA			58	(1)	52	5				1
Djibouti	MSA	265		26	0						291
Dominican Republic	MSA	206		9	1	15	1	0		(6)	192
East Timor	TF										
Ecuador	MSA			2 080		50	40				1 990
Ecuador	TF	1					1				
Egypt	MSA	106				(0)	1				106
El Salvador	TF					0			0		0
Equatorial Guinea	MSA	1 391			1	781	78			1	533
Ethiopia	MSA	1		758		2	19				738
Fiji	MSA	26									26
Fiji	TF	0									
Finland	MSA	3					3				
Gabon	MSA	156			(0)	169	17			13	(16)
Ghana	MSA	1					1				
Greece	MSA	56		310	(0)	305	34				27
Guatemala	MSA	1 336			1	401	19			1	918
Guyana	TF	7									7
Haiti	MSA	(1)									(0)
Haiti	TF	55									55
INTER-REGIONAL	TF	275		7		9	3	(145)			124
Iceland	MSA	2									3
India	MSA	2 375		461	(1)	828	75			1	1 932
Indonesia	MSA	4 961		518	2	1 383	139			4	3 964
Iraq	MSA	43									43
Iraq	TF	39									39
Jamaica	TF	6			0						6
Jordan	TF	1					1				0
Lao People's Democratic Republic	MSA	(2)									(2)
Latvia	TF	8									8
Lebanon	MSA	1 072			1	40	4				1 029
Lesotho	TF	130				0					129
Liberia	MSA	8		29		19	2				16
Libyan Arab Jamahiriya	MSA	31				20	2				9
Libyan Arab Jamahiriya	TF	1					1				
Lithuania	TF										
Macao Special Administrative Region of China	MSA	50				38	4				8

(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 2011
(in thousands of United States dollars)

Fund	Type of Fund	Balance as at 01-Jan-2011	Adjustment	Receipts		Expenses		Transfer from or to Other Funds	Refund of Contributions	Unrealized Exchange Gain or Loss	Balance as at 31 December 2011
				Contributions ⁽¹⁾	Interest and Other Income	Project Costs	Administrative Overhead				
Mauritius	MSA	6									6
Mexico	MSA	36		63		73	4		(8)		14
Mexico	TF	79					5			0	59
Morocco	TF	70									70
Mozambique	MSA	63		702							765
Namibia	MSA	3 208		1 140	0	2 257	226			3	1,868
Nauru	TF	(3)									-3
Nepal	MSA	146		21		105	14		(21)		27
Nicaragua	MSA	11		29		18	2				20
Nigeria	MSA	440			1	0	7				433
Nigeria	TF	9									9
Oman	MSA	15									15
Oman	TF	435		360	0	333	32				431
Pakistan	MSA	55									53
Panama	MSA	3 537		1 073	2	2 185	129				2,299
Panama	TF	37 459		9 325	26	24 594	551	(50)		2	21,617
Paraguay	MSA	5		28		31	2				0
Peru	MSA	23 061		1 886	16	11 245	248			12	13,482
Philippines	MSA	39									39
Philippines	TF	1 573		2 500	(3)	1 057	144			1	2,870
Portugal	TF	(1)									-1
Qatar	MSA	42				4	0				38
REGIONAL FOR AFRICA	MSA	3 437		2 925	(13)	2 917	275	(0)		(11)	3,146
REGIONAL FOR AFRICA	OTH			71	0						71
REGIONAL FOR AFRICA	TF	1					1				
REGIONAL FOR ASIA	MSA	701		365	2	373	15	(143)		13	549
REGIONAL FOR ASIA	TF	1 684		1 704	(2)	1 738	231	193		(17)	1,593
REGIONAL FOR EUROPE	MSA	94					7				35
REGIONAL FOR EUROPE	TF	16		50		31	3				32
REGIONAL FOR EUROPE AND MIDDLE EAST	MSA	706		761	(1)	435	43				988
REGIONAL FOR LATIN AMERICA	MSA	93		397		313	11	3			169
REGIONAL FOR LATIN AMERICA	TF	1 551		2 382	6	1 884	152	134		37	2,074
Republic of Korea	MSA	68		23		0					91
Romania	MSA	35				10	1		(13)		11
Russian Federation	MSA	2				1					1
Rwanda	MSA	19		200		33	3				183
Saudi Arabia	MSA	3 985		5 227	13	7 703	400	320		1	1,442
Seychelles	MSA	78				19	2				56
Singapore	MSA	124		133		23	2				232
Singapore	TF	115				108	11				-4
Somalia	TF	10 352		6 064	8				(8 832)		7,592
South Africa	MSA	206			1		2				205
Sri Lanka	MSA	201				0	3				198
Sri Lanka	TF	9				0					9
Sudan	MSA	528		1 649	1	495	50				1,634
Syrian Arab Republic	MSA	158				1	0				157
Thailand	MSA	606		23	1	359	5				266
Thailand	TF	31					1				30
Trinidad and Tobago	TF	8									8
UN DEPARTMENT OF PEACEKEEPING OPERATIONS	MSA	3					3				
UNITED NATIONS MISSION IN KOSOVO	MSA										
Uganda	MSA	51				3					48
United Republic of Tanzania	MSA	(5)									-5
Uruguay	MSA	8 609		3 000	4	1 417	299	(80)		1	9,819
Uruguay	TF	5				0	5				
Venezuela (Bolivarian Republic of)	MSA	(189)		25	0	(0)	48				-212
Viet Nam	MSA	7					7				
Viet Nam	TF	14									14
Yemen	MSA	32				0	0		(24)		8
Others		51			(51)						
Lump-Sum Contracts	LS	298		160	0	298	32	165	(15)	2	280
Total		135 393		93 490	808	84 613	5 128	(68)	(9 536)	(666)	129 680
Equivalent Canadian Dollars		135 400		95 358	814	83 767	5 077	(69)	(9 727)	(659)	132 273

(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 2011

(in thousands of United States dollars)

Fund	Balance as at 01-Jan-2011	Adjustment	Receipts		Expenses		Transfer from or to Other Funds	Refund of Contributions	Unrealized Exchange Gain or Loss	Balance as at 31-Dec-2011
			Contributions ⁽¹⁾	Interest and Other Income	Project Costs	Administrative Overhead				
Afghanistan	1 175			1	242	2			(1)	930
Algeria										(0)
Angola	(16)									(16)
Bahamas	(10)		24		6	84				(76)
Bangladesh	247				17	2			0	228
Bolivia	5			0						5
Brazil										
Canada	38									38
Cape Verde	31				0					30
Costa Rica	7 340		7	(140)	4 308	147			51	2 803
Cuba	3				(1)	0		13		17
Democratic People's Republic of Korea	6			0						6
Egypt	(2)									(2)
Ethiopia	1 564			1	279	25				1 262
Fiji	29		5		0	33				1
Guinea	43					0				43
India	23									23
Lebanon	3 902			3	572	3				3 330
Lesotho	73			(0)	30	3				40
Libyan Arab Jamahiriya	62					1				62
Lithuania	(4)									(4)
Macao Special Administrative Region of China	86				92	6				(12)
Mozambique	20									20
Myanmar	570			0			(50)			521
Nigeria	74									74
Oman	721			1	2	0				720
Pakistan	35		111		35	167				(56)
Papua New Guinea										(0)
Philippines	2 493			1	1 750	4				741
Republic of Moldova	2					2				(0)
Russian Federation	33		20							52
Rwanda	3					3				
Seychelles	(58)								(11)	(69)
Sudan	98									98
Suriname	6									6
Syrian Arab Republic	796			12	70	0			(15)	723
Trinidad and Tobago	169								(4)	165
UNITED NATIONS MISSION IN KOSOVO	0						(0)			
Uruguay	7		660		2	23				642
Yemen	17					0				17
Total	19 583		827	(119)	7 403	508	(50)	13	21	12 363
Equivalent Canadian Dollars	19 733		844	(117)	7 329	503	(51)	13	20	12 610

(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 2011**



External auditor of the
International Civil Aviation
Organization



**ANNUAL REPORT OF THE
EXTERNAL AUDITOR
FINANCIAL PERIOD 2011**

TABLE OF CONTENTS

1. Introduction	5
1.1. Audits carried out by the External Auditor	5
1.2. Summary of the main observations	5
2. Certification of the accounts – ICAO’s budgetary and financial position.....	14
2.1. External Auditor’s opinion on the financial statements for 2011.....	14
2.2. Financial analysis	16
2.3. ICAO’s budget position.....	19
2.3.1. Theoretical and real growth of the triennium budget	19
2.3.2. Overall implementation of the 2011 budget.....	20
2.3.3. Budget monitoring.....	21
2.3.4. Profile of the triennium	24
(source: ICAO).....	25
2.3.5. Performance indicators.....	25
3. Human resources	26
3.1. Staff costs in ICAO expenditure.....	26
3.2. Budgeted posts	27
3.3. Staff numbers	28
3.4. Staff numbers: qualitative aspects	30
3.5. Human resources section.....	32
4. Information and communication technology.....	33
4.1. ICAO’s ICT costs.....	33
4.2. Organization of the ICT Section.....	37
4.3. Strategy.....	38
5. Air Navigation Bureau and Air Transport Bureau audits.....	39

5.1.	Administrative organisation	40
5.1.1.	Air Navigation Bureau	40
5.1.2.	Air Transport Bureau.....	41
5.2.	Budgetary presentation.....	41
5.2.1.	Abandon of performance indicators	41
5.2.2.	An unclear programmes/projects structure.....	42
5.3.	Non budgetary financing of ANB and ATB in 2011.....	51
6.	Audit of the Ancillary Revenue Generation Fund.....	58
6.1.	Ambiguity of the texts defining the Fund's activities	58
6.2.	Position of RGA activity in relation to ICAO's strategic objectives.....	60
6.3.	Forecast activity and achievements	61
6.4.	Limited hiring flexibility	63
6.5.	Questions related to the Headquarters Agreement	65
6.6.	Financial outlook	66
7.	Lima Regional Office.....	68
7.1.	LACAC	68
7.2.	GREPECAS.....	69
7.3.	Consulting bodies for regional technical cooperation projects involving the Lima regional office	70
8.	Technical Cooperation projects in South America.....	71
8.1.	Three regional technical cooperation programmes managed by SAM	71
8.2.	Application of the memorandum of 29 January 2010	72
8.2.1.	Regional technical cooperation projects.....	73
8.2.2.	Bilateral technical cooperation projects	73
8.2.3.	Current results of the application of the memorandum of 29 January 2010.....	74
8.3.	Audit of two bilateral technical cooperation projects with Peru	76
8.3.1.	Project PER 07/801	76
8.3.2.	Project PER 08/802	77

8.3.3.	Compliance issue: breach of the "ICAO Field Service Staff Rules".....	84
8.3.4.	Advantages of the type of project for the purchasing State.....	85
8.3.5.	The case of "independent experts"	86
9.	Follow up of external auditor's previous observations	87
	Annex I – External Auditor's opinion (original).....	88
	Annex II – Follow up of recommendations.....	91

1. This annual report gives an account of the various audits carried out by the External Auditor on the activity, accounts and management of ICAO during the financial period 2011.

1. INTRODUCTION

1.1. Audits carried out by the External Auditor

2. Since his last annual report covering 2010, the External Auditor has performed seven on-site audits, as a result 5 management letters have been sent to the Secretary-General, and this annual report has been written for the Council.
3. The present report gives account to the Council of these seven 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 2011

Topic	Control Dates	Management letters to Sec. Gen.	
		draft	final
ANB ¹ and ATB ² management audit	15-28/5/11 and 23/10-4/11/11	12 April 2012	in progress
ARGF ³ management audit	15-28/5/11	20 March 2012	in progress
Lima Regional Office	15-25/6/11	20 October 2011	19 April 2012
Technical Cooperation: projects in South America		(no letter)	-
Statutory audit of 2011 financial statements	23/10-4/11/11 & 18-30/3/12	16 April 2012	in progress
Budget implementation in 2011	18-30/3/12	16 April 2012	in progress
HR management in 2011			
IT management in 2011			

(source: ICAO)

1.2. Summary of the main observations

4. The External Auditor delivered a clear opinion on the 2011 financial statements. Concerning management audit, his main findings and recommendations are the following:

¹ Air Navigation Bureau

² Air Transport Bureau

³ Ancillary Revenue Generation Fund

Financial situation

5. Finding no.1: the 7.6 MCAD loss experienced by ICAO in 2011 can be explained by additional expenses to be recognized with IPSAS adoption that include non-recurring items, mainly related to employee benefits. However, ICAO has a low level of current assets to meet its current liabilities, especially on the Regular Budget Fund. In addition to that, the 1 MCAD loss incurred by AOSC Fund in 2011 resulted in the consumption of half of the cumulative surplus of this fund. The remaining cumulative surplus amounting to 0.8 MCAD⁴ may be insufficient in the coming years to bear the loss and the Regular Budget may be requested to finance it.
6. Recommendation no.1: ICAO is recommended to prepare cash forecast on a 3 year basis, in order to better anticipate the potential financing needs. This forecast may constitute a useful help for decision making regarding human resources policy, credit management and real estate policy. ICAO is also recommended to follow up AOSC Fund performance in 2012, in order to anticipate as soon as possible a potential loss and the means to finance it.

2011 budget implementation

7. Finding no.2: the target of zero real growth set by the Council in 2009 for the preparation of the 2011-2013 triennium budget seems rather confusing, in retrospect, since it has not been applied to the Member States assessed contributions (which grew by nearly 5% in real terms) or to the total budget appropriations approved by the Assembly (which grew by approximately 7% in real terms), but it has been applied to a different perimeter of expenditure and resources than in the previous triennium.
8. Recommendation no.2: 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 allotments until the first step is complete and applying it only to the Member States' assessed contributions, since the other resources are, by definition, variable.
9. Finding no.3: prudent budgetary management enables ICAO to maintain a safety margin that prevents it from overspending the triennium budgets approved by the Assembly. But the division of the budget into a large number of programmes and projects and the absence of indicators, particularly for productivity and the overall cost of actions, make it very difficult to evaluate ICAO's efficiency and, more generally, to assess the resources given to the organization compared with the services it provides. The combination of both elements (the organization's ability to adapt its spending to the authorized budget and the lack of measurement of the

⁴ CAD = *Canadian dollars*

product of this spending) makes the results-based budgeting concept largely devoid of all meaning. As the principle of the zero real growth budget, used for the 2011-2013 triennium, has shown, in reality ICAO has a resource-based budget.

10. Recommendation no.3: 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 RBB⁵ will remain merely a formal exercise.

Human resources

11. Finding no.4: the number of staff actually employed by ICAO is much greater than the number of staff funded from the regular budget. There has been an increase in the number of staff seconded by governments in particular, together with an increased use of consultants. There is probably a link between the fact that, with a headcount freeze of 551 posts, the number of permanent staff has fallen, whilst at the same time the number of vacant posts and consultants has increased. Without it being demonstrated post-by-post, it would appear that consultants are replacing ICAO staff, which with the number of ICAO posts remaining unchanged would explain the increase in vacancies and the increase in consultant numbers. ADB⁶ points out that “the increased number of consultants in 2011 is directly related to programme and operational requirements. In addition, a combination of other factors such as budget constraints and the headcount freeze also led to an increased number of consultants”.
12. Recommendation no.4: 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.
13. Finding no.5: current exceptional factors aside (senior manager on sick leave), the Auditor notes that the ICAO human resources section is probably understaffed given the ratio of 3 to 4 per cent of total staff applicable to staff management at organizations of a similar size. In the Auditor's opinion, the current situation, in which such extensive and varied functions as human resources, information technology, miscellaneous conference services, recording, etc. are placed under the responsibility of a single manager, can only be detrimental to the quality of human resource management, which is the organization's chief activity.
14. Recommendation no.5: in order to reinforce the HR function, measures should be taken to increase the number of HR section staff, to bring it in line with the ratio of 3 to 4 per cent of the total staff number usually observed in organizations of comparable size, and to appoint a senior manager exclusively in charge of human resources, reporting directly to the ADB Director. If this recommendation is

⁵ *Results-Based Budgeting*

⁶ *Bureau of Administration and Services*

accepted, consideration should be given to reorganizing ADB senior management as a whole, in particular to manage activities such as information technology, languages, conferences, assembly and council secretariat, etc.

Information technology

15. Finding no.6: the cost to ICAO of ICT⁷ services is difficult to evaluate exhaustively because of the ICT function's dispersal among ICAO's different structures. Expenses managed by the ICT Section represented an annual total of CAD 7.8 million, which is a CAD 2 million increase from the previous year, for a smaller perimeter.
16. Even though the new budget presentation does not allow the overall ICT costs at ICAO to be reconstructed, excluding staff costs, the Auditor did not find significant expenses which were not allocated to the ICT Section, with the exception of the IKS⁸ project (representing CAD 122 thousand) and two ATB partnerships (CAD 200 thousand). When it comes to staff costs, however, ICT staff outside the ICT Section represent a payroll cost which can roughly be estimated at CAD 2.1 million.
17. Recommendation no.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, FIN⁹, regional offices, etc.).
18. Finding no.7: expenditure for the outsourcing of ICT functions doubled from 2010 to 2011. The majority of the staff managed by the ICT Section is now made up of consultants (more than 2/3 of the Section at 31 December 2011), some of whom are employed to handle lasting functions whose sustainability and control is essential to ICAO. This stress on the resources, particularly in terms of permanent staff, could lead to partial loss of control over the information system.
19. Recommendation no.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.
20. Finding no.8: the more centralized responsibility for the ICT budget, in effect since 2011, has not come hand in hand with functional responsibility for all of the Organization's projects. Thus, various structural projects have not been placed under the explicit control of the ICT Section, or even defined as being associated with it.
21. Recommendation no.8: the sole means of ensuring better control and greater security for all of the Organization's ICT functions is better planning in terms of requirements, and transferring the budget resources for the biggest projects to the ICT Section, thereby placing information system projects within the structure which is specifically set up to manage them.

⁷ *Information and Communications, Technologies*

⁸ *ICAO Knowledge Shared Network*

⁹ *Finance Branch*

22. Finding no.9: the External Auditor observes that, in accordance with its previous recommendations, ICAO has undertaken to establish a master plan covering all of the Organization's ICT. This may raise the question of who will ensure the application and monitoring of this plan. Given its position within the Organization, the ICT Section's authority in this regard is limited.
23. Recommendation no.9: once 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.

ANB and ATB

24. Finding no.10: the introduction of the "expected results" concept marks a difference compared with the previous concept which was based solely on activity monitoring, but this concept does not improve the objective measurement of the effective achievement of tasks included in the approved budget.
25. Recommendation no.10: the general application of a uniform tool such as the IKSIN 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 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".
26. Finding no.11: the structure of the Budgetary Document is unnecessarily detailed, with too many programmes of highly variable size, each of which, representing on average less than 1% of the total budget value. As for the number of projects, there are equally clearly far too many, particularly at ATB (and even more particularly at ATB/ENV).
27. Recommendation no.11: 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.
28. Finding no.12: examination of the actual activity of ANB shows that a significant portion of this activity is not or poorly reflected in the current programme-based budgetary presentation: in general this regards core activities and more specifically contingency management.

29. Recommendation no.12: 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.
30. Finding no.13: in order to perform their duties, ANB and ATB have noticeably more professional staff members than those provided for in the budget. Review of the budgetary documents shows that although the members of the Council are generally aware of this situation through non-budgetary documents, it is not taken into account in assessing the needs to be covered by mandatory contributions.
31. Recommendation no.13: 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 organisation.
32. Finding no.14: significant shares (20% for ANB and 42% for ATB) of the activities of ANB and ATB are funded by extra-budgetary resources. In at least two cases (revenue-generating activities, and payment of events and missions by third parties), this method of funding could pose problems related to conflicts of interest in the long run (which could be especially the case for the TRAINAIR programme for ANB and the MRTD programme for ATB). Moreover, we note that for some programmes which could now be considered to be of priority importance (e.g. MRTD), these funding methods provide no sustainability for the programmes concerned, which is nonetheless crucial. Finally, the formulation of the triennial budget does not take account of the importance of these external resources in the strategic objectives and programmes. Even though the Secretary General believes that these resources cannot be estimated precisely, their relative importance requires to take a reasonable estimate into account during the budget preparation process.
33. Recommendation no.14: the non-budgetary funding of the activities of ANB and ATB leads to the following recommendations:
 - 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 appointed in January 2012 an ethics officer, which 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.

ARGF

34. Finding no.15: the definition of the Fund's scope is still unclear. It includes, as revenue and/or expenditure, activities based on a logic of Cost Recovery (such as the Commissariat) but excludes certain other activities (such as contributions to Account 1211), and includes expenditure, notably on staff costs, that bears no relation to the production of revenue from external sources.
35. Recommendation no.15: 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.
36. Finding no.16: with the exception of Director of the Bureau of Administration and Services (ADB), generating ancillary revenue is not included among the management objectives defined for ICAO directors, even though a significant part of such revenue is derived from their activity and contributes to it in return.
37. Recommendation no.16: the Council could ask the Secretary General to assign the operational departments targets for contributing to the generation of ancillary revenue derived from their activities. The achievement of these objectives could be monitored on a monthly basis.
38. Finding no.17: forecast Fund activity is not supported by a consolidated business plan. Although the overall forecast of activities proved correct, the distribution did not turn out as expected.
39. Recommendation no.17: in accordance with the internal auditor's recommendation in 2009, a single business plan should be drawn up for RGA¹⁰ 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 RSED¹¹ 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.
40. Finding no.18: after three years' experience, the limitations on the ARGF's system for achieving the original aim of alignment with the employment and pay conditions offered by the market for comparable activities that are not part of the organization's "core activities", are clear.
41. Recommendation n°18: in view of this relative failure, consideration should be given to outsourcing certain functions that are not part of ICAO's core activity, and refocusing staff employed by ICAO, regardless of their status, on jobs that continue to be "normal" for an international organization. With this in mind, the Council could ask the Secretary General to suggest a more efficient internal organizational and operational structure, based on this report's analyses and RCGT's technical study¹², taking account of the constraints on the contracts and pay offered by ICAO.

¹⁰ *Revenue Generating Activities*

¹¹ *Publications Services*

¹² RCGT = Raymond Chabot Grant Thornton

This would probably mean gradually transferring various tasks currently performed internally by the ARGF to external service providers.

42. Finding no.19: the income to be shared, provided for in the Agreement, is still a very small amount and is net income, but it is not clear whether indirect costs should also be taken into account. In any case, this recent exchange of correspondence with the Canadian authorities confirms the fact that ICAO can earn income from hiring out its meeting rooms when they are not being used for its own needs.
43. Recommendation no.19: to avoid the ambiguities that exist at present, it would be desirable for ICAO to succeed in having the Agreement changed to stipulate explicitly that, provided that ICAO remains within the limits of an international non-profit making organization, it can freely use the building, including by earning income from hiring out rooms when they are not being used for its own needs.
44. Finding no.20: the ARGF's growth since its creation is characterized by the fixed nature of its expenditure, particularly on staff, which was not the originally stated intention.
45. Recommendation no.20: if it is confirmed that the original objective of achieving a competitive cost structure, particularly in terms of staff, is not possible for an organization like ICAO, the gradual outsourcing of the corresponding activities should be envisaged in the medium/long term.

Lima Regional Office

46. Finding no.21: if the three changes – evolution of LACAC¹³ into a regional “miniature ICAO”, implementation of a new methodology within GREPECAS¹⁴ with greater involvement of representatives of regional States, shared leadership between ICAO and certain regional States on regional technical cooperation projects that extend ICAO's safety efforts – are taken together, it appears that the States in the region have collectively acquired a certain degree of autonomy in the area of aviation safety. The difference between those evolutions is that the first has the potential, to a certain extent, to compete with the regional office, while the latter two complement its efforts.
47. Recommendation no.21: the contrast between the evolution of LACAC on the one hand and GREPECAS and the three regional technical cooperation programmes on the other should encourage the Lima office to pursue increasing transfer of responsibility to national governments in the region when implementing ICAO objectives.
48. Finding no.22 : implementation of the memo of 29 January 2010, whose goal is improved integration of technical cooperation efforts by TCB¹⁵ and the directors of regional offices has three difficulties:
 - wording ambiguity of the memo on several major points;

¹³ Latin American Civil Aviation Commission (*Comisión Latinoamericana de aviación civil*)

¹⁴ *Grupo Regional de Planificación y Ejecución CAR/SAM*

¹⁵ *Technical Cooperation Bureau*

- potential complexity that implementation may cause for field officers, which is not discussed in the memo;
- risk of divergence between priorities of TCB and the director of the regional office.

49. Recommendation no.22: the External Auditor suggests a new addendum to the memo of 29 January 2010 that clarifies provisions concerning “execution” of technical cooperation projects, as well as the scope of application for integration (regional projects only, or identical treatment for all projects), in order to eliminate any doubt about its interpretation, and define simple reporting rules for field officers with regard to TCB and the regional director.

Lastly and most importantly, it should ensure that it is possible, while adhering to the management principle of economic equilibrium of technical cooperation, assigning TCB the same priorities as the rest of ICAO.

Technical cooperation projects PER 07-801 and 08-802

50. Finding no.23: the documents demonstrate that the initial date for completing the “prodoc” (annex 1 of the Management Service Agreement for project PER 08-802), was established after several years of discussion by the Peruvian government and ICAO’s independent experts, assuming a five-year plan for completion. This schedule which appears in the document signed by ICAO and the Peruvian government on 20 July 2009, was “reduced” to two years as of 11 August 2009, in a document signed by the same partners. The external auditor notes that the international project coordinator considered, at the time of the audit, that this schedule posed no problem and would be followed, observing that it has been ahead since the first phase, with installation of radars in Talara and Ayacucho planned for the second phase. According to the coordinator the entire system will be fully operational by the end of 2011.
51. Recommendation no.23: it is too late to make a recommendation for the current project. However, especially in cases where the schedule cannot be followed, ICAO should be more wary of partner governments requirements that are more political than technical
52. Finding no.24: without performing an exhaustive audit of management expenses, the external auditor observed for project PER 07-802 that certain of its expenses were unrelated to the project objective. Likewise, for contract PER 07-801 discussed above, the external auditor also observed expenses unrelated to the project.
53. Recommendation no.24: in the future, ICAO should refuse to fund expenses unrelated to the project objective for technical cooperation projects.
54. Finding no.25: the External Auditor identified a breach of one of the key ICAO Field Service Staff Rules which prevents conflict of interest by forbidding that an ICAO Field Service Staff assumes in the same time another position for an external authority. The local coordinator for the TCB project PER08-802, was at the same time Director General of Civil Aviation in the Ministry of Transport and Communication of Peru. The External Auditor considers this non-compliance issue

to be serious as the national coordinator was clearly in a situation of conflict of interests as he was supposed to protect ICAO interests, as staff of the supplier for the project PER 08-802, and, at the same time, to protect Peru interests, as monitoring body for Corpac, the customer for the project PER 08-802.

Whereas this issue was reported by the external auditor to ICAO top management in July 2011 and despite the fact that the national coordinator was still assuming the position of Director General of Civil Aviation in Peru, ICAO decided, however, to appoint him as TCB local coordinator in November 2011. The person in charge of the appointment at ICAO did not receive appropriate information from the top management to perform the basic compliance checking.

55. Recommendation no.25: the monitoring process ensuring proper application of the “ICAO Field Service Staff Rules” need to be significantly reviewed at headquarters level as well as local level in order to be in a position to prevent this kind of breach of the ICAO Field Service Staff Rules in the future. Regarding the decision to renew the national coordinator’s appointment, and based on the information reported by the External Auditor at that time, the Secretary General should have reported the issue to the Council, as the “ICAO Field Service Staff Rule” edicted in 1992, included the provision that a field service staff should not assume at the same time a position for an external authority.
56. Finding no.26: the common point for both projects PER 07-801 and PER 08-802 is that, in both cases, ICAO intervened to make it possible to set up administrative structures or aviation security equipment that local regulations did not authorise, either entirely – project PER 07-801 compensated DGAC employees with salaries that incompatible with the Peruvian civil service wage schedule, or within a time-frame that was acceptable for aviation security – as was the case for project PER 08-802. Given its exceptional nature in relation to local law, it is important that the service provided by ICAO be irreproachable.

The case of project PER 07-801 is no longer current, as Peruvian law has terminated the exceptional system for DGAC staff. However, for procurement of radar equipment, where the number of possible suppliers world-wide is limited (about ten in total), and if the observation is extended to all such projects carried out in the CAR/SAM area from 2005 to mid-2011, the external auditor can only note the small number of suppliers awarded contracts (one) and also the limited number of independent experts (four) used by TCB to prepare and consult these offers over a relatively long period.

57. Recommendation no.26: the External Auditor recommends that ICAO increase the circle of independent experts who commit its responsibility and reputation in awarding contracts and regularly appoint new ones. The experts shall be subject to regular evaluations.

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

2.1.External Auditor’s opinion on the financial statements for 2011

AUDIT OPINION¹⁶

We have audited the financial statements of the International Civil Aviation Organization (ICAO), for the 12 month period ended December 31st, 2011. These financial statements include a statement of financial position at December 31st, 2011, a statement of financial performance, a statement of cash flow, a statement of changes in net assets, a statement of comparison of budget and actual amounts for the period ended December 31st, 2011 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 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, 2011, 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, 2011 in conformity with the IPSAS.

(signed)
DIDIER MIGAUD

¹⁶ Annex I: original signed by the External Auditor

2.2. Financial analysis

58. The ICAO financial statements are prepared under IPSAS accounting principles for the 2011 and the 2010 period. Financial statements under IPSAS give a more accurate picture of the financial position at year-end, as they ensure completeness of assets and liabilities reported and as the substance of operations are taken in consideration over their form. The main impact of the IPSAS implementation at ICAO in 2010 was the first recognition in the liabilities of the employee benefits amounting 82.9 MCAD as at December 31, 2011 (81.5 MCAD as at December 31, 2010).
59. The 2011 net result of ICAO operations is a net loss amounting 7.6 MCAD. This loss was fully incurred on the first segment relating to regular activities. Nevertheless, without the impact of additional expenses to be recognized with IPSAS adoption for employee benefits that include non-recurring entries for the period, the net result would have been at break even, as calculated below. These items were reported as "non-recurring items" as they result from the actuary assumptions used to calculate the long term commitment under IPSAS and that a change of assumption in the future may result in significantly different figures in the next years. The purpose is to isolate in the P&L the impact of IPSAS regarding employee benefit and to show that without these items, the net result would have been at break even, which is expected from an organization implementing operations based on an approved budget:

Net loss 2011 (IPSAS basis)	- 7.6 MCAD
<u>Non-recurring items linked with employee benefits:</u>	
Annual leave actuarial loss	- 2.8 MCAD
Repatriation grants actuarial loss	- 1.7 MCAD
Increase of employee benefit engagement	- 8.0 MCAD
Consumption of employee benefit liability in 2011	+4.2 MCAD

Total	- 8.3 MCAD
<u>Other non-recurring items:</u>	
Write off of old accruals	+0.8 MCAD
Write off of old receivables	- 0.1 MCAD
Increase of the discount of non-current assets	- 0.3 MCAD

Total	+0.4 MCAD

2011 net result without non-recurring items	+0.3 MCAD

60. Cumulative surplus of AOSC¹⁷ Fund: this fund is bearing the costs of the technical cooperation projects (TCP)) decreased by 50% in 2011 and amounted to 0.9 MCAD as at December 31, 2011. This situation is the consequence of the 1 MCAD loss incurred in 2011 (AOSC Funds already experiences losses in the recent years: 0.3 MCAD in 2008, 2.8 MCAD in 2009 and 0.8 MCAD in 2010). The 2011 loss is slightly over the budget forecast amounting 0.8 MCAD. Should this loss trend continue in 2012, the cumulative surplus would not have been sufficient to cover the loss and the Regular Budget Fund may be requested to finance it.
61. Cumulative surplus of ARGF (Ancillary Revenue Generation Fund: this fund is dedicated to ICAO sales activities) increased in 2011 and amounted to 7.7 MCAD as at December 31, 2011. This situation is the consequence of the 2011 profit amounting to 5 MCAD. Regarding this amount, 4.6 MCAD was transferred to the Regular Budget Fund and 0,4 MCAD was used to increase ARGF cumulative surplus.
62. ICAO net assets remain stable in 2011 compared to 2010 and amounted to a negative 30 MCAD as at 31 December 2011:

Net Assets (31 12 2010)	-29.7 MCAD
2011 net loss	- 7.6 MCAD
ASHI ¹⁸ actuarial gain	+ 7.1 MCAD
Exchange rate differences and other	+ 0.2 MCAD

Net Assets (31 12 2010)	-30 MCAD

63. Negative net assets imply that ICAO will have to meet its obligations with a low level of resources. Without taking in consideration the additional resources and liabilities brought by the 2012 and 2013 operations, ICAO will have to pay liabilities amounting to 186.7 MCAD before the end of the triennium:

• Current liabilities end of 2011	174.3 MCAD
• Employee benefits due in 2013 ¹⁹	6.8 MCAD
• 2012 and 2013 operating leases commitments	5.6 MCAD
Total to be paid before the end of 2013	186.7 MCAD

64. To meet this obligation without using the additional resources brought by operations in 2012 and in 2013, ICAO may use its current assets amounting to 213.1 MCAD:

• Cash and cash equivalents	193.4 MCAD
• Other current assets	19.7 MCAD
Total current assets	213.1 MCAD

65. This situation appears to be more serious when the same analysis is applied to the Regular Budget Fund and to the Revolving Fund - this fund is bearing the employee benefits with an amount of 6.8 MCAD. This amount is the amount of employee benefit to be paid in 2013 based on the AON report (appendix F). We presented the same analysis in our 2010 audit report.

¹⁷ *Administrative and Operational Services Costs Fund*

¹⁸ *After Service Health Insurance*

¹⁹ *Datas from AON Hewitt report dated 14 March 2012*

66. The purpose is to show the amount of cash necessary to meet the balance sheet obligations in the next two years without taking into consideration the voted budget for these years:

• Current liabilities end of 2011	13.7 MCAD
• Employee benefits due in 2013 ²⁰	6.8 MCAD
• 2012 and 2013 operating leases commitments	5.6 MCAD
Total to be paid before the end of 2013	26.1 MCAD

67. To meet this obligation without using the additional resources brought by operations in 2012 and in 2013, Regular Budget Fund and Revolving Fund may use their current assets amounting to 26.6 MCAD:

• Cash and Cash equivalents	16.7 MCAD
• Other current assets	9.9 MCAD
Total current assets	26.6 MCAD

68. As pointed out in last year’s annual report, this situation does not mean there is presently any risk for the organization of running out of cash, and the present observation should in no way be considered as questioning the present monitoring of ICAO’s cash positions: it only means that, year after year, ICAO is recognizing, under IPSAS accounting standards, a financial deficit mainly due to the accumulation of employee benefits do be paid in the forthcoming years. This situation is presently monitored, as decided by the Council, on a “pay as you go” basis, which means that the resources to meet the accumulated debt will have, basically, to be included in the yearly appropriations as set by the Assembly in the following triennium budgets. As long as the needed yearly payments remain stable, this solution is probably the most adapted, for a debt whose average maturity is long term. Nevertheless, the AON yearly actuarial study shows that, depending on various parameters, the ASHI/repatriation grand/yearly leave commitments, even on a short term horizon (in our analysis the employee benefits due in 2013 according to AON’s calculation represent 6.8 MCAD), can represent substantial amounts which could, at a certain degree, need additional funding. That is why the Auditor renews last year’s recommendation

Finding no.1: the 7.6 MCAD loss experienced by ICAO in 2011 can be explained by additional expenses to be recognized with IPSAS adoption that include non-recurring items, mainly related to employee benefits. However, ICAO has a low level of current assets to meet its current liabilities, especially on the Regular Budget Fund. In addition to that, the 1 MCAD loss incurred by AOSC Fund in 2011 resulted in the consumption of half of the cumulative surplus of this fund. The remaining cumulative surplus amounting to 0.8 MCAD may be insufficient in the coming years to bear the loss and the Regular Budget may be requested to finance it.

Recommendation no.1: considering the importance and the relative volatility of the organization’s debt resulting from the evolution of employee benefits (ASHI, repatriation grant and annual leave), and although the present levels do not bring into question the “pay as you go” approach, ICAO is recommended to prepare cash forecast on a 3 year basis, in order to better anticipate the potential financing needs. ICAO is also recommended to follow up AOSC

²⁰ from AON Hewitt report dated 14 March 2012.

Fund performance in 2012, in order to anticipate as soon as possible a potential loss and the means to finance it.

2.3. ICAO's budget position

2.3.1. Theoretical and real growth of the triennium budget

69. The 2011-2013 triennium should have been established on the basis of zero real growth. This was explicitly stated in the charter letter sent on 27 March 2009 by the President of the Council to the Secretary General.
70. From the amounts approved by the Assembly for the 2008-2010 and 2011-2013 trienniums, it can be seen that expenditure authorized for commitment from the budgets of both trienniums, at current economic conditions, rose from CAD 245.543 million (doc. 9895, p. 6) to CAD 280.616 million (doc. 9955, pp. 5 and 6), a nominal increase of 14.28%, which amounts to real growth in the order of 7%²¹.
71. The Member States' assessed contributions rose from CAD 227.448 million to CAD 255.007 million, a nominal increase of 12.12% or, using the same inflation hypothesis, real growth in the order of 4.8%.
72. When checking compliance with the "zero real growth" principle, the Secretary General states that account should not be taken of the increase in the budget perimeter by CAD 11 million as a result of integration into the 2011-2013 regular budget of four funds that were financed by voluntary contributions during the 2008-2010 triennium (AVSEC, AFI, Environment and Languages funds), and nor should account be taken of the authorized appropriations shown on page 6 of document 9955 as reimbursements from the AOSC fund and a transfer from the Incentive Scheme for Long-Outstanding Arrears (totalling CAD 7.5 million): like-for-like, the authorized budget for the 2011-2013 triennium is therefore only CAD 280.6-11-7.5 million = CAD 262.1 million, a nominal increase of 6.74%. Taking account of inflation this amounts to a slight decrease in real terms.
73. The External Auditor observes that the process used for the 2011-2013 triennium, of setting a rule for overall growth ("zero real growth") even before defining the perimeter of activity covered by the budget, and applying this rule to the total of the restricted funding (Member States' assessed contributions) and the variable funding (transfers from the ARGF and miscellaneous revenue), makes no sense. He also observes that this approach has not really brought any clarity to the budget debate (as a document from April 2010, which tries to answer the Council's question "Why was a Zero Nominal Growth Budget uplifted to \$256 million from \$245 million?", testifies).
74. In the perspective of preparation of the 2014-2016 triennium budget, the External Auditor therefore recommends the adoption of a more logical, transparent approach.

²¹ A comparison of CAD 280.6 million (2011/2013) with CAD 245.5 million gives nominal growth of 14.3%; deducting inflation of 2.38% over three years, which represents 7.3%, gives real growth of 7% from one triennium to the next.

Finding no.2: the target of zero real growth set by the Council in 2009 for the preparation of the 2011-2013 triennium budget seems rather confusing, in retrospect, since it has not been applied to the Member States assessed contributions (which grew by nearly 5% in real terms) or to the total budget appropriations approved by the Assembly (which grew by approximately 7% in real terms), but it has been applied to a different perimeter of expenditure and resources than in the previous triennium.

Recommendation no.2: 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.

2.3.2. Overall implementation of the 2011 budget

75. The table below shows expenditures, by type and not by objective, from 2008 to 2013:

Table 2: Growth in expenditure from 2008 to 2013 (in thousands of Canadian dollars)

	2008	2009	2010	2011	2012	2013
Professional (P)	40,319	42,559	46,114	46,076	51,268	54,150
General services (G)	15,279	14,737	15,998	16,159	16,720	17,113
Staffing total	55,598	57 296	62,112	62,235	67,988	71,263
Expenditure for fixed assets	-	-	706	3,410	690	584
Discretionary staff-related costs	1,430	885	1,515	932	1,118	1,223
Special implementation projects	110	201	187	125	212	217
Consultancy services and outsourcing	664	2,821	5,577	6,154	3,458	3,510
Operational expenditure	8,536	9,882	9,693	10,175	11,408	12,691
Meetings	451	828	2,029	773	1,245	1,857
Travel and missions	2,327	2,884	3,915	3,909	4,045	3,838
Representation	46	46	58	78	81	83
Currency exchange (- loss/gain)	-25	-141	- 293	-	-	-
Rounded	-	-	2	2	-	-
Non-staffing total	13,539	17,405	23,389	25,558	22,256	24,001
Fund 1104 and adjustments	440	1,122				
Funds 1107 and 1108 (from 2011)				1,623		
TOTAL	69,577	75,823	85,501	89,416	90,244	95,264
Change	-	+9 %	+12.7%	+4.6%	+0.9%	+5.5%
Real variation (excluding inflation)	-	+6.4%	+10 %	+1.8%	+0.9%	+5.5%

(source: ICAO)

76. In the above table, the 2008 to 2011 columns show actual expenditure; the 2012 and 2013 columns show the approved budgets.

77. While appropriations increased approximately 2 per cent per year in volume, expenditures rose far more, by about 6 per cent per year in volume (and 8.8 per cent in value) between 2009 and 2011. The main budget lines that increased were consultancy services and outsourcing, operational expenditure and, in the previous triennium, staffing costs. Conversely; these expenditures were virtually stable in 2011 compared with 2010. Currency exchange losses of CAD 2.144 million and CAD 1.055 million in 2010 and 2011 respectively should also be added.
78. This growth in expenditure, which was particularly marked in 2009 and 2010, should be viewed in relation to the large sums carried forward to the next year, which were submitted to and approved by the Council at the end of 2008 and 2009. It illustrates the fact that ICAO, which had been spending less than the appropriations available, implemented a policy from 2009, and especially in 2010, of actively consuming its appropriations, at a time when the Council had drawn attention to the carryovers and was looking into the possibility of cancelling some of them, as provided for in the Financial Regulations.

2.3.3. Budget monitoring

79. The table below provides a summary of the main data for implementation of the 2011 budget compared with that of the 2010 budget, using the same breakdown as in Statement V of the Annual Financial Statements:

Table 3: Budget implementation 2010-2011 (in thousands of Canadian dollars)

	Appropriations (a)	Carried over from prior year (b)	Appropriations before transfers (a)+ (b) = (c)	Outstanding commitments (d)	Deferrable appropriations cancelled /transferred to other funds (e)	Transfers among SO/SIS	Carried over to following year (f)	Appropriations revised = (c)+ (d) +(e)+ (f)	Total expenditures (h)	Exchange difference (i)	Total (j) = (h) + (i)
2010	85,507	13,934	99,441	(8,611)	(345)	0	(2 840)	87,645	85,501	2,144	87,645
2011	89,495	11,451	100,946	(7,786)	(279)	0	(2 410)	90,471	89,416	1,055	90,471

(source: ICAO)

80. When analysing this table, it should be remembered that appropriations are the budget that have been approved by the General Assembly. From 2011, a distinction can be made between two types of appropriations:

- on the one hand, appropriations financed by the Member States' assessed contributions, the transfer of funds from the ARGF surplus and ancillary revenue (estimated at a total of CAD 87,594,000 in 2011);
- on the other hand, appropriations financed by a reimbursement from the AOSC fund, for services that the regular programme provides to TCB²² (for example, accountancy and finance services), for which a study was conducted among the staff concerned to work out their value (time-sharing between tasks performed for the regular programme and tasks performed for the Technical Co-operation Bureau), and those financed by

²² Fund 1107.

funds from the Incentive Scheme for Long-Outstanding Arrears fund²³, some of which are assigned to specific expenditure items (in 2011, CAD 189,000 was to go into the regular programme to finance a post in Dakar).

81. The criterion for distinguishing between the two categories of appropriation is not very clear. Nevertheless, in the budget document the first category is shown as the “annual Total Authorized Appropriation” of the budget, while the second represents authorization to commit “additional amounts”, which are therefore outside the budget. It is not certain that this subtle distinction adds any clarity to the budget document (doc. 9955, p. 5 and 6).
82. There are two reasons for carryovers from one year to the next: either (a) they are commitments made the previous year that are still outstanding²⁴—these carryovers are mainly associated with the adoption of the IPSAS accounting standards, which require that commitments concerning future years cannot be accounted for as expenditure in the current year, even if the payments have been made in the current year— until the goods/services have been received, or (b) they are appropriations that were not consumed or committed in the previous year, and the Assembly or Council has “freely” agreed to them being carried over to the following year, at the proposal of the Secretary General (Article 5.6 of the Financial Regulations). So for 2011, the CAD 11,451,000 in carryovers from the previous year corresponds to CAD 8,611,000 in outstanding commitments and CAD 2,840,000 in amounts “freely” carried forward.
83. The amount of outstanding commitments at the end of the year is known at the end of year n. These commitments correspond to expenditure that will be paid out the following year but is already legally committed (the debt is acknowledged). They are carried forward to year n+1 in application of Article 5.7 of the Financial Regulations.
84. In 2011 a new column appeared for “carryover surrendered”. This was for expenditure that had not been made in year n and that could legally be carried over to year n+1 but for which carryover was not justified and was therefore not requested of the Council (in cases where allotments carried over exceed 10% of the authorized appropriations) or decided by the Secretary General (in cases where appropriations carried over are less than 10% of the authorized appropriations). As an example, this line includes the CAD 189,000 initially intended to fund a post in Dakar and mentioned above (but no candidate was hired in 2011) as well as CAD 90,000 in reimbursements initially owed by AOSC, but cancelled by the Council (decision C-DEC 192/5).
85. Transfers of appropriations between strategic objectives (SOs) and supporting implementation strategies (SISs) were implemented in application of Article 5.9 of the Financial Regulations: the total for these must logically be zero.
86. Carryovers to the following year correspond to appropriations not consumed during the year; any appropriations not used in one year of a triennium can be carried forward to the next year (Article 5.6 of the Financial Regulations).
87. In the above table, the expenditure comprises the expenditure for the year as it appears in the accounts (prepared according to IPSAS standards) and the effect of

²³ Fund 1108.

²⁴ The payment period is closed on around 31 January in year n.

currency exchange. This is calculated in January when the Member States' contributions are called in. Since 2010, the contributions have been collected partly in US dollars and partly in Canadian dollars (split assessment). Where contributions are paid in US dollars, the exchange rate with the Canadian dollar affects the amount of expenditure, which is expressed only in Canadian dollars. In 2011, the depreciation of the US dollar produced a currency exchange effect, and expenditure was re-valued upwards by CAD 1,055,000.

88. The above explanation shows that at the start of the year, the figures for appropriations, carryovers from the previous year and the currency exchange difference are known.
89. In order to manage expenditure for the year, the Finance Branch has a precise budget base: in 2011, the available budget was CAD 89,495,000 minus CAD 1,055,000 in currency exchange effect, leaving CAD 88,440,000. Carryovers from 2010 that were already committed were no longer available, and of the "free" carryovers (CAD 2,840,000 in 2011), CAD 1,400,000 had been allocated by decision of the Secretary General to the High Level Safety Conference (HLSC), with the remainder being kept for expenditure that had not been budgeted for specifically. It could therefore not be considered available for new expenses. The base of acceptable expenditure within the framework of the budget was therefore limited to CAD 88,400,000.
90. It is on this basis that allotments (authority to spend) were allocated to the allotment holders. The allotment holders receive authorization to spend allotments only for non-staffing costs. Staffing accounts for approximately 80% of allotments. Of the allotments thus available to the allotment holders (approximately 20% of the total available), most (90%) has been allocated since 2011 at the start of the year. Changes are subsequently possible within the allotments, but only with authorization from the Chief of Finance. However, for travel on mission and hospitality costs, the allotment holders receive the instruction in principle not to request that the allotments in question be increased to the detriment of the other lines in their budget.

**Table 4: Projected expenditure for the triennium and expenditure implemented in 2011
(in thousands of Canadian dollars)**

	2011	2011 implementation ²⁵	2012	2013
Safety	22,934	23,827	23,437	24,913
Security	13,474	10,654	13,771	13,866
Environment	11,479	11,066	11,843	12,311
Programme Support	20,135	21,697	20,714	22,143
Management & Administration - Services	14,527	15,773	13,475	14,080
Management & administration - Governing Bodies	6,946	6,399	7,004	7,951
TOTAL	89,495	89,416	90,244	95,264

(source: ICAO)

91. Spending on programme support and on management and administration of services was higher than predicted (expenditure over allotment ratio of 108%). The same was

²⁵ Excludes currency exchange effect

true for the “safety” strategic objective (104%), while all other budget lines came in below the original budget. Concerning staff costs in particular, although the appropriations in the budget came to CAD 66.1 million, actual expenditure was CAD 68.6 million in the accounts (expenditure over allotment ratio of 104%). Transfers during the year made it possible to top up programme support and management and administration of services in particular, by CAD 1 million and CAD 1.3 million respectively.

92. The main redeployments in the 2011 budget year, performed via fund 1106 (efficiency fund) of the regular budget, are shown in the table below:

Table 5: Redeployments financed by savings in 2011 (in Canadian dollars)

	2011
ANB (Air Navigation Bureau)	2,915,000 <i>incl. HLSC 2,300,000</i>
ATB (Air Transport Bureau)	456 987
ADB (Bureau of Administration and Services)	1,653,000 <i>incl. ICT 810,000</i>
RO (Regional Offices)	248,000
COM (Communications bureau)	92,500
IKSN	50,000
Printing costs	514,000
TOTAL	5,929,487

(source: ICAO)

93. These movements of funds concern notably the extra expenditure of CAD 800,000 associated with computing services (ICT), a significant divergence in printing and distribution costs compared with the original projection (of CAD 1.2 million, i.e. a 43% increase in expenditure), and the financing of the High Level Safety Conference. In total, 6.6% of appropriations were used in 2011 to finance expenditure that was not originally budgeted for.

2.3.4. Profile of the triennium

94. There was a significant increase in appropriations in the first year by comparison with the last year of the previous triennium, and the same phenomenon occurred in the last year of the triennium. This is due to the fact that:

- the first year (2011) was affected by changes in classification of staff (e.g. upgrade) leading to increased payroll costs, while it was predicted that the last year would be affected by new recruitment (just as, in the 2008 -2010 triennium, most AVSEC staff were taken on in 2010);
- at the start and end of the triennium, the size of appropriations was sized taking in consideration certain budgetary rules: where allotments are found to be insufficient, the Financial Regulations (Article 5.2a) stipulate that the Council may increase appropriations by 2% of the allotments for years 1 and 3, and by

4% for year 2. In practice the Secretary General wants to avoid going back to the Council when appropriations are running out: it is to avoid any deadlock, even in the event of unforeseen circumstances, that the expenditure over appropriation ratio is rarely above 97%²⁶;

- finally, the last year of the triennium is always slightly higher than the first two years of the triennium because of the General Assembly meeting, which generates specific costs budgeted at CAD 800,000 for 2013.

95. The expenditure implementation ratio is fairly low, but it can be seen that it has risen starting in 2010. In addition to the factors mentioned above (funding of appropriations to address unforeseen events), there is a technical element that can explain this consumption profile: until 2010, allotments were not given to the allotment holders very quickly—50% went to them at the beginning of the year and the rest later on, sometimes in smaller portions (25% and 25%). The operational managers complained that this niggardly distribution of allotments was preventing them from launching some important projects at the start of the year. It would then be difficult to consume all the allocated budget. The abandonment of the 50% rule and the switch to distribution of 90% of the allotments (excluding staffing costs) as explained above, have led to a large increase in consumption. The table below shows the change in the consumption of budget allotments—compared with many national budgets, where expenditures often exceed initial appropriations, ICAO seems to have a certain amount of budgetary ease:

Table 6: Consumption of allotments 2008-2011 (in thousands Canadian dollars)

	2008	2009	2010	2011
Allotments	73,564	81,871	90,485	92,881
Expenditure	69,577	75,823	87,645	90,471
Carried over to following year	3,987	6,048	2,840	2,410
Expenditure over allotment ratio	94.6%	92.6%	96.9%	97.4%

(source: ICAO)

2.3.5. Performance indicators

96. A results-based budget (RBB) should, by definition, measure whether or not the results on which the budget was based have been achieved. As the External Auditor has already highlighted in his previous report and will say later on (when presenting the audits of the ANB and ATB), ICAO's budget has too many programmes and projects to allow effective monitoring of results. Moreover, the ANB and ATB audit presented later shows that the RBB budget structure provides no flexibility for dealing with unforeseen events that require action from ICAO teams, and that planned actions for the triennium are thus replaced by other actions made necessary by events, without budgetary monitoring being able to take account of this.

97. In view of the lack of indicators, ICAO is introducing a project management and monitoring tool, the ICAO Knowledge Sharing Network (IKSN). IKSN can define milestones for operational actions; the ability of the relevant bureau to complete a

²⁶ The Secretary General confirms this, stating: "implementation rate of budget was rarely higher than 97% because of Secretariat's prudent management of funds, to ensure that the expenditures do not exceed the budget, and not because a higher budget being requested".

project within the agreed deadline is dependent on meeting these milestones. However, it is not a productivity measurement tool, nor is it a tool for monitoring the efficiency of the services responsible for performing an action (it does not link the progress of a project with the consumption of the allotments assigned to the project). Moreover, ICAO does not have any management indicators that relate specifically to the performance of administration or support services, for example; IKSIN is not suitable for monitoring their activity.

98. In the past the Council has asked for indicators (the Key Performance Indicators of the previous triennium) to be introduced, but this request has not been followed up. As far as IKSIN is concerned, it is of greater value internally (for the bureaux) than externally (for the Council), and it is useful for preparing the 3-year rolling business plan. The Secretary General is looking at this issue with a view to preparation of the next triennium.

Finding no.3: prudent budgetary management enables ICAO to maintain a safety margin that prevents it from overspending the triennium budgets approved by the Assembly. But the division of the budget into a large number of programmes and projects and the absence of indicators, particularly for productivity and the overall cost of actions, make it very difficult to evaluate ICAO's efficiency and, more generally, to assess the resources given to the organization compared with the services it provides. The combination of both elements (the organization's ability to adapt its spending to the authorized budget and the lack of measurement of the product of this spending) makes the results-based budgeting concept largely devoid of all meaning. As the principle of the zero real growth budget, used for the 2011-2013 triennium, has shown, in reality ICAO has a resource-based budget.

Recommendation no.3: 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 RBB²⁷ will remain merely a formal exercise.

3. HUMAN RESOURCES

99. HR management in 2011 was the object of an audit in Montreal between 19 and 30 March 2012.

3.1. Staff costs in ICAO expenditure

100. Human resources are by far the largest expenditure item in ICAO's Regular Programme, even though there has been a relative decrease in staff costs in ICAO

²⁷ *Results-Based Budgeting*

expenditure, falling from 83 to 78 per cent of expenditure between 2008 and 2010. This trend is continuing in 2011, with staff costs²⁸ accounting for 76.73 per cent of expenditure:

Table 7: Staff costs in 2011 expenditure (in thousands of Canadian dollars)

	2011
Total expenditure – Regular Programme	89,416
Staff costs – Regular Programme (1)	68,608
% staff costs/total expenditure	76.73%

(1) Staff costs include remuneration and miscellaneous associated costs (training, company benefits etc.)

(source: ICAO)

3.2. Budgeted posts

101. The current triennium budget, as shown in Table 5 of Appendix 2 of the triennial budget (document no. 9955), and which corresponds exclusively to the 1101 fund (regular budget), was drawn up on the basis of 528.3 posts in 2013 (264.9 P²⁹ and 263.4 GS³⁰ across the various ICAO structures), thus an increase of 22.3 posts compared with the previous triennium. The increase is the result of integrating posts which were previously supported on various funds: ACIP³¹, AVSEC, ENV and Languages and, in reverse, from several vacant posts being cut.

102. In parallel, a headcount freeze has been in place since January 2011, which provides for a maximum of 551 posts for 2011 (271.2 P and 279.8 GS)³², across the various ICAO³³ structures which correspond to the group of funds covered by the regular programme - in other words funds 1101 to 1108. The ceiling does not apply to the same area as that in Table 5 in Appendix 2 of the afore-mentioned triennial budget (document no. 9955): staff monitored under this are in fact funded not only by the regular budget fund (fund 1101) but also by two funds which increase fund 1101 and which are: fund 1107 (reimbursements from the AOSC) and fund 1108 (reimbursements from the incentive fund). Using accounting data from the general ledger, the finance service periodically checks whether the employment ceiling is being complied with by identifying all staff paid from funds 1101, 1107 and 1108.

103. In view of a headcount freeze of 551 posts, on 27/03/2012 (during the audit), the data base used by human resources only showed 547 open, so-called established posts.

104. An established post means that it is included in the regular budget for the triennium 2011-2013 and is open without time limit (even though people may be

²⁸ However, staff costs increased by 2.58 per cent between 2010 and 2011.

²⁹ Professional

³⁰ General Service

³¹ AFI Comprehensive Implementation Programme

³² The ceiling is 554 for 2012 and 552 for 2013.

³³ The ceiling is across each central structure (ANB, ADB, EAO, FIN etc.) and each regional office.

recruited for this type of post on short-term contracts). Whilst “supernumerary” posts are generally only open temporarily (even though staff on permanent contracts may occupy them), there were 26 such supernumerary posts at 31/12/2011. However, two of these posts (110448 and 110449) were open without time limit and can therefore be considered to be so-called established posts: and in fact, after the audit, both posts were changed from supernumerary to established.

3.3. Staff numbers

105. At 31 December 2011, the data provided by human resources showed 509 staff allocated to funds 1101 and 18 posts to fund 1107, (0 to 1108), a total of 527 staff for the entire regular budget in other words.

Table 8: Staff under the regular budget

	31/12/2010	31/12/2011
Staff financed from the regular budget	517	509
Staff financed from fund 1107	-	18
Total	517	527

(source: ICAO)

106. However, if funds which do not come under the regular budget are taken into account, the total number of ICAO staff, excluding field staff, is much greater than the number of staff financed from the regular budget and from the two funds associated with it:

Table 9: Staff on ICAO staff contracts

Posts financed from	2010	2011
Regular budget + 1107	517	527
AOSC	75	71
Other funds	126	105
Total posts at 31/12	718	703

(source: ICAO)

107. Data from the human resources service were compared with those from the payroll service. All the discrepancies were identified by the external auditor. The discrepancies were caused, for the most part, by staff that left the service in December 2010. It was observed that five staff left the service on 30 December 2010, seven left on 31 December 2010 and that the ICAO President is not counted in the human resources database. These discrepancies illustrate the unpredictability of data on actual ICAO staff numbers on any given date: to conduct his analyses, the external auditor used the figure verified at 31 December 2011 (or at 01 January 2012 at 00:00 to be precise), of 703 staff.

108. Included in this baseline are staffs seconded by governments³⁴ who cover their remuneration in accordance with various procedures. Some are given ICAO staff contracts and are thus included in the staff count of 703.

109. Experts made available to the Organization free of charge by Member States are not included in the baseline used by the external auditor; they are rapidly increasing especially since in 2010 these gratis personnel were sometimes only made available for a few days whereas now they stay for a year. At the time of the audit, this type of personnel accounted for 5 per cent of the total staff numbers of the organization:

Table 10: Number of seconded staff

	2010	2011	2012
Germany	-	-	1
Saudi Arabia	1	1	1
Canada		2	2
China	2	10	10
Colombia	-	-	1
Cuba	1	-	-
Spain	-	1	1
France	4	7	6
Great Britain	-	1	1
Italy	2	1	1
Malaysia	1	1	1
Singapore	1	3	3
Sweden	-	1	1
Switzerland	1	1	1
United States	6	-	4
Total	19	29	34

(source: ICAO)

110. In 2011, arrangements for contractors on Special Service Agreements (SSA), financed from the regular budget and the other proprietary funds, were amended from 1 November³⁵:

- uniform rules were drawn up: from now on contracts will be for a maximum of eleven months, which may be renewed three times, with a waiting period of one month between two contracts;
- the human resources section stipulates the framework for recruitment criteria and remuneration conditions;
- employing sections are now responsible for recruitment rather than the human resources section.

111. After reconciling the data from the FIN branch and the human resources section, 168 contractors were identified for the whole of 2011 and 125 were recorded in December

³⁴ There were eight of them, five from the United States, one from Japan, one from Italy and one from the Republic of Korea.

³⁵ The ICAO internal audit is due to investigate the implementation of this new procedure at the end of 2012.

2011. In December 2010 there were 91 SSA³⁶ contracts³⁷. The increase year-on-year is therefore significant: +37 per cent.³⁸

112. The increased use of consultants has clear financial benefits. But in terms of managing human resources, the large-scale use of consultants may generate problems:

- contract duration must match section workflow;
- there is now a maximum time limit for the renewal of consultant contracts.

113. As a result, it would be wise not to use consultants for sensitive posts which require a certain degree of permanence. There are therefore limits to increasing their numbers.

114. In total, in December 2011, ICAO had human resources, both ICAO and non-ICAO staff (but excluding field staff) of 862 staff, almost 70 per cent more staff than the number financed from the regular budget.

115. Freelance staffs paid by the day (including interpreters) are not included in the above: there were 55 in 2011, with a cumulative contracts average of 22.5 days.

116. Finally, the number of vacant posts, for all funds, increased from 56 posts at the end of 2010 to 84 at the end of 2011, which allowed budgetary margins to be generated.

117. In total it is noted that with a headcount freeze of 551 posts, the number of staff on ICAO staff contracts has fallen whilst vacant posts logically increased, together with the number of consultants.

3.4. Staff numbers: qualitative aspects

118. During discussions on the last two triennial budgets, the Council wished to increase the relative share of professional (P) staff. This trend, which was not previously detected by the external auditor, seems to be beginning to emerge: of 62 staff recruited in 2011, 4 were directors (i.e. 2 at D-2 and 2 at D-1 level), 36 professional and 22 GS staff. In terms of staff present at 31 December, the situation has evolved as follows, with the number of professionals on ICAO staff contracts increasing from 43 to 45 per cent:

Table 11: P and G staff

	31/12/2010	31/12/2011
P	306	315
G	412	388
Total	718	703

(source: ICAO)

³⁶ Special Service Agreements

³⁷ 145 in 2010.

³⁸ 11 consultants were former ICAO staff.

119. The average age of staff has increased very slightly, from 48.8 years of age to 48.9 years of age. The age pyramid remains unbalanced: staff over fifty years of age occupy over half the posts:

Table 12: Age pyramid

20-29 years	12
30-39 years	100
40-49 years	206
50-59 years	341
Aged 60 and over	44
TOTAL	703

(source: ICAO)

120. 195 people are five years or less from retirement age if their contracts were to be renewed.

121. Concerning the distribution of staff with ICAO staff contracts between the various services, at 31 December 2010 and 2011 the situation was as follows:

Table 13: Distribution of staff in ICAO organization chart (acronyms represent the different services)

	President	OSG	ADB	ANB	ATB	RCC	RO	LEB	FIN	EAO	TCB	Total
2010	2	3	225	110	70	8	168*	14	45	5	68	718
2011	2	8	216	108	75	2	166*	18	42	4	62	703

*This figure includes ECAC staff with ICAO staff status and also ACIP staff in 2011.

(source: ICAO)

122. There has been a sharp fall in staff coming under the RCC, which heralds the complete disappearance of this service in 2012, with its tasks being henceforth carried out by OSG, which supervises Regional Offices directly.

Finding no.4: the number of staff actually employed by ICAO is much greater than the number of staff funded from the regular budget. There has been an increase in the number of staff seconded by governments in particular, together with an increased use of consultants. There is probably a link between the fact that, with a headcount freeze of 551 posts, the number of permanent staff has fallen, whilst at the same time the number of consultants has increased. Without it being demonstrated post-by-post, it would appear that consultants are replacing ICAO staff, which with the number of ICAO posts remaining unchanged would explain the increase in consultant numbers. ADB points out that “the increased number of consultants in 2011 is directly related to programme and operational requirements. In addition, a combination of other factors such as budget constraints and the headcount freeze also led to an increased number of consultants.”

Recommendation no.4: 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

3.5. Human resources section

123. In 2011 a report submitted by the ICAO Staff Association³⁹ was critical about the HR role, criticizing its lack of transparency and visibility in particular and also failures in terms of monitoring (especially for training)⁴⁰. The External Auditor has not audited the information included in the survey, and hence has no evidence that the information is based on true facts. It is very difficult to determine the context of the recommendations and to validate the analysis of the issues raised and conclusions derived. In some cases there is no obvious link between the answers provided by the survey respondents and the recommendations.
124. For his part the Secretary General was of the view in late 2010 that the HR section was not reactive enough, in particular with regard to awarding and renewing contracts. In 2011 he therefore reorganized the human resources section by creating two sub-sections, one in charge of day-to-day management (SEA: Staff Employment and Administration Section), the other in charge of strategic initiatives (POD: Policy, Organizational and Staff Development Section)⁴¹. The managers of the two sub-sections each report separately to a deputy director.
125. The deputy director is not only in charge of the two HR sub-sections, but also of the ICT section and three other sections: Conference and Office Services, Records and Distribution Management and the Travel Unit. In addition, this person has had limited availability as a result of being on sick leave for most of the year (this situation was ongoing at the time of the audit).
126. Even though the number of human resources staff increased in 2011, from 17 to 19 staff (+ 2 G), the External Auditor considers that a service with fewer than 20 staff to manage an actual total staff of more than 700 staff and 100 consultants is probably too small (a ratio of 3 to 4 per cent of total staff is generally used to determine the size of a HR service), especially since in view of the Service Code and the policy in force, which aims to make temporary contracts more widespread, the HR section was forced in 2011 to renew 271 contracts for staff who remained in post and recruit 62 new staff.

Finding no.5: current exceptional factors aside (senior manager on sick leave), the Auditor notes that the ICAO human resources section is probably understaffed given the ratio of 3 to 4 per cent of total staff applicable to staff management at organizations of a similar size. In the Auditor's opinion, the current situation, in which such extensive and varied functions as human resources, information technology, miscellaneous conference services, records management, etc. are placed under the responsibility of a single manager, can only be detrimental to the quality of human resource management, which is the organization's chief activity.

³⁹ "2011 Staff Morale and Quality of Civil Service at ICAO Survey Report"

⁴⁰ In addition, the Association had already criticized the increasing lack of employment security at ICAO, especially due to a growing use of consultants.

⁴¹ The POD section has already implemented a procedure for the forward-looking management of posts, the "HR action plan", at the level of heads of sections and offices in ICAO, which ought to allow better anticipation of and therefore increased reactivity to contract renewals.

Recommendation no.5: in order to reinforce the HR function, measures should be taken to increase the number of HR section staff, to bring it in line with the ratio of 3 to 4 per cent of the total staff number usually observed in organizations of comparable size, and to appoint a senior manager exclusively in charge of human resources, reporting directly to the ADB Director. If this recommendation is accepted, consideration should be given to reorganizing ADB senior management as a whole, in particular to manage activities such as information technology, languages, conferences, assembly and council secretariat, etc.

4. INFORMATION AND COMMUNICATION TECHNOLOGY

127. From 19 to 30 March 2012, the External Auditor performed a review of ICT within ICAO. The aim was, on the one hand, to check whether the information provided to the Council in this area through the triennium budget and associated documents is correct and, on the other, to determine the extent to which the ICT function, which is still very dispersed throughout the Organization, meets ICAO's needs economically and efficiently and, if necessary, to make recommendations.

4.1. ICAO's ICT costs

128. The budget for information and communication technologies (ICT) is included in the management and administration support expenses. The ICT budget totalled CAD 16.8 million⁴² for triennium 2008-2010 (CAD 2.9 million of which was not spent during the triennium), and is currently estimated at CAD 17.8 million for triennium 2011-2013 (including CAD 2.9 million carried over from the previous triennium, as the initially approved budget was CAD 14.2 million), with the following annual breakdowns for the entire 2008-2013 period:

Table 14: ICT budget (in thousands of Canadian dollars)

Year	Initial allotment	Allotment balance	Supplementary allotments - Transfers	Carry-over from year Y-1	Total	Payroll costs	TOTAL
	(excluding staff 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	2,587,734			1,717,836	4,305,570	1,858,392	6,163,962
2013	2,786,605				2,786,605	1,982,977	4,769,582

(source: ICAO)

⁴² The amount indicated in the 2010 report, i.e. CAD 18.6 million, did not take into account neutralization of the amounts carried over from the Y-1 years in the triennium.

129. The difference between the approved budget and the current estimated budget for triennium 2011-2013 owes to the following factors:
- the aforementioned carry-over of CAD 2.9 million from the previous triennium, for funds already committed in 2010 but not yet spent;
 - supplementary funds allocated over the course of 2011, totalling CAD 788.6 thousand, and transfers in the amount of CAD 216.3 thousand;
 - a CAD 304 thousand decrease in the estimated 2012 budget, excluding carry-overs;
130. Thus, excluding the carry-over from the previous triennium, the current estimated budget for triennium 2011-2013 totals CAD 14.9 million (= CAD 14.2 million from the initial budget + CAD 1.0 million in transfers and supplementary allotments, less CAD 0.3 million due to the budget decrease).
131. The overall six per cent increase in the ICT budget from one triennium to the next, shown in the table above, owes to various factors:
- the carry-over from the previous triennium (CAD 2.9 million), as the initial allotment of new resources (excluding the carry-over) was only CAD 14.9 million for triennium 2011-2013, i.e. an eleven per cent decrease from the previous triennium;
 - the change in perimeter of the ICT budget (covering all ICT in 2008-2010 but only the ICT Section in 2011-2013). Consequently, the ICT expenditure from other Sections has to be added to this budget;
 - in 2011, a special effort to refurbish the ICT infrastructure (servers, messaging systems, etc.), representing an expenditure of CAD 2 million.
132. For triennium 2011-2013, these allotments in the ICT Section's budget alone represent 5.45 percent of ICAO's regular budget and 11.9 percent of all management and administration appropriations (which already cover a very different perimeter than in the previous triennium).
133. As from 2011, allotments for ICT are split between three main support function categories: Programme Support (PS) with 60 per cent of ICT appropriations; Management & Administration (MAA), with 35 per cent; and Management & Administration – Governing Bodies (MAA GB), with 5 per cent.
134. The budgets are not directly comparable with those of the previous triennium because the methods of allocating the Organization's general costs between the programmes and support functions have changed, as the document presenting the budget for 2011-2013 points out⁴³.
135. In addition, for the 2008-2010 triennium, the budget reflected all ICT-related expenses (including staff costs), whether managed by the ICT Section or not, while from 2011 the budget reflects the expenses of the ICT Section alone.

⁴³ *Working paper A37-WP/43*, paragraph 28: these corporate costs are now part of the resources falling under the Supporting Implementation Strategies.

136. As stated above, the perimeter of the Organization’s ICT expenses and that of the direct expenses of the ICT Section therefore do not match up in 2011, as other management services can incur expenditure for ICT.
137. The expenses attributed to the ICT Section for accounting purposes represented CAD 7.8 million in 2011, CAD 7.6 million (including staff costs) of which was recorded in the regular budget.

Table 15: Accounting expenditure on ICT – regular budget and ICT Fund (in thousands of Canadian dollars)

Regular budget	7,604
ICT Fund	238
Total	7,842

(source: ICAO)

138. To recall, the accounting expenditure on ICT for the previous triennium (regular budget) as indicated in the External Auditor’s previous annual report was as follows:

Table 16: ICT expenditure entered into the accounts for the 2008-2010 triennium (in thousands of Canadian dollars)

	2008	2009	2010
Total ICT expenditure entered into the accounts	3,905	6,113	5,518
of which ICT Section	2,888	5,151	4,379

(source: ICAO)

139. Due to different presentation of the budget, the expenses cannot be compared between triennium 2008-2010 and triennium 2011-2013. The former budget presentation aimed to show all estimated ICT expenses recorded in the regular budget (regardless of which authority approved them), with the possible exception of expenses not declared as ICT-related in the accounts. The new budget presentation, however, shows only the estimated budget for the ICT Section.
140. From 2011, ICT expenditure is grouped into a Supporting Implementation Strategy managed by the ICT Section, and therefore requires budgetary authorization from the Section manager before being committed. This new approach is accompanied by the allocation of ICT expenditure to a single cost centre, which should improve the visibility of this activity in the budget and allow responsibility for the distribution of appropriations allocated to ICT to be concentrated in one place.
141. However, it appears that this rule is not rigorously followed. Examination shows that expenditure for ICT equipment (software or hardware) is sometimes allocated to other cost centres (regional offices, Director’s Office-ADB), or even allocated to cost centres, projects and work orders with no clear connection to ICT⁴⁴. This makes it impossible to track the totality of the ICT expenses incurred by ICAO.

142. To see the whole picture, the following must be taken into account:

- the salaries of ICT staff in regional offices (currently eight people), i.e. a total of roughly CAD 519 thousand;

⁴⁴ e.g. the purchase of several iPads by the ANB Director’s Office within the scope of the “Safety Management Implementation” project, whereas others were purchased and supplied to users by the ICT Section.

- the salaries of staff at the headquarters technical bureaus who have ICT responsibilities but are not at the disposal of the ICT Section. While this is not an exhaustive figure, at the end of 2011, the External Auditor found five ICT specialists – two consultants hired by ATB, and three people working partly on IKS in the Finance Branch (i.e. the equivalent of one full-time position, while fifteen other people at ANB (eleven ICAO employees and four consultants) were safety specialists with ICT skills – representing a total which can roughly be estimated at CAD 1,600 thousand;

- ICT expenditure executed from the budget lines of the bureaus' programmes, for the implementation of specific ICT applications or the outsourcing of ICT services. While this expenditure is difficult to quantify, the figure provided by ANB can at least be counted, i.e. CAD 250 thousand⁴⁵.

143. ICT expenditure outside the ICT Section could rise considerably in 2012 and 2013, conducting at least two high priority projects⁴⁶ with costs exceeding the ICT Section's resources, representing an estimated grand total of more than CAD 1 million.

Finding no.6: the cost to ICAO of ICT services is difficult to evaluate exhaustively because of the ICT function's dispersal among ICAO's different structures. Expenses managed by the ICT Section represented an annual total of CAD 7.8 million (including staff costs), which is a CAD 2 million increase from the previous year, for a smaller perimeter.

Even though the new budget presentation does not allow the overall ICT costs at ICAO to be reconstructed, excluding staff costs, the Auditor did not find significant expenses which were not allocated to the ICT Section, with the exception of the IKS project (representing CAD 122 thousand) and two ATB partnerships (CAD 200 thousand). When it comes to staff costs, however, ICT staffs outside the ICT Section represent a payroll cost which can roughly be estimated at CAD 2.1 million.

Recommendation no.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.).

144. At 31 December 2011, the ICT Section had 18 ICAO staff, including 13 P staff and 5 GS staff. They accounted for 2.6 per cent of the Organization's staff and an annual payroll cost of CAD 1.88 million. The headcount increased by two staff (with one staff departure, one new person was hired, and two people formerly working under consulting contracts were added to the staff over the course of the year).

145. Apart from these ICAO staff, the staff managed by the ICT Section also include:

- from the start of 2012, four people working on the websites (Web Management Unit) who previously worked for the RDM⁴⁷ Section;

⁴⁵ CAD 50 thousand for the purchase of hardware and software, and CAD 200 thousand for the development of ICT systems within the framework of partnerships with the Civil Aviation University of China and the Civil Aviation Flight University of China.

⁴⁶ "UASP Audit Manager Replacement Software" for the Security Branch, estimated at CAD 400,000, and "CO2 Reporting System" for the Environment Branch, estimated at CAD 600,000.

⁴⁷ Record and Distribution Management section.

- and, at 31 December 2011, 32 consultants (including one who works for ICT but is paid by ATB) who work for the ICT Section, representing 25 per cent of the Organization's consultants. This figure rose considerably in 2011, as there were only 15 consultants at 1 January 2011.

146. To be counted in addition to these resources managed by the ICT Section, there is also one officer seconded from China (free of charge), and four consultants who work in the ICAO offices but are paid from a service contract with an outside service provider.

147. The budget for the outsourcing of ICT services (including consultants) had already risen by 93.7 per cent in real terms in the 2008-2010 triennium. The same budget rose 54 per cent between 2010 and 2011, as shown in the following table:

Table 17: Estimated budget and expenditure related to outsourcing in the ICT Section (in Canadian dollars)

Year	Budget allowance	Accounting expenses	Expenditure percentage
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	2,121,817**	-	-

* data at 21 February 2011, unclosed accounts

** initial allotment only

(source: ICAO)

Finding no.7: expenditure for the outsourcing of ICT functions doubled from 2010 to 2011. The majority of the staff managed by the ICT Section is now made up of consultants (more than 2/3 of the Section at 31 December 2011), some of whom are employed to handle lasting functions whose sustainability and control is essential to the ICAO. This stress on the resources, particularly in terms of permanent staff, could lead to partial loss of control over the information system.

Recommendation no.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.

4.2. Organization of the ICT Section

148. The ICT Section plays only a limited role in ICAO's ICT organization, since not all of the ICT-related actions carried out in the Organization's different structures are under its control: each central or regional office can, as in the past,

independently develop projects with a large ICT component⁴⁸, maintain databases⁴⁹ or even buy ICT equipment using the budgets of programmes or the offices. As discussed above, these ICT expenses incurred beyond the ICT Section's control may therefore be invisible as ICT expenses (corresponding to time spent by staff not listed as ICT staff) or be buried in the operational expenses of programmes.

149. This situation can be explained, notably, by a lack of foresight in many projects: late discovery of needs which are often urgent does not allow for effective planning between the ICT Section and the different operational branches, who therefore resort to hiring consultants for their projects, from their own budgets.

150. This situation generates the following risks:

- lack of consistency and synergy between projects and applications, resulting in extra costs and limited opportunities for exchange between applications, as well as redundancies in the databases;
- applications and projects developed this way fall outside the master plan for ICT security, which only concerns projects and applications overseen by the ICT Section.

Finding no.8: the more centralized responsibility for the ICT budget, in effect since 2011, has not come hand in hand with functional responsibility for all of the Organization's projects. Thus, various structural projects have not been placed under the explicit control of the ICT Section, or even defined as being associated with it.

Recommendation no.8: the sole means of ensuring better control and greater security for all of the Organization's ICT functions is better planning in terms of requirements, and transferring the budget resources for the biggest projects to the ICT Section, thereby placing information system projects within the structure which is specifically set up to manage them.

4.3.Strategy

151. The observations on budget matters (dispersal of the ICT function), human resources matters (increasing proportion of outsourcing) and organizational matters (dispersal of responsibilities according to the nature of ICT projects) are largely explained by the lack of a unified overall strategy for ICT. However, the situation is improving.

152. In accordance with the recommendations set out in the external auditor's previous report, a recommendations and action plan was presented to the Senior Management Group (SMG) on 13 September 2011. This document recommends major directions for improvement through a six-year plan, and proposes a new information system governance model.

⁴⁸ e.g.: IKSIN (Information Knowledge System Network) is not managed by the ICT Section.

⁴⁹ such as the FSIX (Flight Safety Information Exchange) website, which is managed by the Air Navigation Bureau, and the USOAP database which is hosted by a private server within the framework of an outsourcing contract, also managed by the ANB.

153. This governance model was approved at the SMG meeting and was the subject of a memorandum from the Secretary-General on 22 December 2011. It establishes an authority called the Information Management Committee (IMC) made up of representatives from the different branches and headed by D/ADB. The IMC is completed by four groups: Web Management, Information Security Management, Project Management and Content Management. These groups have begun their work and all have a specific mandate.
154. In accordance with a recommendation set out in the External Auditor's report for the 2010 financial year, a master plan for the information systems is currently being drafted, and should be complete by summer 2012. Validation of this plan will be a major step forward. However, it is regrettable that no guidelines for the drafting of this plan (tasked to the manager of the ICT Section) appear to have been officially laid out by the Secretary-General's office – in the form of a mandate, for example.
155. In terms of coordination with the offices, the Auditor found that coordination exists between ICT and ATB, in the form of ATB-ICT Strategic Planning. As from mid-2011, ATB has centralized all project requests from the Branches, among which it establishes the priorities before coordinating with the ICT Section.

Finding no.9: the External Auditor observes that, in accordance with its former recommendations, ICAO has undertaken to establish a master plan covering all of the Organization's ICT. This may raise the question of who will ensure the application and monitoring of this plan. Given its position within the Organization, the ICT Section's authority in this regard is limited.

Recommendation no.9: 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.

5. AIR NAVIGATION BUREAU AND AIR TRANSPORT BUREAU AUDITS

156. The audit of the Air Navigation Bureau (ANB) and the Air Transport Bureau (ATB) was conducted in two phases: from 16 to 27 May 2011, the activities of ATB/ENV and ATB/EAP⁵⁰ were audited and preliminary contact was established with ATB/AVSEC and the manager of ANB and her team. From 24 October to 4 November 2011, the activities of ATB/AVSEC and the entire ANB were audited. The documentation for these various audits was prepared on the basis of questionnaires sent several months in advance.
157. The aim of the audit was to report to the Council on any discrepancies between the activities and funding of ANB and ATB on the basis of the triennial budget 2011-2013 approved by the Assembly, and the actual activity and financing of those two bureaus. The purpose was to draw the necessary conclusions and formulate

⁵⁰ *Economic analysis and policy*

recommendations with a view to the preparation of the budget for the next triennium.

5.1. Administrative organisation

5.1.1. Air Navigation Bureau

158. The Air Navigation Bureau is organised into eleven sections which fall into two main categories:

- seven sections deal with safety standardization and infrastructure:
 - o Flight Operations (OPS) – 12 staff members included in the budget (“established staff”) (+2 paid by ARGF);
 - o Air Traffic Management (ATM) – 11 staff members included in the budget;
 - o Aerodromes (AGA) – five staff members included in the budget;
 - o Communications, navigation and surveillance (CNS) – 12 staff members included in the budget;
 - o Accident Investigation (AIG) – three staff members included in the budget;
 - o Meteorology (MET) – five staff members included in the budget;
 - o Aviation Medicine (MED) – two staff members included in the budget.

- four sections deal with safety management and monitoring:
 - o Aviation Safety Training (AFT) – eight staff members included in the budget (+2 paid by ARGF);
 - o Continuous Monitoring and Oversight Section (CMO) – 17 staff members included in the budget;
 - o Integrated Safety Management (ISM) – five staff members included in the budget;
 - o Implementation Support and Development Safety (ISD – SAF) – four staff members included in the budget.

159. The State Aviation Safety Tools (SAST) section – 9 staff members included in the budget – reports directly to the director of the Air Navigation Bureau. Furthermore, 6 staff members included in the budget take part in management activities alongside the director of the Bureau. Likewise, the two deputy directors each have a team of two staff members.

160. Accordingly a total of 108 staff members included in the budget (“established staff”) are assigned to the Air Navigation Bureau, with a further 4 staff members paid by the ARGF fund. As detailed below, in actual fact, due to 8 vacant positions, the ANB only has 100 staff members with ICAO status (“ICAO staff”), paid out of the regular budget, in addition to the 4 staff members paid for by the ARGF, but also 14 seconded staff members paid directly by the member states, or whose salaries are reimbursed to the ICAO. Staff members under SSA contracts are not taken into account for the purposes of this audit.

5.1.2. Air Transport Bureau

161. The Air Transport Bureau is organised – in addition to the Director and the collaborators reporting to him, i.e. seven positions – into three entities, two branches and one section, whose responsibilities are clearly distinct.
162. The Security Branch (AVSEC - 34 staff members in total including the Branch Chief and two support staff) responds to the strategic objective to enhance global civil aviation security. It comprises three sections:
- The Aviation Security and Facilitation Policy (SFP) section (9 staff members) is responsible for the formulation and coordination of an effective global policy and legal framework to address threats to civil aviation. This section also has a mandate for programmes regarding facilitation and machine-readable travel documents (MRTD) and the Public Key Directory (PKD);
 - Aviation Security Audits (ASA) section, (13 staff members), which aims to coordinate and implement the Universal Security Audit Programme, the objective of which is to promote global aviation security through the auditing of ICAO Member States on a regular basis to determine States' capability for aviation security oversight and the status of States' implementation of the security-related ICAO Standards and Recommended Practices;
 - Implementation Support and Development (ISD – SEC) section (9 staff members) which aims to improve States' security oversight capability by facilitating and coordinating assistance to support States in implementing aviation security Standards and Recommended Practices and rectifying deficiencies identified by the Universal Security Audit Programme.
163. The Environment Branch (ENV – 11 staff members) covers issues related to climate change, local air quality and noise. A specific programme is dedicated to environment outreach and in particular, to cooperation with other United Nations bodies.
164. The Economic Analysis and Policy (EAP) section (16 staff members), is in charge of five programmes (nos. 32 to 36): further to a series of reorganisation operations, this section has been responsible for four areas since January 2010, and an additional one since January 2011: Regulation and Policies, Infrastructure Management, Market Analysis and Forecasting, Statistics and Databases and Joint Financing Unit.
165. The triennial budget provides ATB with 68 established positions. At the time of the audit, four positions were vacant, but 10 staff members were seconded (8) or detached (2) and 3 were paid by ARGF and joint financing. Thus, excluding staff under SSA contracts, ATB had a total headcount of 74 when the audit was conducted.

5.2. Budgetary presentation

5.2.1. Abandon of performance indicators

166. The Key Performance Indicators included in the budget for the 2008-2010 triennium were mainly non-quantitative activity monitoring instruments: to be effective, indicators should have included objectives with target figures, enabling measurement of the actual performance achieved. These indicators were abandoned.
167. The concept of Key Performance Indicators was not re-introduced for the 2011-2013 triennial budget. These indicators were replaced by “expected results” defined for each programme, however these expected results remain vague and are not based on actual figures. For example, for ATB/ENV: Increase the level of implementation – Programme 18, “Enhanced operation of the Regional Offices” – Programme 19, Increase the level of implementation of the critical elements of an aviation security oversight system” – Programme 20, “improve uniformity in the application of SARPs” – Programme 21, “increase the number of states which comply with standards” – Programme 22, “Increase the number of participants in ICAO PKD; Reduce MRTD issuance fraud in States; and Increase States capabilities” – Programme 23, “increase recognition of ICAO” – programme P4, “increase the effectiveness of measures to reduce emissions” – Programme 25, “increase the effectiveness of measures” – Programme 26, etc.

Finding no.10: the introduction of the “expected results” concept marks a difference compared with the previous concept which was based solely on activity monitoring, but this concept does not improve the objective measurement of the effective achievement of tasks included in the approved budget.

Recommendation no.10: the general application of a uniform tool such as the IKSAN 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”.

5.2.2. An unclear programmes/projects structure

168. Article IV (and more specifically article 4.4) of the ICAO financial regulations sets out the various items which must be included in the documentation submitted for the approval of the triennial budget, in the same way as for the other bodies in the United Nations system. These items include, inter alia, the need to present “programmes” to support “strategic objectives”. However, the notion of “projects” is not included in the information which must be provided to support budgetary requests⁵¹.

⁵¹ We note that this article 4.4 expressly provides for the presentation of “performance indicators”. This procedure is not complied with by ICAO in the 2011-2013 triennial budget; the previous triennial budget did provide for performance indicators, but these indicators were not used for monitoring purposes and were abandoned.

ANB

169. For ANB, we have noted that:

- for five sections, activity corresponds to one budgetary programme: integrated safety management, aerodromes, accident investigation, continuous monitoring and oversight and meteorology.
- the activity of the remaining seven sections is distributed across several budgetary programmes: two programmes for aviation medicine, implementation support and development (ISD safety) and aviation safety training; four programmes for communications, navigation and surveillance; five programmes for State aviation safety tools; six programmes for flight operations; eleven programmes for the air traffic management section, i.e. approximately as many projects as there are established staff in the budget.

170. The following table shows how presenting such detailed budgetary information can prove to be unreliable given its volatile nature: The following table provides an illustration of how projects are promptly changed, or even abandoned, while new projects are launched in the first year of the triennium:

Table 18: Distribution of programmes between ANB sections in the 2011-2013 budget

Programme	Section	Budgetary projects	Not mentioned in IKS	New
1 ATM – Airspace Optimisation	Air traffic management	1-5 and 7-9	10 and 11	1 active, 4 inactive
	Communications, navigation and surveillance	6		1 active, 3 inactive
2 Performance-Based Navigation (PBN)	Air traffic management	1-9		1 active, 1 inactive
3 Safety Management Implementation	Integrated safety management	1-6 and 8	7	5 active, 6 inactive
	Flight operations			1 active
4 Continuing Airworthiness	State aviation safety tools	5	6 and 7	
	Flight operations	1-3		4 inactive
5 ATM - Global Management	State aviation safety tools	1-3	4	4 active
6 Regional safety-related activities	Aviation medicine	2 and 5	1, 3, 4 and 7	2 new
	Air traffic management	6		
7 Safety – Revenue-generating (self-funding) activities	Air traffic management	5, 6, 17, 18, 21 and 23	16, 19, 20,	
	Flight operations	7-15 and 22	24, 25, 26	
	State aviation safety tools	1-4		
8 Regional coordination of safety-related activities	Implementation Support and Development - Safety	3 (inactive)		
	Air traffic management			1 active, 1 inactive
9 Aerodrome Safety	Aerodromes	1-9, 11 to 12	10	12 active, 4 inactive
10 Accident Investigation	Accident investigation	1-12		7 active
11 Safety Audit	Continuous monitoring and oversight	1-3 and 5-10		2 inactive
	State aviation safety tools	4		
12 Civil/Military Cooperation	Air traffic management	1-2		1 active
13 ATM SARPs	Air traffic management	1-3, 5-6	4	1 inactive
14 Regional Safety Oversight Organisations	Aviation safety training	5		
	Implementation Support and Development - Safety	2, 4, 6	1 and 3	2 active
15 Qualified Aviation Professionals	Aviation safety training	4, 5, 8	6 and 7	2 active
	Flight operations	1-5		
16 Critical Safety Risk Response	Air traffic management	11	2, 3, 8-10, 12 and 13	
	Flight operations	1 and 5-7		4 active and 4 inactive
	State aviation safety tools	4		
18 Security	Air traffic management	7		
	Flight operations	11		
28 Data Link	Air traffic management	2 and 3		
	Communications, navigation and surveillance	1 and 4		
29 Meteorology	Meteorology	1 to 2		
30 CNS/Frequency Spectrum	Air traffic management	5	4 and 9	
	Communications, navigation and surveillance	1-3 and 5-8		1 active
31 Digital aeronautical information	Communications, navigation and surveillance	1		
Total		127		44 active

(sources: triennial budget 2011-2013 and IKS database)

171. Such fragmentation of the activities of most sections also raises questions as to whether it is appropriate to distribute the budget between programmes and projects. Accordingly, some programmes managed by the air traffic management section could have been simple projects falling under programmes 1 or 2, which cover most of the activities of the section. For instance, this is the case for programme no.12 “Civil/Military Cooperation” or no.13 “ATM SARPs”.
172. This extreme division of activities within the same section also results in inappropriate allocation of staff. The salary cost of certain staff members can be charged to up to six different programmes. Excluding these extreme cases, the salaries of staff members belonging to sections which manage projects broken down across several programmes are, in general, charged to three or four programmes. This system is difficult to manage and thus does not guarantee a high level of reliability. In the audit, the auditors noted discrepancies in the allocation of 25% of salaries of ANB staff and requested the Secretary General to correct these discrepancies.

Air Transport Bureau

General situation

173. In two cases, the budgetary structure (programme) and the administrative structure (section) coincide: this is the case for programmes 20 (Security Audit), managed by ASA, and 22 (Implementation Support & Development - Security), managed by ISD. In other cases, the sections manage several programmes in parallel. More specifically, the ENV Branch alone manages four programmes.
174. However, as opposed to ANB, we noted that no programme is managed simultaneously by several sections, which makes the system more legible. Accordingly, the allocation of staff between the different programmes managed by the bureau does not present the same discrepancies as those noted for ANB.
175. As stated above for ANB, the following table shows the differences between the information presented in the triennial budget document and the actual situation regarding projects in the first year, with 20 projects modified, 17 projects completed during 2011 and 36 new projects at the date of the audit (October 2011):

Table 19: Distribution of programmes between ATB sections in the 2011-2013 budget

Programme	Section/ Branch	Project in the budget	Modified	Completed	New	Total projects
18. Security	SFP	13	4	1	2	14
20. Security Audit	ASA	8	3	-	-	8
21. Facilitation	SFP	10	-	-	1	11
22. ISD- Security	ISD	6	6	-	-	6
23. MRTD and Identity Management	SFP	10	2	2	1	9
24. Environment Outreach	ENV	18	-	-	2	20
25. Environment – Local Air Quality	ENV	17	-	2	-	15
26. Environment - Climate change	ENV	43	-	11	8	40
27. Environment - Noise	ENV	21	-	1	-	20
32. Sustainability – Revenue-generating (self-funding) activities	EAP	3	-	-	-	3
33. Enhanced Transparency of Aviation Policies	EAP	8	3	-	-	8
34. Statistics	EAP	4	-	-	-	4
35. Sustainable Air Transport	EAP	23	2	-	1	24
36. Airport/ANS Cost-Effectiveness	EAP	13	-	-	1	14
37 "+". PKD	SFP	-	-	-	4	4
37 "++". Climate	ENV	-	-	-	8	8
37 "+++". CO2 action plan	ENV	-	-	-	5	5
37"++++". JFU North Atlantic	EAP	-	-	-	3	3
Total				TOTAL PROJECTS		216

(sources: triennial budget 2011-2013 and IKS database)

The specific case of the Environment branch

176. The action of the Environment Branch responds to a series of objectives whose implementation is not always easy to understand and presents difficulties from a budgetary implementation analysis standpoint. ICAO pursues three main objectives in the environmental field: to reduce exposure to noise; to reduce the impact of emissions on local air quality; to reduce the impact of aviation on climate change.

177. In order to achieve these objectives, 4 programmes were assigned to the Environment Branch in the 2011-2013 budget: Local Air Quality (25), Climate Change (26), Noise (27) and Outreach (24).

178. It must be noted however, that during its 37th session, the Assembly adopted a major resolution devoted to climate change (A 37-19), thus resulting in some significant changes to the operational priorities of the Environment Branch. This resolution defines four “challenges and next steps” which have been established as priority actions for the branch: global aspirational goals; market measures; States’ action plans; alternative fuels. Among these actions, and given the budgetary and human resources which remain unchanged, the decision was taken to give priority to two of these actions – action plans for States and alternative fuels.

179. Without underrating the need to adapt the action of the Organisation's services to current developments and the decisions of the Assembly, we have noted that there is a problem of consistency and compatibility between the various orientations requested.
180. Accordingly, in order to perform the tasks requested from ATB and the Environment Branch, the services find themselves obliged to depart from the framework – which in principle should be strictly applied – set for them, namely by the budgetary documents approved by this same institution.

Programmes and projects: information to be simplified

181. The detailed formulation of 37 programmes broken down into 387 projects covering three strategic objectives (safety, security, environment/sustainable development), with 171 projects for ANB and 216 for ATB, creates a significant workload for limited results from a reporting standpoint: the previous tables clearly show that a project formulated four years before its final completion date is liable to have its content or even its existence challenged, while new projects may emerge.
182. Review of the procedure used to set the total amount of mandatory contributions, which is an essential aspect of the budget approval process, shows that in practice considerations and discussions on the budget have focused not on programmes and projects, but on the notion of zero growth which hardly has any link with the content of the said programmes and projects.
183. Moreover, we have noted that in the 2011-2013 budget there are a total of 37 programmes to cover three operational strategic objectives, which only account for around 32% of the total budget approved. On average, each programme represents only 0.89% of the budget. As far as projects are concerned, we have noted that there are more projects than there are ICAO staff, with a marked difference between ATB (where 1 staff member is responsible for 2.3 projects on average) and ANB (where this ratio stands at 1.2).
184. Translated into budgetary appropriations, this breakdown is largely artificial. In effect, the salaries of staff members are split between different programmes at the start of the preparation of the budget or when there is a change in their assignment. Consequently, only staff movements between bureaus or sections impact the distribution of staff appropriations between programmes compared with the initial presentation made to the Council. However, the actual duties performed by staff members or by a given section have very little bearing on budgetary implementation. Consequently, should a staff member in the Air Traffic Management (ATM) section, whose salary is charged to programmes 1, 2, 6 and 7 (Strategic Objective - Safety), actually be entrusted with the management of projects under programmes 28 and 30 (Strategic Objective – Environmental Protection), the budgetary implementation would not take this change of activity into account, despite the fact that it would have an impact on the breakdown of resources between strategic objectives. Accordingly, the programme-based budgetary implementation is, by construction, based on estimates and does not necessarily reflect the actual activities performed by the staff of the organisation. From this point of view too, it is not advisable to breakdown programmes between several sections.

Finding no.11: the structure of the Budgetary Document is unnecessarily detailed, with too many programmes of highly variable size, each of which, representing on average less than 1% of the total budget value. As for the number of projects, there are equally clearly far too many, particularly at ATB (and even more particularly at ATB/ENV).

Recommendation no.11: 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.

185. In relation to the specific case of ANB, the simplification recommended above could be based on prior consideration as to the actual activity of this bureau. In effect, in practice, regardless of the budgetary logic which is based on the notion of programmes, the ANB director analyses the activities of her bureau not on the basis of their objectives, but on the basis of broad operational categories. Thus, she distinguishes between five main activities for ANB and estimates the relative split between these activities as follows:

- core activities: 26%;
- resolution of shortcomings in safety and infrastructures: 22%;
- production of standards: 21%;
- safety monitoring: 18%;
- strategic safety development and planning: 13%.

186. The above figures provided by the Air Navigation Bureau have not been audited: nonetheless, this presentation based on the nature of the activity and not on its specific purpose, appears to give a much more realistic presentation of the actual activity of ANB than the presentation given in the budget.

Core activities

187. In the presentation proposed by the director of ANB, the core activities are as follows:

- contingency management (pandemics, natural disasters, air traffic control interruptions);
- resolution or mediation for conflict-related situations affecting civil aviation;
- updating operational documentation;
- operational advice for States, Industry.

188. These activities are only very poorly or even not at all disclosed in the budgetary documents: accordingly, contingency management, mediation or operational advice appear only at the level of certain project headings, and only for some programmes. For instance, project 1.8 or 4.6 and 4.7 correspond to consultations on airworthiness and air traffic management issues. However, consultations involving the World

Meteorological Organisation (WMO) or the World Health Organisation (WHO) in the event of contingencies are not reflected in the budget, while they account for a growing share of ICAO resources.

189. Regarding the projects led to prepare for these contingencies, there is some trace of these projects in the budget: for instance in the case of medical aspects of civil aviation, although the response to WHO requests is not mentioned *per se*, the main project under programme 6 focuses on cooperation arrangements for the prevention of the spread of communicable diseases through air travel (CAPSCA), which should, in principle, enable the appropriate implementation of a pandemic response.
190. Likewise, the operational documentation updating activity is included in “expected results”, but it is split across several programmes: programmes 4, 5 and above all 7, since a large portion of the operational documentation is sold.

Resolution of shortcomings in safety and infrastructures

191. The safety and infrastructures activities included in the presentation given by ANB are as follows:
- national safety tools;
 - air traffic management (ATM) - optimisation of airspace;
 - coordinated action to respond to shortcomings in safety and infrastructure;
 - cooperation and coordination between stakeholders.
192. We note that these activities are described more clearly than the previous activities in the triennial budget: indeed, they relate to programmes 1, 2 and 14, and part of programmes 9, 10, 11 and 16.

Production of standards

193. The standards production activity accounts for a significant share of the bureau’s total activity (approximately 1/5th), yet significantly less than expected, as a result of a review of programmes/projects that had initially been planned in the budget. It covers four fields:
- updating of 17 annexes and 5 procedures for air navigation services (PANs) and of more than 50 handbooks which provide guidance for the application of standards and recommended practices (SARPs);
 - coordination of 12 panels and 13 study groups;
 - opinions intended for States and industries on the interpretation of standards and recommended practices (SARPs);
 - coordination with other organisations responsible for the production of standards (ISO, RTCA⁵², EUROCAE⁵³, etc.).
194. Rather than being grouped into one single programme, these activities have been split across several budgetary programmes: programmes 1 to 4, 9, 10, 13, 16, 28 to 31. Our findings show that the share of these programmes, which amount to 7.4

⁵² *Radio Technical Commission for Aeronautics*

⁵³ *European Organisation for Civil Aviation Equipment*

MCAD of budgetary appropriations, represent in budgetary terms approximately one half, and not 1/5th actually disclosed by the ANB bureau's responsible officer, which clearly demonstrates the gap between the budget presentation and actual activities⁵⁴.

Safety monitoring

195. According to the presentation given by the bureau director, this field of activity falls into three main categories:

- firstly, the IT system used by States to input, in real time, their stage of implementation of recommendations made during ICAO audits (electronic filing of differences, EFOD⁵⁵) – programme no.5;
- secondly, tools, namely IT tools, containing safety-related data, such as iSTARS (ICAO in-house safety management system) – programme no.3;
- finally, audits of the safety systems of member states in the framework of the Universal Safety Oversight Audit Programme (USOAP), based on the Continuous Monitoring Approach (CMA). This activity is found under programme no.11.

Strategic development and safety planning

196. Under this heading, the Air Navigation Bureau includes mainly the development and updating of the Global Aviation Safety Plan (GASP) and the regional plans (RASG) which are provided for by programme no.3, the development and updating of the global air navigation plan and the coordination of the work carried out by Planning and Implementation Regional Groups (PIRG), the last two activities being covered under programme no.5.

197. Also included in strategic safety development and planning is the study by the bureau on the next generation of aviation professionals (programme no.15)

Finding no.12: examination of the actual activity of ANB shows that a significant portion of this activity is not or poorly reflected in the current programme-based budgetary presentation: in general this regards core activities and more specifically contingency management.

Recommendation no.12: 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.

⁵⁴ Given the fact that 70% of total ANB bureau expenditure relates to staff costs, it is reasonable to consider that the proportion of a planned activity to the total budget should approximately agree to the proportion of actual activity to total bureau expenditure.

⁵⁵ ICAO *Electronic Filing of Differences*

5.3. Non budgetary financing of ANB and ATB in 2011

198. ANB and ATB benefit from four types of non-budgetary financing:

- financing from voluntary funds (and in some cases, from fees)
- secondees (contributions in kind) from several States;
- missions and conferences paid or reimbursed by third parties (“cost recovery”)
- ancillary revenues financing some activities

Voluntary funds

199. For ANB, there is only one non-budgetary fund: the safety fund or “SAFE”, providing funding of CAD 1.4 million. No commitments had been made from this fund at the audit date.

Table 20: Resources allotted to ANB for fiscal 2011 (in thousands of Canadian dollars)

Fund	Allotments	Amounts managed 1101 ⁵⁶	Amounts managed 1106 ⁵⁷	Total amounts managed
Amount	19,698	3,288	2,915	6,203

(source: ICAO)

200. In the above table, the first column shows the total budget allotted to ANB in 2011; the following columns show the allotments to the bureau director as “allotment holder”.

201. For ATB, the voluntary contributions or fees, which are added to regular resources, replenish four funds: AVSEC and Environment and, in another framework, PKD and JFU.

Table 21: Resources allotted to ATB for fiscal 2011 (in thousands of Canadian dollars)

Fund	Allocations (allotment)	Amounts managed 1101	Amounts managed 1106	Total Amounts managed	Voluntary contributions fund
Amount	12,017	2,861	427	3,288	2,666

(source: ICAO)

202. For a total regular budget allotment of CAD 11.7 million for ATB, the ATB director is responsible for CAD 3.3 million directly. Moreover, her bureau also benefits from voluntary contributions amounting to CAD 2.7 million. The origin of the voluntary contributions is as follows:

⁵⁶ Regular budget

⁵⁷ Efficiency and carry over fund

Table 22: Voluntary contributions made to the ATB activity in 2011 (in thousands of Canadian dollars)

Fund	
AVSEC	1,513
Environment	187
PKD	306
JFU	660
Total	2,666

(source: ICAO)

203. The Secretary General has indicated that the figures provided to the external auditor at the time of the audit are not all unreliable: for instance, the Environment fund has only received 6 kCAD in 2011 rather than the 187 kCAD as presented in the above table.

204. We note that these funds supplement the resources of some programmes included in the budgetary document, and more specifically programme 22 (“implementation support & development”) which this way received CAD 1,322,000 in 2011. As for PKD, Climate and JFU North Atlantic, they receive external funding which ensures their equilibrium.

Seconded staff

205. For ANB, as stated above, compared with the established budgetary headcount of 108 officials (cf. table below), eight positions were vacant when the audit was conducted and actual headcount actually stood at 100.

Table 23: ANB budgetary headcount

ANB	D/P	G	Total
RP status	60	48	108

206. In actual fact, more than 40% of professionals working for ANB are funded from outside the regular budget. Based on the criterion of the origin of funding, when taken into account that funds 1101 (regular budget) and 1106 (efficiency and carry-over) both come from mandatory contributions, this figure falls to 17.50%, which is nonetheless high.

Table 24: Actual ANB headcount

ANB	D/P	G	Total
RP status (<i>June 2011</i>)	56	42	98
SSA 1101	6	1	7
<i>Total headcount regular budget</i>	62	43	105
SSA 1106	25		25
<i>Total funded by mandatory contributions</i>	87	43	130
SSA other funds	4		4
Detached (funded)	4		4
Seconded	10	0	10
Total	105	43	148
% outside regular budget	41.75%	0.0%	29.05%
% excluding mandatory contributions	17.50%	0.0%	12.20%

(source: ICAO)

207. The ANB auditing activity (USOAP-CMA programme) has access to a pool of 75 experts who work on missions lasting an average of 7 days. The States which provide experts pay their salary, while ICAO bears their travel and mission expenses.

208. As far as ATB is concerned, the headcount with "ICAO staff" status provided for in the triennial budget 2011-2013 was as follows for 2011:

Table 25: ATB budgetary headcount

ATB	D/P	G	Total
RP (status)	39	29	68

(source: ICAO)

209. However, at the time of the audit there were eight vacant positions and there were therefore only 64 officials with ICAO status. ATB also has staff members under temporary contracts (SSA). Finally, officials from member states are seconded to ICAO. They are given ICAO status and their salary is reimbursed to ICAO by the member states concerned ("detached" funded officials), or are paid for directly by the states without any financial transactions between the said states and ICAO ("seconded" officials). A list of this headcount at the time of the audit is provided in the following table:

Table 26: Actual ATB headcount (October 2011)

ATB	D/P	G	Total
RP status (June 2011)	34	26	60
SSA 1101	7	2	9
Total headcount regular budget	41	28	69
SSA other funds	5	2	7
Other (other funds)	1	2	3
"Detached" (reimbursed)	2		2
Seconded	8		8
Total	57	32	89
% outside regular budget	26.67%	12.12%	21.51%

(source: ICAO)

210. In total, 22% of the ATB headcount is funded by external funding. This percentage is even higher for professionals, since 27% of professional staff members are not funded from the regular budget.

211. Finally, the auditing activity (USAP programme) uses 156 experts for missions which last an average of 7 days. The States which provide experts pay their salary, while ICAO bears their travel and mission expenses.

212. As far as the "detached" or seconded staff to the two bureaus (ANB and ATB) are concerned, their breakdown by State of origin was as follows at the time of the audit:

Table 27: Personnel seconded to ANB and ATB

State	"Detached" (1)	Seconded (2)	Assignment	Total
United States	4	-	ANB/CMO, ANB/SMM, ATB/AVSEC-ASA, ATB/AVSEC-ISD	4
Italy	1	-	ATB/ENV	1
Japan	1	-	ANB/ISM	1

Korea	1	-	ANB/CMO	1
China	-	5	ANB/AGA (2) ATB/EAP (2), ATB/AVSEC	5
Canada	-	2	ATB/AVSEC-ASA, ATB/AVSEC-ISD	2
Switzerland	-	1	ATB/AVSEC-ASA	1
France	-	3	ANB/ATM, ANB/CMO, ATB/ENV	3
Singapore	-	2	ANB/OPS-ISM	2
Saudi Arabia	-	1	ANB/CMO	1
UK	-	1	ANB/CNS	1
Sweden	-	1	ANB/MET-AIM	1
Malaysia	-	1	ANB/CMO	1
TOTAL	7	17		24

(1) Under ICAO staff status but reimbursed by States

(2) Paid for directly by States

(source: ICAO)

213. There are a total of 10 seconded staff for ANB and 7 for ATB. Most of these seconded staff members are assimilated to P4 professionals: if the ICAO budgetary valuation key is applied (CAD 182,818/year in 2011), this contribution accounts for equivalent funding of around CAD 3.3 million⁵⁸. On the same basis, detached staff (4 for ANB and 3 for ATB) amount to a voluntary contribution of around CAD 1.1 million. Accordingly, in total, detached and seconded staff members represent a total extra-budgetary contribution of CAD 4.4 million, including CAD 2.6 million for ANB and CAD 1.8 million for ATB, i.e. in total, the equivalent of 20% of the payroll. This should be added to the 11 SSA (7 at ATB and 4 at ANB) whom, on the same conventional basis, would amount to around CAD 2 million, which would increase the voluntary contributions for seconded or detached ICAO staff to almost CAD 6 million, i.e. equivalent to 30% of budgeted staff costs for the two bureaus.

Finding no.13: in order to perform their duties, ANB and ATB have noticeably more professional staff members than those provided for in the budget. Review of the budgetary documents shows that although the members of the Council are generally aware of this situation through non-budgetary documents, it is not taken into account in assessing the needs to be covered by mandatory contributions.

Recommendation no.13: 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 organisation.

Missions and events paid for by third parties

214. In addition to its regular budgetary resources (funds 1101/1106), ANB benefits from the payment of travel, accommodation and conference expenses by third parties on the basis of a two-fold procedure: direct payment by States or host organisations, or reimbursement (“cost recovery”) by the latter of costs incurred by

⁵⁸ The General Secretariat made an observation that standard cost cannot be used for calculating the value of secondees as we don't know which level/step the secondees were being paid for by their respective governments. However the external auditor has taking a different perspective as he is assessing the cost of a secondee as if ICAO had to recruit ICAO staff directly.

ICAO. The following tables provide an assessment of the corresponding contributions for both bureaus, for the first 10 months of 2011:

Table 28: ANB missions and events paid for in full or in part by third parties in 2011 (as at 26 October) (in Canadian dollars)

ANB (68 events)	
“cost recovery”	218,734
Direct payment	149,596
Total	368,330

(source: ICAO)

215. The data for ATB are as follows:

Table 29: ATB mission and events paid for in full or in part by third parties in 2011 (as at 26 October) (in Canadian dollars)

ATB (14 events)	
“cost recovery”	51,937
Direct payment	114,602
Total	166,539

(source: ICAO)

Activities self-funded by the generation of ancillary revenues: the case of MRTD

216. For ANB, in 2011 revenue-generating activities, namely in the framework of the TRAINAIR programme and various publications, generated sufficient funding to cover the salary costs of 4 staff members from the ARGF fund, i.e. the equivalent of around CAD 0.5 million. The audit did not enable the detection of other revenue generated by ANB giving rise to additional amounts for ANB.

217. For ATB, in 2011 revenue-generating activities provided additional funding of CAD 396,000 reallocated to ATB: for the most part this funding contributed to financing the MRTD (CAD 351,000) and Statistics (CAD 45,000) activities.

218. The MRTD (“Machine Readable Travel Documents”) Programme establishes standards, specifications and best practices in all MRTD-related areas. Effective implementation of MRTD standards and specifications has been instrumental in increasing national and international security and promoting facilitation benefits. It also enhances global security by providing inspection tools and assistance to member states. Article 37 of the Convention and Annex 9 are the governing texts in this regard. The specifications enacted by ICAO are included in document 9303 which is constantly updated in response to new technological challenges and the security needs of member states. The Council monitors this work through a specialised panel of the Air Transport Committee (ATC), the “Technical Advisory Group on Machine Readable Travel Documents”. In the budget “MRTD & Identity management” form programme 23: “Improve security worldwide by providing leadership, tools and assistance to states to effectively implement MRTD programmes.” This programme was initially subdivided into ten projects. Among these ten projects, the three state assistance projects have now been grouped together into one single project.

219. In the words of the ATB managers themselves, the business model of the MRTD programme is “unstable”. Indeed, this programme is mainly self-funded through revenue-generating activities (RGA). By definition, these activities do not generate a fixed revenue stream. They concern mainly the organisation of an annual symposium held at the Montreal headquarters and 2 seminars⁵⁹. This incurs costs. Two staff members are detached to ATB, but the total cost of these staff members (CAD 76,400 for 2011) is borne by ARGF. The breakdown of responsibilities between AVSEC and RGA is flexible and AVSEC decides on the contents for the event, while RGA is responsible for its material and financial organisation. Naturally, the boundary between these two functions varies, since to ensure the success of the event, RGA may influence its contents. Another expenditure item regards the speakers selected to take part in the conference, since, in a few cases, ICAO covers their travel expenses. Except for the latter, speakers or moderators are never compensated for their participation. As for the revenues, they come from participant fees or from sponsors in the form of contributions by companies which act as sponsors, rent exhibition space or pay for group registrations.
220. The annual symposium is a wide-scale operation. The last edition of the symposium (7th edition) held in September 2011 resulted in expenditure assessed at CAD 172,700 for the full year. The stated revenues will be CAD 612,806, thus giving a significant profit of around CAD 440,106 net. The two seminars planned for 2011 ran into difficulties. The seminar set to take place in a State in May had to be cancelled due to the last-minute withdrawal by this country and was replaced by a seminar held in Doha (Qatar) in November 2011, thanks to the support provided by this member state. The Singapore seminar – which is also being hosted thanks to the support of this state - will eventually take place in November 2011, after a great deal of uncertainty. These seminars are not based on any particular pre-established business plan. The revenues generated for the seminar in Qatar were CAD 152,365, and CAD 121,204 for the event in Singapore for an expenditure amount of CAD 38,200 for each, thus giving a theoretical profit of CAD 114,165 for Qatar and CAD 83,004 for Singapore, for a total of CAD 197,169 for the seminars..
221. We note that the MRTD programme, which is a priority for ICAO’s action on security matters and which is a major expectation for the majority of member states, is based on un-sustainable funding, which although until now has achieved positive results, provides no guarantee as to the sustainability of this funding. It is also based on the voluntary contribution of a limited number of member states which host related events and provide speakers for all of the events and articles for the magazine. These states are few and they cannot host all of these events (AVSEC, but also other ICAO events). Likewise, there are also a limited number of corporate sponsors which contribute to these events on a regular basis. We have noted a decline in interest on their part, since the level of the managers which these companies send to these events is becoming increasingly less important. Finally, as observed by the external auditors in other areas, the accounts kept by RGA are relatively unclear. Accordingly, when we assess the amount received from sponsors and exhibitors on the basis of a simple calculation based on the published rates and effective participants, this gives a figure which is much higher than the revenues

⁵⁹ In addition, three issues per year of the specialized magazine (the MRTD Report) are published, and vendors are charged a fee for appearing in the MRTD listing published in the MRTD Community web site.

declared by RGA to MRTD/AVSEC. Likewise, we have seen that the available figures given by event organisers – notably for seminars – are estimated on a lump-sum basis and do not necessarily reflect a commercial reality.

222. Although, in substance, this subject is of increasing concern for member states - for whom facilitation and security issues are becoming major priorities - and the demand of member states for ICAO assistance is increasingly high, ICAO does not have any sustainable financial and budgetary structure for this activity.

Assessment of the overall impact of extra-budgetary funding

223. All in all for ANB, the foregoing developments show that extra-budgetary funding (i.e. excluding funds 1101 and 1106) stands at CAD 2.6 million for staff, CAD 0.4 million for missions and conferences and CAD 0.5 million for revenue-generating activities, i.e. a total of CAD 3.5 million which, compared to total ANB allotments (CAD 19.7 million), accounts for 20% of the approved budget and carry over (funds 1101 and 1106).

224. Likewise, in total for ATB, extra-budgetary funding stands at CAD 2.7 million for the voluntary contribution funds, CAD 1.8 million for staff, CAD 0.2 million for missions and conferences and CAD 0.4 million for revenue-generating activities, i.e. a total of CAD 5.1 million which, compared to total allotments (CAD 12.0 million) accounts for 42% of the approved budget and carry over (funds 1101 and 1106).

Finding no.14: significant shares (20% for ANB and 42% for ATB) of the activities of ANB and ATB are funded by extra-budgetary resources. In at least two cases (revenue-generating activities, and payment of events and missions by third parties), this method of funding could pose problems related to conflicts of interest in the long run (which could be especially the case for the TRAINAIR programme for ANB and the MRTD⁶⁰ programme for ATB). Moreover, we note that for some programmes which could now be considered to be of priority importance (e.g. MRTD), these funding methods provide no sustainability for the programmes concerned, which is nonetheless crucial. Finally, the formulation of the triennial budget does not take account of the importance of these external resources in the strategic objectives and programmes. Even though the Secretary General believes that these resources cannot be estimated precisely, their relative importance requires taking a reasonable estimate into account during the budget preparation process.

Recommendation no.14: the non-budgetary funding of the activities of ANB and ATB leads to the following recommendations:

- 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

⁶⁰ Machine Readable Travel Documents

funding, which by definition is more unstable, should be geared more towards actions which do not require long-term stability.

6. AUDIT OF THE ANCILLARY REVENUE GENERATION FUND

225. The audit of the Ancillary Revenue Generation Fund (ARGF) took place in Montreal from 15 to 27 May 2011.

226. One of the issues raised by the External Auditor at the time of this audit was the risk of a lack of consistency in the management of the ARGF associated with its teams being under two separate chains of command: marketing (the responsibility of an RGA unit) was under the management of FIN, and service provision (the responsibility of two services: COS for conferences and RSED for publications) was attached to ADB. The External Auditor had expressed his doubts to the Secretary General about the effectiveness of such an organisational structure in a provisional document. By a decision of 1 November 2011, without awaiting the audit's definitive conclusions, the Secretary General signed an IOM⁶¹ attaching the RGA unit to ADM, bringing the managerial split observed by the External Auditor to an end. The External Auditor obviously approves of this decision and the explanations below therefore no longer mention the difficulties associated with the old management structure of the ARGF.

227. Before reporting on the audit, the External Auditor observes that an initial audit of the ARGF had already been performed, in June 2009 by ICAO's Evaluation and Internal Audit Office (EAO). The follow-up report on the recommendations made as a result of this initial audit, presented to the Council in March 2011 relative to the financial year 2010, recalls that sixteen recommendations were made and that, to date, seven were still being implemented. At the time of the External Auditor's audit, most of the recommendations in the internal audit had been taken into account or were in the process of being taken into account, with the exception of one recommendation proposing that administrative support posts should be paid for out of the regular budget – this recommendation had turned out to be incompatible with the Council's desire not to increase the number of posts paid for from the regular budget.

6.1. Ambiguity of the texts defining the Fund's activities

228. The establishment of the Ancillary Revenue Generation Fund was proposed in January 2006 by the Secretary General, and was approved the following month by the Finance Committee and the Council and then adopted by the Administrative Commission at the 37th session of the Assembly in September 2007 for implementation as of 1 January 2008. Article VI of the amended Financial Regulations therefore stated, in Article 7.3c, that “the Ancillary Revenue Generation Fund will be used to record all revenues and expenditures relating to self-financing activities”.

⁶¹ *Inter-Office Memorandum*

229. On this basis, it could be considered that the purpose of the Fund is to cover both activities that recover their costs totally or partially (Cost Recovery Activities) and activities that generate sufficient surplus to be used for other purposes (Revenue Generating Activities). Because the Council's primary aim is to reduce the level of the Member States' contributions and to improve the way it keeps track of revenue and costs, both categories of activity were naturally included in the Fund. However, in practice, the criteria for bringing miscellaneous activities under the ARGF are not so clear:
230. Document C-WP/12520 of 2006 proposes a different criterion for allocating activities to the Fund, no longer based on financial characteristics, but rather on the very nature of the activity, since it states that such activities are “all activities related to the sale of publications, royalties and all the revenue-generating activities that were previously conducted through special accounts approved by the Council and the Secretary General.” This document nevertheless states that “all future activities intended to generate revenue must be included in the Fund”, although it does not specify whether revenue should simply cover costs or generate a surplus.
231. On the other hand, various provisions seem to indicate that the Fund’s income does not include certain automatic revenue (which could include, for example, revenue from investments or leases, or from the disposal of obsolete or useless assets), since the added value of the ARGF in this case is non-existent. In accordance with the latter principle, the Financial Regulations (Art. 106.1) stipulate that various receipts are directly allocated to the regular budget (interest on investments, income from the disposal of assets, income from the sale of recycled paper, other ancillary receipts), and they give a list of the receipts that the Fund is authorized to collect, specifying seven distinct activities: periodicals, printing and publications; events and symposia, training for third parties, licensing agreements, partnerships in statistics, products and services related to dangerous goods, conference services and rental of offices. However, the Secretary General does not consider this list to be restrictive.
232. Last, with regard to Fund expenditure, the draft ARGF Procedures Manual states that this includes:
- . payroll costs for staff allocated to RGA or contributing to RGA (totally or partially recorded on the basis of “special agreements”);
 - . other expenditure agreed for RGA;
 - . investments made for RGA.
233. In practice, in view of these differing definitions of the revenue and expenditure that can be allocated to the Fund, it can be seen that the Secretary General has a great deal of latitude in defining the scope of the ARGF’s activity. This flexibility is laid down in the 2008-2010 budget (doc. 9895, p.67), which states that the ARGF should “identify and allocate all costs which are directly related to revenue generating activities”. In practice, it can be seen that:
- some activities are included in the ARGF without having been expressly specified: this is the case with the Commissariat, which is not on the list of revenue items set out in the Financial Regulations (Art. 106.1), and yet which was included in 2009 on the initiative of the Finance Department, with a view to putting an end to the fact that it was not expressly allocated to any of

the Organization's budgets. The Council can be considered to have ratified this decision after the event, by including the Commissariat in the budget for the triennium 2011-2013;

- other activities are entirely paid for out of the ARGF, even though they do not contribute to revenue generation: this is the case of certain payroll costs which are fully paid for out of the Fund even though the staff in question are only marginally involved in the Fund's business (this point will be discussed in detail below);
- one last set of activities is currently excluded, although it was initially allocated to this Fund: this is the case of Account 1211 "contributions allocated", which included around a hundred sub-accounts most of which were related to training provided by ANB. These accounts were initially allocated to the ARGF because this was expenditure that was covered by revenue. As of 2010, the Finance Department has, however, proposed closing these accounts that were partly inactive and transferring the balance to the regular budget. During the financial year, receipts to this account came to CAD 600,078 made up of voluntary contributions (CAD 70,203), training (CAD 260,037) and miscellaneous operations (CAD 269,838, including CAD 260,416 for organizing a diplomatic conference in China in August-September 2011).

Finding no.15: the definition of the Fund's scope is still unclear. It includes, as revenue and/or expenditure, activities based on a logic of cost recovery (such as the Commissariat) but excludes certain other activities (such as contributions to Account 1211), and includes expenditure, notably on staff costs, that bears no relation to the production of revenue from external sources.

Recommendation no.15: 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.

6.2. Position of RGA activity in relation to ICAO's strategic objectives

234. According to document C-WP/12520 of 26 January 2006 as submitted to the Council, the Organization, which, at the time, was seeking to make budget savings, wanted to "reconcile the costs of revenue-generating activities against the related revenue" and "provide flexibility for commercial operations and improve transparency by enabling management bodies to monitor the costs related to revenue-generating activities more closely". It was nonetheless admitted from the outset that this concern to seek revenue-generating activities (RGA) was secondary to ICAO's strategic objectives. This is why, at the Council's request, the Fund was termed "ancillary", thus clearly defining its purpose.

235. The triennium budgets for 2008-2010 and 2011-2013 set out the Fund’s objectives, strategic approaches and expected performance, with the latter expected in particular to make a significant contribution to the regular budget: as such, the Fund makes an indirect contribution to ICAO’s strategic objectives and, therefore, is of concern to all the operational directorates.
236. The budget for the triennium 2011-2013 includes several programmes (notably programmes 7 and 32) aimed specifically at the generation of certain revenue, based on the intellectual property developed by ICAO, in particular in safety and air transport. That said, the generation of ancillary revenue is not a responsibility shared by every operational unit of the Organization, as long as there are no procedures that define their actual involvement: except for the Director of the Bureau of Administration and Services (ADB), the other directors of ICAO have not been assigned any such objective in their assessment process, although, in many cases, ancillary revenue is derived from activities over which they have responsibility.

Finding no.16: with the exception of Director of the Bureau of Administration and Services (ADB), generating ancillary revenue is not included among the management objectives defined for ICAO directors, even though a significant part of such revenue is derived from their activity and contributes to it in return.

Recommendation no.16: the Council could ask the Secretary General to assign the operational departments targets for contributing to the generation of ancillary revenue derived from their activities. The achievement of these objectives could be monitored on a monthly basis.

6.3.Forecast activity and achievements

237. In June 2009 the Internal Auditor noted the absence of a business plan for the ARGF. Following this observation, plans have been drawn up annually since the end of 2009. However, bearing in mind that the entities involved in the ARGF’s activity were split in two, it was not possible to consolidate the two plans that have been produced, one by the RGA section of the Finance Department (responsible for marketing) and the other by ADB for the COS (conference services) and RSED (publication services) sections.
238. Article 7.3c of the amended Financial Regulations states that “budget forecasts for the Ancillary Revenue Generation Fund, indicating the revenue and expenditure as well as the estimated sums to be paid to the general fund to finance the regular budget approved by the Council, are presented to the Assembly, at the same time as the regular budget, for examination and approval.” In accordance with Art. 104.2 of the Financial Regulations, the ARGF’s budget is subject to a three-year forecast. In application of this provision, the 2008-2010 budget provided the following business plan for the ARGF, which comes from a simple projection of revenue and expenditure:

Table 30: ARGF business plan 2008-2010 (in thousands of Canadian dollars)

	Revenue	Expenditure	Income
Periodicals, publications, printing and distribution	29,100	19,650	9,450
Events and symposia	1,832	946	886
Training	1,656	1,287	369
Licensing agreements	573	115	458
Partnerships in statistics	557	11	546
Dangerous goods	2,243	1,376	867
Conference services and rental of offices	4,386	4,051	335
ARGF governance	-	566	-566
Total	40,347	28,002	12,345

(source: triennium budget for 2008-2010)

239. Compared with the budget presented for the triennium 2008-2010, the Fund has seen growth over 16 per cent higher than the initial forecast, more or less equally affecting both revenue and expenditure. Revenue related to Publications and Periodicals matched the estimate, whereas expenditure did not increase as much as forecast, giving a higher income. There was also an increase in licensing and partnership activities as forecast. On the other hand, the distribution for other activities differs significantly from the forecast:

- . conference Services and Rentals including other activities were nearly twice as much as expected, and income was four times more than expected;
- . revenue related to Events and Conferences grew nearly twice as fast as expected, meaning that revenue to the Fund was twice as high;
- . training, however, did not achieve its volume or income targets.

Table 31: Comparison between forecasts and performance for the ARGF 2008-2010 (in thousands of dollars)

	Forecast			Performance		
	Revenue	Expenditure	Income	Revenue	Expenditure	Income
Publications, periodicals, including web management and dangerous goods	31,343	21,026	10,317	31,198	17,792	13,406
Events and conferences	1,832	946	886	3,180	1,331	1,850
Training	1,656	1,287	369	182	32	150
Licensing and partnerships	1,130	126	1,004	1,289	395	894
Services and rentals (incl. Commissariat)	4,386	4 051	335	10,165	8,455	1,710
Fund management (excl. transfers to RB)	0	566	-566	916	3,421	-2,505
Total	40,347	28,002	12,345	46,930	31,426	15,505

(source: ICAO accounts 2008-2010)

Finding no.17: forecast Fund activity is not supported by a consolidated business plan. Although the overall forecast of activities proved correct, the distribution did not turn out as expected.

Recommendation no.17: 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.

6.4.Limited hiring flexibility

240. In compliance with the decision of the Secretary General of October 2007 communicated in an interoffice memorandum (IOM) of 24/10/2007 proposing a reduction in staff funded by the regular budget, the triennium budget 2008-2010 forecast a net staff reduction of 111 posts, of which 52 (5 P and 47 GS) to be transferred to the ARGF from programmes VI. Administrative support (47, of which 43 GS) and VII. FIN, EPO, EAO (5, of which 4 GS). The 52 positions were indeed funded by the ARGF in 2008 and this staff today still represents more than 71% of staff paid by the Fund.

241. However, in practice, a larger number of staff than this were paid by the ARGF, and they can be broken down into three groups:

- . staff performing activities that are directly concerned by the RGA (RGA, RSED and COS);
- . staff from support entities (FIN and ADB);
- . staff concerned from operational directorates (ANB and ATB).

Table 32: Breakdown by entity of staff paid by the ARGF

As at 31/12/2010	2008	2009	2010
FIN/RGA	9	9	9
ADB/RSED	36	36	37
ADB/COS	16	14	14
Total direct RGA	61	59	60
FIN except for RGA	3	3	3
ADB except for RSED	6	9	7
Total support activities	9	12	10
ANB	2	5	5
ATB	-	1	4
Total operational activities	2	6	9
Total posts	72	77	79

Note: situation as of 30/04/2011 for 2011. Scope corrected on the basis of current organization.

(source: ICAO Staff Master List)

242. Last, although the original plan was to transfer 52 posts from the regular budget, the staff paid for by the ARGF has gradually increased since 2008 so that by 2010, 79 posts were being funded in total, 60 for RGA and 19 for support activities (FIN and ADB) and operational activities (ANB and ATB).

243. In itself this finding does not attract any particular criticism, since all these staff do actually contribute to generating revenue for the ARGF and they are provided for in the budget. However, this growth illustrates the partly artificial nature of the ceiling on posts set in the regular budget: some “surplus” ICAO staff have been taken on by the ARGF over time, and this has been made easier by the fact that, as indicated in a previous observation, the scope of the ARGF’s activities remains relatively unclear.

244. The basic issue is to what extent the flexibility offered by the ARGF, which operates partly as an “expansion vessel” for keeping the regular budget within its ceiling on posts, is in danger of causing some dubious management choices to be made in time, particularly investment in equipment enabling certain posts to be maintained that are not related to ICAO’s core activity, instead of seeking to outsource the corresponding functions.

245. One of the ideas expressed at the time the ARGF was set up was the possibility of eventually replacing ICAO staff with staff under specific contracts, specializing in certain tasks (such as publishing and reprographics) so as to reduce the corresponding costs and make this activity competitive – and failing this, subcontracting would seem to be a better long-term solution. It is the wish of the Council that staff appointed to the ARGF should in principle be hired and compensated on a business basis. This has not been the case for two reasons:

- the hiring rules of the Organization limit the possibility of using works contracts like those found in the private sector. Except for staff with the status of Staff Members, only Temporary Contracts (for a period of 12 months with a single renewal, giving right to legal benefits), local contracts (reserved for GS level support functions) and special service agreements (SSAs) for consultants are available;
- turnover of staff assigned to RGA is limited: 53% of permanent staff currently working on RGA were already in place in October 2007.

246. As regards this last point, out of the 79 staff (staff and consultants) contributing to the ARGF’s activities at the end of 2010, four GS staff had retired as of the date of the audit, six staff (3 P and 3 GS) were set to leave by the end of 2011, two (1 P and 1 GS) by the end of 2012 and one (GS) by the end of 2013, i.e. 17% of staff in total. This situation could provide an opportunity for undertaking a detailed review of the ARGF’s activity, taking account of the following two points:

- on the one hand, ICAO has not been able to put in place specific commercial-type contracts, and it now seems difficult to achieve this because of the problems it would cause with other ICAO staff;
- on the other, the ARGF employs consultants for periods of time that can be renewed. The rules were recently reviewed and allow this up to a point. These rules are not exactly the same as the rules in other UN organizations, which could obviously be an advantage for ICAO. But the fact remains that this causes a fundamental problem with ICAO’s employment rules (largely the same as the UN rules), which are designed to create long-term jobs at UN remuneration rates. Defining less secure jobs (consultants) in order to retain a margin of flexibility, or jobs under

less well remunerated contracts corresponding to those offered by the market for comparable activities, turns out to be impossible for ICAO.

Finding no.18: after three years' experience, the limitations on the ARGF's system for achieving the original aim of alignment with the employment and pay conditions offered by the market for comparable activities that are not part of the organization's "core activities" are clear.

Recommendation no.18: in view of this relative failure, consideration should be given to outsourcing certain functions that are not part of ICAO's core activity, and refocusing staff employed by ICAO, regardless of their status, on jobs that continue to be "normal" for an international organization. With this in mind, the Council could ask the Secretary General to suggest a more efficient internal organizational and operational structure, based on this report's analyses and RCGT's technical study, taking account of the constraints on the contracts and pay offered by ICAO. This would probably mean gradually transferring various tasks currently performed internally by the ARGF to external service providers.

6.5. Questions related to the Headquarters Agreement

247. The Headquarters Agreement concluded between ICAO and the Canadian government on 4 October 1990 exonerates in article 6 the Organization from any tax or duty on "its assets, income and property, owned or occupied in Canada". It has no specific clause regarding RGA. The agreement thus gives the Organization a fair amount of freedom to organize RGA. On the other hand, the additional agreement between ICAO and the Canadian government of 28 May 1999 relating to a new building occupied by Headquarters and made available to the Organization by the authorities in return for payment of 25 per cent of the rent and usage expenses presents a real constraint, which was no doubt underestimated. Stipulating in article II that "...said premises are rented solely and exclusively for the needs of the Organization's Headquarters," it requires in article V prior approval before making conference rooms available to third parties other than international organizations that are enumerated and further stipulates, "Any income and expenses related to such use shall be shared between the Parties pursuant to the above-mentioned subsidiary arrangement."

248. Until present, the provision has been without effect. In a recent letter dated 21 January 2011, the Canadian government inquired about the actual income earned by the Organization since 2005. In his response of 18 February 2011, the COS manager indicated that the 14 private events hosted in 2010 had an income of only CAD 35,500 for a direct cost of CAD 20,300 and an indirect cost of CAD 40,000. The activity thus did not produce a profit that could be shared, as was the case in previous years.

249. The agreement makes no distinction between gross and net income, but in a recent letter dated 1 March 2011, the Canadian minister of foreign affairs interprets the agreement as providing for equal sharing of all net income from the operation of the conference centre.

Finding no.19: the income to be shared, provided for in the Agreement, is still a very small amount and is net income, but it is not clear whether indirect costs should also be taken into account. In any case, this recent exchange of correspondence with the Canadian authorities confirms the fact that ICAO can earn income from hiring out its meeting rooms when they are not being used for its own needs.

Recommendation no.19: to avoid the ambiguities that exist at present, it would be desirable for ICAO to succeed in having the Agreement changed to stipulate explicitly that, provided that ICAO remains within the limits of an international non-profit making organization, it can freely use the building, including by earning income from hiring out rooms when they are not being used for its own needs.

6.6. Financial outlook

250. As the External Auditor stressed for the 2010 fiscal year, funding of the Organization for triennium 2011-2013 depends in part on the ability of the ARGF to provide new resources. According to the triennium budget 2011-2013, contributions by the ARGF to the regular budget should total CAD 4,370,000 in 2011, CAD 4,688,000 in 2012 and CAD 5,082,000 in 2013, for a total of CAD 14,140,000, which is an increase of 14.5 per cent over the previous triennium. The Fund's contribution to the budget should thus increase slightly to represent 5.2 per cent of the total budget.

Table 33: ARGF business plan 2011-2013 (in thousands of Canadian dollars)

	Revenue	Expenditure	Income
Reproduction, Sales, External Distribution	28,372	15,494	12,877
Conference services and facilities	7,956	7,790	166
Commissariat	1,840	1,639	201
Dangerous goods	6,564	2,441	4,123
Periodicals	2,654	2,398	256
Events	2,225	807	1,418
Statistics and licensing agreements	2,196	928	1,268
ARGF governance	-	4,919	-4,919
Total	51,806	36,416	15,390

(source: ICAO triennium budget 2010-2013)

251. Results for the ARGF Fund for the years 2008, 2009 and 2010 are presented in the table below. Excluding the inter-billing revenue to the Regular Programme, revenue declined by 2.5% during the previous triennium. Expenditures before contribution to Regular Programme on the other hand increased by 4.2%, mainly due to higher translation costs of periodicals and higher staff costs in line with the increase of salaries and additional staff costs for staff working on new project activities.

Table 34: ARGF expenditure and revenue 2008-2010 (in thousands of Canadian dollars)

	2008			2009			2010		
	Revenue	Expenditure	Difference	Revenue	Expenditure	Difference	Revenue	Expenditure	Difference
Publications	6399	1593	4807	5610	1830	3780			
Printing/distribution	3533	3372	162	3476	3319	157			
Publications	9933	4964	4969	9086	5149	3937	8765	4312	4453

Periodicals	651	561	89	678	677	1	840	943	-103
Websites	445	495	-50	383	439	-56	417	250	167
Events	851	318	533	1091	458	633	1238	555	684
Training	38	9	29	66	10	56	78	14	65
Licences	474	109	365	402	111	291	413	175	238
Conferences and rentals	2614	2098	516	2869	2324	544	2809	2446	363
Other activities	14	6	8	15	56	-41	40	34	5
Commissariat	604	420	185	583	539	44	618	532	86
Fund management	546	4937	-4391	158	-5474	-5316	212	6138	-5926
TOTAL	16169	13917	2252	15332	15238	93	15430	15399	30

Note: publications and printing/distribution merged in 2010.
(source: reprocessed ICAO data)

252. The first quarter of financial year 2011 did indeed show revenue of CAD 4,683,000 and expenditure of CAD 3,193,000, which represents a good performance with regard to the objectives for 2011. The managers themselves stress that they should be interpreted with prudence because certain revenue has already been received for the year (IATA⁶² royalties for dangerous goods) while expenditure will continue.

Table 35: Burden of expenditure for staff (in Canadian dollars)

	2008	2009	2010
Staff costs	5 097 481	5 383 324	5 472 485
Change	100	105.6	107.4
Burden of expenditure ⁽¹⁾ (per cent)	57.8	55.5	53.7

⁽¹⁾ Expenditure except for contributions to regular budget, contributions requested by the Secretary General and adjustment at official parity.
(source: accounts 1201 and 1210)

Finding no.20: the ARGF's growth since its creation is characterized by the fixed nature of its expenditure, particularly on staff, which was not the originally stated intention.

Recommendation no.20: if it is confirmed that the original objective of achieving a competitive cost structure, particularly in terms of staff, is not possible for an organization like ICAO, the gradual outsourcing of the corresponding activities should be envisaged in the medium/long term.

⁶² International Air Transport Association

7. LIMA REGIONAL OFFICE

253. The South American Regional Office (SAM) in Lima is accredited to thirteen countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Panama, Paraguay, Peru, Surinam, Uruguay and Venezuela) and two territories (French Guiana and the Falkland Islands/Malvinas).
254. Previously located on the premises of the Chavez International Airport, the Lima office moved in early 2007 to its current offices in the more central neighbourhood of San Isidro.
255. The external auditor performed a previous audit of the regional office during 9-20 March 2009. Among other things, the audit found that the internal audit had never performed a verification of the office, in contradiction to a recommendation by the Canadian Auditor-General's office made in March 2002. The situation remains unchanged.
256. The present audit was performed in Lima during 13-24 June 2011. It focused chiefly on relations between the regional office and the various regional consultation bodies and on office involvement in technical cooperation activities in South America
257. Initiated by ICAO in 1973, the *Comisión Latinoamericana de Aviación Civil* (CLAC), the English acronym of which is LACAC ("Latin American Civil Aviation Commission") has brought together civil aviation authorities from countries in Central America, the Caribbean and South America
258. In 1991, as for other regions, the ICAO Council created a group for programming and implementing the regional air navigation plan, GREPECAS, which covers countries in the CAR/SAM region, and concerns countries accredited to the Lima and Mexico City offices.
259. Finally, with regard to regional consultation bodies for civil aviation, the Lima office is unique in that for many years it has been closely involved in three regional technical cooperation projects, each of which has its own consultation body.

7.1.LACAC

260. The previous report noted that, on 14 February 2007, LACAC's statutes were modified, resulting in the executive board of the commission, whose role had been solely consultative, to assuming executive responsibilities (with a secretary-general no longer dependent on the regional office⁶³, the latter no longer has observer status). It was intended that LACAC would manage regional projects by relying on various

⁶³ The occupant of Air Transport position resigned from the regional office to become secretary-general of CLAC.

States in the region, which, according to the previous report, had the risk of marginalizing the ICAO in the region.

261. LACAC today employs five persons full-time and is active in all areas of civil aviation: transport and aviation policy, airport management, security/safety and processing of documents, environment and training. It has its own international cooperation effort (with the United Arab Emirates in particular). To fund its efforts, it receives contributions from countries (Brazil and Argentina in particular) to supplement its own budget. In addition, it benefits from the support of a regional project, RLA 06/801 (LACAC assistance), in which the Lima office has only an administrative function of monthly payment of expenses agreed by LACAC and the Technical Cooperation Bureau (TCB).
262. For some, LACAC, which since 2007 has acquired significant autonomy from the ICAO and the two offices in the CAR-SAM region, now constitutes an independent “miniature ICAO” of the central organization, and potentially competes with the regional offices; for others, it is only a subsidiary body of the ICAO. Since its activity is not covered by the external auditor’s audit of the ICAO, this point cannot be assessed in the present audit.

7.2.GREPECAS

263. GREPECAS (*Grupo Regional de Planificación y Ejecución CAR/SAM*), with some forty participating States, was increasingly considered as too bureaucratic and costly by its members: the March 2011 general meeting led to sending a letter to member States, which was ultimately accepted. The purpose of the letter was to implement a new work method. GREPECAS is currently in a transition phase, serving as a “test-bed” for new methodology which will shortly be considered by the air navigation commission. This new methodology relies on the definition of “programmes”, each one being composed of several “projects” that may, depending on purpose, receive funding from the three above-mentioned regional technical cooperation programmes.
264. Two meetings have already resulted in defining eight programmes, and a ninth was being prepared at the time of the audit. Each programme has a coordinator who is a technical officer from the regional office (the CNS officer coordinates two programmes, the two ATM/SAR officers each coordinate two programmes, and the AGA and MET officers each coordinate a programme).
265. With the programmes, each project, and this is one of the main points of the reform, has a coordinator designated by a volunteer State. This form of organization replaces the GREPECAS sub-group formula: the idea behind this new methodology is to replace the relatively “passive” approach of GREPECAS sub-groups with a system that involves greater participation by States. Of the four previous sub-groups, one (CNS) has already been dissolved. The three other sub-groups will each hold a final meeting in 2011: two in Mexico City and one in Lima (at an approximate cost of \$2,000 for each meeting). A discussion with the Secretary General concluded on the principle of not cancelling them, despite the decision in March 2011 to dissolve the GREPECAS sub-groups.

7.3. Consulting bodies for regional technical cooperation projects involving the Lima regional office

266. One project, in existence since 1999, involves the regional system for aviation safety oversight (project RLA 99-901) and has a general board that meets twice a year. Another, in existence since 2003, deals with implementation and management of the REDDIG regional digital network (project RLA 03-901), has a coordinating committee that meets once a year. Finally, a third project (RLA 06-901), which includes the activities of ATM and CNS, and whose competence was recently extended to include AIRMET and AGA, has both a coordinating committee and a SAM Implementation Group (SAM-IG), which also meets annually.
267. Member States annually approve proposed budgets for the these three regional projects within the consulting bodies, on the basis of information collected by technical officers from the regional office from States, these projects are prepared so as to coincide with implementation of general objectives pursued by ICAO. Regional project activities are part of the office’s annual business plan, for which it constitutes an important part. The workshops, conferences and courses take place in Lima, except if one of the States in the region is prepared to undertake a significant share of the preparation and leadership of the workshop, and it is economically advantageous: in this case, the meeting takes place in another State, and the regional office is responsible for travel expenses for its own participants.
268. This system has a double advantage: increased involvement by regional member States in efforts involving implementing standards and recommendations for aviation safety required by ICAO; give the Lima regional office significant leverage since, with large sharing of its annual work programme with regional States, the office has access to greater resources, including the regional office's own budget and the budgets of the three regional programmes involved.

Finding no.21: if the three changes – evolution of LACAC⁶⁴ into a regional “miniature ICAO”, implementation of a new methodology within GREPECAS⁶⁵ with greater involvement of representatives of regional States, shared leadership between ICAO and certain regional States on regional technical cooperation projects that extend ICAO’s safety efforts – are taken together, it appears that the States in the region have collectively acquired a certain degree of autonomy in the area of aviation safety. The difference between those evolutions is that the first has the potential, to a certain extent, to compete with the regional office, while the latter two complement its efforts.

Recommendation no.21: the contrast between the evolution of LACAC on the one hand and GREPECAS and the three regional technical cooperation programmes on the other should encourage the Lima office to pursue increasing transfer of responsibility to national governments in the region when implementing ICAO objectives.

⁶⁴ Latin American Civil Aviation Commission (LACAC)

⁶⁵ Grupo Regional de Planificación y Ejección CAR/SAM

8. TECHNICAL COOPERATION PROJECTS IN SOUTH AMERICA

269. From 13 to 24 June 2011, a few local technical cooperation projects were audited in Lima, at the same time as the regional office audit. The main purpose of this was to evaluate the effects of the decision of the Secretary General announced in an interoffice memorandum dated 29 January 2010, intended to better integrate technical cooperation projects in the activity of regional offices, with the Lima office (together with Bangkok), designated as pilot for carrying out this reform. While he was inspecting the regional office, the auditor therefore examined its involvement in various regional and bilateral projects. This included taking stock of progress in ongoing technical cooperation projects with Peru, namely: the three above-mentioned technical cooperation projects managed by the SAM office, and two bilateral projects currently in progress (projects PER 08-802).

8.1. Three regional technical cooperation programmes managed by SAM

270. The three projects mentioned above as being heavily integrated in the regional office's "business plan" are:

- RLA 99/901, plan for a system of cooperation for safety oversight launched in 2001, following an agreement between ICAO and LACAC, does not include the following regional members: Mexico, Dominican Republic (NACC), Colombia and Panama (SAM).
- RLA 03/901, which administers the digital South American REDDIG network since July 2003, includes all States in SAM's region except Panama;
- RLA 06/901/B, whose objective is to implement a regional ATM system, was launched in July 2007 for five years, and involves all States in the SAM region, although it actually includes only nine States: Argentina, Bolivia, Brazil, Chile, Panama, Paraguay, Peru, Uruguay and Venezuela⁶⁶.

271. The 2010 budgets for the three projects are (figures were not available for 2011 during the audit):

Table 36: 2010 expenditure for the three regional projects managed by SAM (in United States dollars)

	RLA/99/901	RLA/03/901	RLA/06/901	TOTAL
Facilities and infrastructure	2 055	784 551	5 381	791 987
Payroll	47 833	14 066	22 517	84 416
Experts	71 454	201 030	19 219	291 703

⁶⁶ The failure of Ecuador and Colombia to commit to the project poses a problem for the group (both financially and in terms of implementation).

Support	4 986	7 789	4 274	17 049
Travel	88 010	14 110	68 729	170 849
Fellowships	598	29 496	286 328	316 422
Meetings	2 133	6 695	22 163	30 991
Administrative expenses (AOSC)	22 207	33 357	42 948	98 512
Total	239 276	1 091 094	471 559	1 801 929

(source: Agresso)

272. The 2010 expenditure structure is consistent with the objectives of the three regional programmes. In actuality,

- RLA 99-901 (regional safety oversight cooperation), basically includes expenses for experts and travel. Management expenses (payroll + support + AOSC) amount to 31%, mainly due to payroll (20%), with the observation that the same team is responsible for monitoring the three projects. Their compensation is subject to a distribution formula that, without “time sheets”, is based on staff declarations;

- RLA 03-901, (implementation and management of a regional telecommunications network) primarily includes equipment expenditure. Management expenditure is 5%;

- lastly, RLA 06-901 (ATM assistance), which was recently extended to include activities relating to the demand for improvements in the provision of infrastructure and facilities and air navigation services and the evolutionary development of the operational concept for air traffic management, basically covers efforts to train specialists from regional States. Management expenses are 15%;

273. In agreement with the participating States, projects RLA 99-901 and 06-901, mostly rely on national experts whose projects include only DSA, while compensation is paid by their native country. For the same conditions, the same projects, especially RLA 06-901, cover DSA and travel for technical officers from the regional office, which provides significant leverage for these projects with regard to the regional office’s own budget.

8.2. Application of the memorandum of 29 January 2010

274. The Secretary-General’s 29 January 2010 memorandum and an undated addendum set new rules for involving regional offices in regional and bilateral technical cooperation efforts. The Lima and Bangkok offices have been designated experimental pilot offices for implementing the reform. Its general purpose is to strengthen, in relation to TCB, the role of regional offices, especially through their directors and technical cooperation officers, in the technical cooperation effort of States in their respective regions. One of the objectives of the present audit has been to verify implementation of this memorandum on site the general purpose of which is to strengthen, in relation to TCB, the role of regional offices, especially through their directors and technical cooperation officers, in the technical cooperation effort of States in their respective regions.

275. The purpose of the addendum is to detail all functions of technical cooperation officers assigned to regional offices.

276. On this basis, in order to evaluate to what extent this memorandum was effective, one must distinguish regional and bilateral projects:

8.2.1. Regional technical cooperation projects

277. Examination of regional technical cooperation projects in CAR/SAM reveals eight active regional projects that can be divided into two categories:
278. Three projects that are tightly integrated into SAM's business plan and analyzed above; and
279. Five additional regional projects:
- RLA 97/903, to train aviation staff in the CAR and SAM regions. This programme is managed directly by TCB from Montreal;
 - RLA 03/902, to improve satellite navigation signals. This programme is also managed directly by TCB from Montreal;
 - RLA 06/801, to provide assistance to LACAC, which is also managed directly by TCB from Montreal;
 - RLA 08/901, to prevent transmission of disease during air transport (CAPSCA). The Mexico regional office is responsible for the project.
 - RLA 09/901, to connect the Central American air navigation system (COCESNA) with REDDIG, managed by Montreal but in the process of being transferred to Mexico at the time of the audit.

8.2.2. Bilateral technical cooperation projects

280. Two cases should be distinguished with regard to bilateral cooperation: projects with Peru, and bilateral projects with other States in SAM.
281. At the time of the audit, projects with Peru were clearly under the direct control of TCB with the regional office playing only a marginal role:
- for the only project that was actually in operation at the time of the audit (PER 08-802, analyzed below), the intervention of the regional office was limited to approval and payment functions, of local expenses for the project, after authorization from headquarters (TCB and finance department);
 - beyond the current PER 08-802 project, bilateral projects currently being negotiated or finalized with Peru are:
 - project PER 10-802, which involves assistance for human resource management for DGAC, for which the framework has already been decided, but whose content is still under negotiation (approximately \$2 million);
 - project PER 10-803, for lighting of eight airports in Peru, for which the provisions have been partially finalized (approximately \$5 million);
 - an option proposed as part of Indra's offer mentioned above, concerning a 360° tower/radar 3-D simulator: if the option is taken, it will be included in Project PER 08-802, for approximately \$2 million;
 - a project to acquire a new primary radar (in the event that the public Peruvian Corporation of Commercial Airports and Aviation, CORPAC, decides to upgrade its ageing Thomson radar), which depends on the political climate in Peru following the recent presidential election.

282. For all the projects in this second category, the regional office has no role, with TCB responsible for essential actions, either directly, through the intermediary of the international coordinator of the PER 08-802 project, who is in regular contact with the MTC. The only exception seems to be prospective business development with a view to consulting services for managing the human resources of CORPAC, which has relinquished management of Peru's recently privatized airports, and as a result must resolve the problem of redirecting and resizing its staff: this perspective resulted in joint efforts by the new TCB director and the regional director.
283. With regard to development of technical cooperation projects in other States in SAM, the regional director indicated three prospects:
- in Brazil, for a consulting project for Infraero (government corporation that manages airports) with a view to the World Cup and the Olympics;
 - in Bolivia, for an ATM assistance and airport management project with AASANA;
 - also in Bolivia, a project to restructure the firm BOA.

8.2.3. Current results of the application of the memorandum of 29 January 2010

284. These developments show that the Lima regional office is only actually involved in three regional technical cooperation projects. This was already the case before distribution of the memo of 29 January 2010 and its addendum.
285. On the other hand, observations by the external auditor, confirmed by the regional director during the audit, show that the Lima regional office is uninformed of most of the other regional projects, and completely kept away from prospective and current bilateral projects with Peru, except one (joint development between the TCB director and the regional director for a consulting project on managing human resources at CORPAC).
286. The only new development since distribution of the memorandum is the recent assignment of a technical cooperation officer, and for which it is too early to judge actual activity.
287. According to the external auditor, the disappointing outcome is due to three obstacles in implementing this memorandum:
288. The text of the memo is ambiguous, and the external auditor observed that, depending on the party (TCB or regional office), the same words could have different meanings:
- the major ambiguity rests in the meaning of the phrase “the regional office recognize TCB’s leadership in the execution of technical cooperation actions”, which differs significantly depending on the meaning attributed to “execution”, i.e., whether the word refers to material stewardship of a project, or its actual management. The director general of Lima considers that the second interpretation is essential, meaning that the “leadership” of TCB does not extend to management, but only to stewardship. As far as management is concerned, on the basis of the interpretation, it is possible to imagine, for example, that application of the memo may result in TCB being required to obtain the assent of the regional director on nominations of experts, on the content of any

amendments that modify projects, and more generally, any major decision concerning project management. The other interpretation, would lead to considering that only development of technical cooperation projects until signing, whether regional or bilateral, would be the responsibility of the regional director, while TCB would resume project management once agreements have been signed;

- however “execution” is interpreted, a second ambiguity results from the memo affirming the pre-eminence of the regional director for high-level representation of ICAO for technical cooperation, “with this principle applicable to regional projects in particular”, which may be understood that it is less applicable for bilateral projects.

289. The reform intended by the memo may raise another difficulty concerning international coordinators of technical cooperation projects in the field: from this point of view, the international coordinator of project PER 08-802, without being negative about the good intentions of the memo, which could in his estimation have the advantage of improved consideration of local administrative and financial procedures, underlines that, in his own experience, it is already quite complicated to have daily contact with the various TCB services, and with the added obligation of having to brief the regional director, his task might become even more complicated. He adds that if this comment holds true for a project on which the international coordinator and the regional director work at the same location (as in the case of Lima for project 08-802 for which he is responsible), the problem will be even more sensitive for bilateral cooperation projects in other States in the region that are more distant from the regional office.

290. Lastly and more importantly, for true integration, TCB and the regional director should imperatively pursue the same objectives with the same priorities. The TCB’s current priority, imposed by the Council, is to balance AOSC by providing the services requested by “customer” States. The priority of directors at the office is to implement ICAO's standards and recommendations, mainly in the area of aviation safety. It is not certain that these priorities always spontaneously converge.

Finding no.22: implementation of the memo of 29 January 2010, whose goal is improved integration of technical cooperation efforts by TCB and the directors of regional offices has three difficulties:

- wording ambiguity of the memo on several major points;
- potential complexity that implementation may cause for field officers, which is not discussed in the memo;
- risk of divergence between priorities of TCB and the director of the regional office.

Recommendation no.22: the External Auditor suggests a new addendum to the memo of 29 January 2010 that clarifies provisions concerning “execution” of technical cooperation projects, as well as the scope of application for integration (regional projects only, or identical treatment for all projects), in order to eliminate any doubt about its interpretation, and define simple reporting rules for field officers with regard to TCB and the regional director.

Lastly and most importantly, it should ensure that it is possible, while adhering to the management principle of economic equilibrium of technical cooperation, assigning TCB the same priorities as the rest of ICAO.

8.3. Audit of two bilateral technical cooperation projects with Peru

291. At the time of the audit (June 2011), the SAM region had 39 active bilateral programmes. Of these, eight concerned Peru. The audit focused on the two main contracts, one recently completed (and not included in the eight contracts previously mentioned), the other in progress.

8.3.1. Project PER 07/801

292. Three successive bilateral technical cooperation projects completed before this audit were discussed in the previous report of the external auditor. The Director General of Civil Aviation for Peru informed the external auditor that Peru lost its category 1 certification in 1997, which led the Peruvian MTC to request ICAO to oversee DGAC staff from 1997 to 2010, using a wage schedule for this project based on a PricewaterhouseCoopers report from March 2004, and indicating the international levels for salaries depending on staff qualifications. The following projects were included:

- PER 95-801: assistance to Peru's DGAC,
- PER 01-801: institutional consolidation of DGAC,
- PER 07-801: second consolidation of DGAC.

293. Execution of these programmes extended from 1997 to 31 December 2010. The following financial data gives an idea of the size of the projects:

Table 37: Amounts spent for contract with Peru's DGAC

US Dollars	1995-2001	2002-2007	2007-2010 (estimate)
Salaries paid out	7 769 741	18 052 033	15 563 500
Total project amount	10 969 510	25 259 624	19 252 300

(source: ICAO)

294. Over the course of the three projects, the share of compensation for between 130 and 160 of the 200 staff members in Peru's DGAC, rose from 71% to 80% of the total of project budgets, with the total including payment of travel expenses, training, various equipment purchases, and compensation to ICAO (at an average rate of 6.90% over the length of the last contract).

295. Now that those projects are completed, comments are the following :

- as of 31 May 2011, there was a balance of \$711,184.47 in a deposit account and PEN 791,137 in a current account for programme PER 07-801, although completed. Despite several attempts, the external auditor was not able during the audit to obtain details about these balances from either FIN or TCB;

- as will be explained below, part of the funds for this project were used to prepare another technical cooperation project by taking a total of \$20,605⁶⁷ in 2008 to commission two independent experts to perform a mission unrelated to the purpose of project PER 07-801 (DGCA consolidation). Such a charge, even if done in accordance with the external auditor's sources in full (oral) agreement with Peruvian authorities, carries a potential risk for ICAO if it is later contested (e.g., during a regularity audit requested by a new government);

⁶⁷ Luis Azarany, \$9,719 and Jean-Pierre Beland, \$10,886.

- lastly, since late 2010, Peruvian law no longer authorizes this type of technical cooperation project. Since this prohibition, 8% of the experts have resigned from DGCA to take posts in industry or with airlines⁶⁸. According to the director, to carry out the upgrade, DGCA currently only has two options: either to resume technical cooperation projects with ICAO (which would require further modification of the law), or obtain autonomy status (as was done with the ports in Peru).

8.3.2. Project PER 08/802

296. Project PER08/802 is the principal current bilateral technical cooperation project in Peru. It has seven ICAO staff members (according to the Field Service Staff Rules), working on the premises of CORPAC. It concerns:

- the international coordinator (P5) and his assistant (G4),
- the national coordinator, who combines this paid function with another unpaid one in DGCA in the MTC (Ministry for Transportation), and his assistant (G4) as well as his three deputy CNS, ATM and ADMIN staff (2 G7 and 1 G6).

Project objective

297. The Peruvian civil aviation administration has long identified the need for improved radar coverage of the nation's airspace, and air traffic control, since Peru only had primary and secondary radars in Lima to monitor an area of more than 1.2 million square kilometres of often difficult terrain. Communications systems at airports continue to rely on the regular Peruvian telecommunications network.

298. The increasing urgency to extend radar coverage and upgrade the air traffic control infrastructure, the principle for which was finally adopted in mid-2008 and conditions defined in mid-2009, is tied to changes in traffic: in 2010, it increased by 28% nationally and 6% internationally; in 2011 it is forecast to increase by 25% nationally and 18% internationally. DGCA currently considers that it is technically indispensable that the new air traffic control system (radars, telecommunications and traffic control centre) be in place by the end of 2011.

299. In this context, the purpose of project PER 08-802 is modernization of ATM in Peru. The project was initially for a period of five years (2009-2014). It includes acquisition, installation and commissioning of a new air traffic control centre at Lima airport, eight secondary radars, of an ADS-B system⁶⁹, and eight telecommunication satellite antennas for a total of \$43.7 million, including purchase, installation and commissioning.

⁶⁸ According to DGAC, the reason for these departures is due less to compensation level than to the loss of previous medical coverage.

⁶⁹ ADS-B: automatic dependent surveillance – broadcast, a new positioning system for airports with specific transponders – for this project, the purpose of this equipment is to cover, at a reasonable cost, a shadow region in the Peruvian airspace with eight secondary radars.

Project origin

300. Two independent experts (Luis Azarany and Jean-Pierre Beland), on assignment for TCB, had already worked on a project for radar coverage of Peru in 1995 (at that time, a project with some 14 radars was planned, but abandoned due to budgetary and political reasons).
301. CORPAC again began to consider a project to extend radar coverage and renovate air traffic control in 2003, with a view to receiving authorization from the national public investment system (SNIP), the body that authorizes all public bids in Peru: authorization was received in September 2007.
302. At the same time, since discussions on this project had already been known publicly since 2004, contacts were established with Indra, Thales, Alenia Marconi, Northrop Gruman, Raytheon, etc., which proceeded to preliminary geographic, topographic and technical studies for installation of a secondary radar network covering all of Peruvian airspace.
303. According to the Peruvian administration, whom the external auditor consulted for interviews with the leaders of CORPAC and DGAC on behalf of the MTC, the only way to carry out a project of this size in a reasonable amount of time, considering the complexity of rules for procuring public equipment in Peru, was to set up a technical cooperation project with ICAO.
304. A law dated 7 April 2008 authorized the signing of a project with ICAO concerning oversight of civilian airspace and security, and authorizing ICAO to purchase the equipment necessary on behalf of CORPAC⁷⁰. Project PER08-802, which defined general characteristics of cooperation between ICAO and CORPAC for five years (2008-2013), was signed in July 2008.
305. Since no actual funding was put in place at this stage (summer 2008), to prepare the document defining the service and its funding to be negotiated with CORPAC in compliance with the law and project, TCB appointed, with the funding conditions described above (tapping into funding from project PER 07-801 signed with DGAC), independent experts Messrs Azarany and Beland, whose task was defined in the following terms:
 - “carry out a fact-finding mission in Peru to determine if primary/secondary radars, an ADS-B system and/or a multilateral approach were required (mission performed 25-28 August 2008);
 - have discussions with authorities to set requirements;
 - carry out a fact-finding mission in Peru to make recommendations and perform evaluations on the most appropriate ATC sensors and data processing centres and to recommend an architecture for Peruvian airspace;
 - request discussions with local managers of current ATC infrastructure, review navigation statistics and air traffic loads and reconsider airspace coverage requirements and flight information region;
 - provide a detailed report recommending specific types of sensors, e.g., primary surveillance radars, secondary surveillance radars (SSR), ADS, multi-lateralization, local control centres, local approach centres, communication, etc. [...];

⁷⁰ There was already a \$50 million project around 1997 for transmission equipment and airport lighting, emergency vehicles, etc., but Peruvian law later prohibited using this procedure for public purchasing.

- on the basis of the fact-finding mission, prepare technical specifications according to ICAO standard format (2-9 September 2008);

- provide a report on the results, studies and recommendations to TCB for ultimate submission to competent authorities”.

306. This mission has no relationship to the purpose of project 07/801 for the resources to which it was charged, but it was decided by common agreement between Peruvian authorities and TCB.

307. A decision by the President of Peru on 13 July 2009 authorized signing of a contract between MTC and ICAO. The budget set aside was \$43.684 million. The basic document (annex 1 to project and “prodoc”) was signed on 20 July 2009. It was for a period of five years, with a payment schedule, for a total of \$43.68 million itself spread out over five years.

Table 38: initial schedule for project PER 08-802 (20 July 2009) (in millions of United States dollars)

Payment Date	Amount
July 2009	19,13
March 2010	6,35
March 2011	6,35
March 2012	5,93
March 2013	5,93
TOTAL	43,68

(source: annex 1 to project PER 08-802)

Schedule changes

308. Three weeks after the signing of annex 1, which defined the content, cost, schedule and payment schedule for CORPAC to ICAO, the MTC received, on 11 August 2009 (“project revision” document), a much shorter time frame for completing the project, from five to two years, including installation (i.e., completion by 20 July 2011), with the following payment schedule:

Table 39: Payment schedule as of 11 August 2009 (in millions of Unites States dollars)

Payment Date	Amount
July 2009	19,13
March 2010	18,54
January 2011	6,01
TOTAL	43,69

(source: “project revision” document of 11 August 2009)

309. This clause was applied to the bidding process, since the two year schedule could be accepted only with the signature of the contract by the firm, i.e. on 5 January 2010, delaying execution – delivery and installation – to 5 January 2012 at the earliest.

310. A second change was made on 11 December 2009 (document entitled “amendment 1 to annex 1”) modifying the location of a radar site by some one hundred kilometres⁷¹, as well as the definition of various pieces of optional

⁷¹ It will be noted that this change occurred after bidding, as applications were submitted before 11 December. The site change was made to facilitate installation of the radar, and caused no additional charge to the firm that was awarded the contract.

equipment (protective radom for certain radars), and lastly a provision for training for Peruvian operators. The payment schedule remained unchanged.

311. A third modification was made on 14 October 2010 (“amendment 2”): it extends the contract of the international coordinator from 13 to 25 months, bringing its final date to 31 December 2011, and again modifies the payment schedule to ensure TCB received funds to pay instalments to the industrial firms:

Table 40: Payment schedule as of 14 October 2009 (in millions of Unites States dollars)

Payment Date	Amount
July 2009	19,13
March 2010	18,54
August 2010	4,79
March 2011	1,22
TOTAL	43,68

(source: “amendment 2” document)

312. The purpose of a fourth and last amendment, which was being signed during the audit is to postpone completion of the contract to the end of 2013, and to set a new schedule for using the remaining funds allotted to ICAO, with a balance remaining of \$279,980 in 2012 and \$23,122 in 2013 (see below the table of budget allotments for project PER 08-802).

313. Concretely, installation of equipment was done in three phases:

- an initial phase including construction of a new control centre (which constitutes the most critical element in the system), refitting the control tower, and installation of SSRs in Lima and Arequipa;
- a second phase, which includes installation of radars at the sites of Talara, Pucallpa, Ayacucho, Cuzco and Toccto;
- a third phase includes installation of the Iquitos radar and the ADS-B south of Lima.

Finding no.23: the documents demonstrate that the initial date for completing the “prodoc” (annex 1 of the Management Service Agreement for project PER 08-802), was established after several years of discussion by the Peruvian government and ICAO’s independent experts, assuming a five-year plan for completion. This schedule which appears in the document signed by ICAO and the Peruvian government on 20 July 2009, was “reduced” to two years as of 11 August 2009, in a document signed by the same partners. The external auditor notes that the international project coordinator considered, at the time of the audit, that this schedule posed no problem and would be followed, observing that it has been ahead since the first phase, with installation of radars in Talara and Ayacucho planned for the second phase. According to the coordinator the entire system will be fully operational by the end of 2011.

Recommendation no.23: it is too late to make a recommendation for the current project. However, especially in cases where the schedule cannot be followed, ICAO should be more wary of partner governments requirements that are more political than technical

Project execution

Bidding process

314. The procedures for gathering the project team began on 19 October 2009, with the hiring of a national coordinator (Mr Ramon Gamarra) and his team: the national coordinator hired two national experts, a CNS (on 21 October 2009), an ATM (on 26 October 2009), as well as an administrator. On 4 December 2009, TCB hired Mr Gerardo Meyer at P5-9 level on a renewable one-year ICAO contract to serve as international project coordinator. He was chosen at the request of Peruvian authorities from a list of three members established by TCB.
315. On the basis of technical specifications prepared several years ago (see above), a tendering process was formalized with help from TCB experts during July-November 2009. Final specifications were set by joint agreement between CORPAC/MTC and ICAO during May-October 2009.
316. Peruvian authorities decided to separate the project into two work packages: the control centre and eight SSRs (with various options the firm is required to propose: radar simulator, protective radoms, ADS-B; the firms were free to propose additional options), and satellite antennas.
317. The tender documents were distributed on 2 November 2009, and the closing date was 4 December 2009. A technical meeting was held on 17 November 2009, during which the bidders were able to request details from ICAO and CORPAC⁷²/MTC on bidding specifications.
318. Independent experts opened the responses on 4 December 2009. The bids were evaluated by CORPAC/MTC and ICAO's experts, and a delegation of Peruvian experts (including the team of the national coordinator and CORPAC/MTC experts) in Montreal to examine the responses from 5-11 December 2009.
319. There were numerous responses. Following technical and cost evaluations of the bids, the final decision was made jointly by TCB and the Peruvian delegation. ICAO submitted its conclusions to the Peruvian government, which awarded the first package to Indra and the second to Ineo on 10 December 2009.
320. ICAO's recommendation was signed, in compliance with procedure, by the external consultants of TCB (Mr Kanti Hore for satellites, Messrs André de Gongre, Douglas Ballantyne and Jean-Pierre Beland, CNS consultants for the control centre and radars). It was countersigned by the Peruvian delegation, which approved the recommendation.
321. For the Lima air traffic control centre and eight radars, the financial proposals were:

Table 41: Bids by firms for radars (in millions of United States dollars)

SELEX	40,7
Indra	32,5
CETC	39,1
Thales	33,5
Comsoft	40,0
Intelcan	48,8

(source: ICAO)

⁷² *Corporación Peruana de Aeropuertos y Aviación Comercial*

ICAO recommended Indra.

322. For the eight satellite antennas, Indra's bid was \$3.5 million and INEO's was \$3.1 million. ICAO recommended INEO.

Budget and accounting information

323. The External Auditor examined accounting entries in Agresso: they show that the payment schedule ultimately adopted was generally followed, and imprest accounts had a credit balance of \$14,383,036.82 at the time of the audit (23 June 2011).

324. In Agresso, it is not possible to compare precisely budget allotments and expenses actually charged to the general ledger as of a given date. The following information, provided by the international coordinator of the project PER 08-892, is only budget data and does not show actual expenditure:

Table 42: Budget allotments for project PER 08-802 (in United States dollars)

	2009	2010	2011	2012	2013	Total
International team	186 233	301 865	456 036	50 000	10 371	1 004 505
Support	50 000	151 822	154 000	16 300	0	372 122
Travel	561	0	100 000	12 500	0	113 061
Travel expenses	29 356	854	20 000	5 000	0	55 210
National team	28 774	252 535	446 400	79 500	0	807 209
Subcontracting/consultants	11 050	96 348	530 000	65 000	0	702 398
Training	0	0	370 000	18 000	9 000	397 000
Facilities and infrastructure		17 203 258	21 323 779		0	38 527 037
ICAO	508 254	666 932	493 718	33 680	3 751	1 706 335
	814 228	18 673 614	23 893 933	279 980	23 122	43 684 877

(source: ICAO)

325. This table demonstrates that:

- budget allocation are concentrated on the 2010 and 2011 fiscal periods, corresponding to delivery of equipment and installation by Indra and Ineo;
- extension over the 2012 and 2013 reporting period represent only marginal amounts in terms of the budget;
- management costs overall, excluding training and subcontracting, amount to \$4.06 million, or 9.29% of the project total, including \$1.71 million in AOSC administrative expenses, or 3.91%.

326. A level of nearly 10% for management expense may appear high. From this viewpoint, while the audit did not address the details of these expenses, it can be noted that the national project coordinator who, as indicated above, decided to continue to be compensated exclusively by project PER 08-802, also indicated to the external auditor that he worked at least 70% of the time since early 2010 in his new function as Director General of Civil Aviation for Peru. This point was confirmed by the international project coordinator, who acknowledges that he himself filled in this lack of availability of his counterpart, who could not be entirely replaced by one of his deputies (the CNS national expert).

327. The same comment applies to such contribution to the compensation of the Director General of Civil Aviation, unrelated to project 08-802 passed with CORPAC, as the support of experts responsible for preparing project 08-802 using the resources of project 07-801 previously discussed: the fact that it was the result of an oral agreement with the Peruvian authorities did not protect it from subsequent challenge to its legality.

Finding no.24: without performing an exhaustive audit of management expenses, the external auditor observed for project PER 07-802 that certain of its expenses were unrelated to the project objective. Likewise, for contract PER 07-801 discussed above, the external auditor also observed expenses unrelated to the project.

Recommendation no.24: in the future, ICAO should refuse to fund expenses unrelated to the project objective for technical cooperation projects.

328. Conditions for acceptance tests (at the factory or on site) were set in the contract (the number of ICAO experts, teams from the project, the Peruvian government and CORPAC who were to participate in operations is clearly indicated - the tests are to be co-signed by the four parties). The international coordinator is responsible for designating project representatives during tests. At present, all factory acceptance tests have been performed. The three installation phases of the project should be completed by late 2011 – the project will continue over the following two years so that CORPAC can build up a reserve for occasional expenses using the available balance.

329. Informal discussions on the extension of this technical cooperation project for the acquisition of additional equipment (primary radar, radar simulator, etc.), as well as a possible assistance project on human resources management at DGAC are currently suspended pending installation of new political authorities in Peru after the recent presidential election. The international project coordinator for PER 08-802 follows discussion on the options contained in Indra's offer (a radar simulator is optional, at the price fixed for two years). For the possible acquisition of a new primary radar, CORPAC requested the coordinator to examine if it would be possible to plan a new project with ICAO.

330. For training, the Indra and Ineo contracts include various services (not including retraining for CORPAC's technicians): the project team has already performed a staff evaluation with the help of an ATM expert on the team of the national project coordinator. On this basis, the team defined a training programme: a local bidding process was launched to which several universities responded and a bid was accepted for \$96,348.

331. In this same training area, Indra's proposal also included an option to set up a local school for approximately \$1.5 million. The government exercised this option, which includes courses based in Lima and advanced training in Spain. The project team is responsible for setting the required training level and inspecting Indra's reports on training taken by students.

8.3.3. Compliance issue: breach of the "ICAO Field Service Staff Rules"

332. Art.1.1 of the "ICAO Field Service Staff Rules" states that "By accepting appointment, [TCB Field Service Staff] become bound to discharge their functions [...] In the performance of their duties, they may neither seek nor receive instructions from any authority external to the Organization."
333. As mentioned above, Mr Ramon Gamarra, local coordinator for the TCB project PER08-802, was offered an ICAO Field Service Staff position, despite the fact that:
- 1) he became Director General of Civil Aviation in the Ministry of Transport and Communication of Peru.
 - 2) in that position, he was reporting directly to the Minister of Transport and Communication, an authority external to ICAO, who assumed the role of "signing customer" for TCB project PER08-802.
334. TCB human resources manager mentioned that he received a letter dated October 12, 2009 from Vice Minister of Transport of Peru indicating that a Selecting Committee supported Mr Gamarra, among four other candidates, for the position of TCB project local coordinator. He also mentioned that the Curriculum Vitae attached to this letter did not contain any information showing a potential conflict of interest for Mr Gamarra or indicating that Mr Gamarra would not be able to assume a full time engagement with ICAO.
335. Based on the audit procedures performed in Peru, the external auditor reported in July 2011 this compliance issue to ICAO top management, making it clear that Mr Gamarra was at the same time TCB local coordinator for project PER08-802 and Director General of Civil Aviation in Peru.
336. TCB Director wrote a letter dated October 21, 2011 to the new Minister of Transport in Peru indicating that the ICAO engagement of Mr Gamarra ended on October 18, 2011 and that someone had to be appointed to replace him. This letter also mentioned that the external auditor was questioning the potential conflict of interest for Mr Gamarra, as he was at the same time TCB local coordinator for project PER08-802 and Director General of Civil Aviation in Peru.
337. The new Minister of Transport in Peru answered on November 28, 2011 that ICAO should appoint again Mr Gamarra as TCB local coordinator for project PER08-802.
338. Mr Gamarra was still Director General of Civil Aviation in Peru in March 2012.
339. TCB human resources manager confirmed to the external auditor that Mr Gamarra's appointment as TCB local coordinator for project PER08-802 was renewed by ICAO until May 2012. He also mentioned that he did not receive any information from ICAO top management regarding the letters to and from the Ministry of Transport of Peru and that he was not aware of the issue raised by the external auditor about a potential conflict of interest and compliance issue. He considered that he appointed again Mr Gamarra without knowing the whole picture of the situation.

Finding no.25: the External Auditor identified a breach of one of the key ICAO Field Service Staff Rules which prevents conflict of interest by forbidding that an ICAO Field Service Staff assumes at the same time another position for an external authority.

Mr Ramon Gamarra, local coordinator for the TCB project PER08-802, was at the same time Director General of Civil Aviation in the Ministry of Transport and Communication of Peru..

The External Auditor considers this non-compliance issue to be serious as Mr Gamarra was clearly in a situation of conflict of interests as he was supposed to protect ICAO interests, as staff of the supplier for the project PER 08-802, and, at the same time, to protect Peru interests, as monitoring body for Corpac, the customer for the project PER 08-802.

Whereas this issue was reported by the external auditor to ICAO top management in July 2011 and despite the fact that Mr Gammara was still assuming the position of Director General of Civil Aviation in Peru, ICAO decided, however, to appoint again Mr Gamarra as TCB local coordinator in November 2011.

The person in charge of the appointment at ICAO did not receive appropriate information from the top management to perform the basic compliance checking.

Recommendation no.25: The monitoring process ensuring proper application of the “ICAO Field Service Staff Rules” need to be significantly reviewed at headquarters level as well as local level in order to be in a position to prevent this kind of breach of the ICAO Field Service Staff Rules in the future.

Regarding the decision to renew Mr Gamarra’s appointment, and based on the information reported by the external auditor at that time, Secretary General should have reported the issue to the Council, as “ICAO Field Service Staff Rules” edicted in 1992, included the provision that a field service staff should not assume at the same time a position for an external authority.

8.3.4. Advantages of the type of project for the purchasing State

340. The Director of DGCA in Peru (who also acts as national project coordinator for PER 08/802) informed the external auditor that a technical cooperation project with ICAO has the double advantage for the Peruvian government of

- avoiding suspicion about the legality of contracts signed to this effect⁷³;
- advancing more rapidly, without having to follow the administrative regulations that cause delays and uncertainty⁷⁴.

⁷³ It should however be noted at the same time and with the same main contributors (the expert Luis Azarani and Indra), an operation to purchase radars on behalf of Paraguay in 2009-2010 was the subject of a discussion in the press in Paraguay, which suspected misappropriation of funds in the bidding done under ICAO supervision for the purchase of radar equipment from Indra on behalf of DINAC (National Civil Aviation Authority).

⁷⁴ There were nevertheless two major administrative reasons for delays in the execution of project 08-802:

- administrative authorizations for radar locations (from several communities in some cases for a single site) were given after much delay – this is CORPAC’s responsibility. The delay did not impact the final deadline;
- customs – equipment considered as “aviation goods”, which are tax exempt, but which must pass through maritime and aviation customs (which can take 15-30 days) before arriving at the CORPAC customs terminal – next, onsite transportation must be done under the authority of customs, with final verification taking place on site.

8.3.5. The case of “independent experts”

341. As for missions of independent experts from ICAO for CAPS-type contracts for acquisition of radars in South America, the external auditor asked TCB to provide an exhaustive list of contracts for radars awarded as part of technical cooperation for the period 2005 to mid-2011, indicating selected suppliers and the independent experts who have committed ICAO’s signature. TCB provided the following explanations⁷⁵:
342. There were four independent experts during the entire period: Messrs Jean-Pierre Beland, Luis Azarany, Douglas Ballantyne and André De Gongre. TCB insists that the contracts were signed in compliance with ICAO’s Procurement Code, which requires the use of independent experts, and notes that these rules were updated in 2010.
343. The following contracts were awarded:
1. Guatemala: one secondary surveillance radar (SSR) awarded to Indra;
 2. Ecuador: one SSR in the Galapagos awarded to Indra;
 3. Argentina: one SSR (originally, a system was part of a two-year leasing contract, and the contract purchase option was exercised), the supplier was Indra;
 4. Panama: one SSR awarded to Indra;
 5. Peru: eight SSRs, awarded to Indra.
344. In addition to this list from TCB, the external auditor found one case of direct purchase of radar equipment by the DINAC in Paraguay. This contract, also signed with Indra in 2006, quickly resulted in local controversy. Even though ICAO was not involved in this operation, it agreed in June-July 2010 to sign a technical cooperation assistance project to perform factory acceptance testing on certain equipments. ICAO designated one of the above-mentioned experts (Luis Azarany) to provide this consulting service. The press subsequently wrote critically of the assistance provided by an “ICAO expert” to this firm, even though formally, the ICAO had limited its role to providing technical advice to DINAC, so that the latter was entirely responsible for accepting equipment provided by Indra.

Finding no.26: the common point for both projects PER 07-801 and PER 08-802 is that, in both cases, ICAO intervened to make it possible to set up administrative structures or aviation security equipment that local regulations did not authorise, either entirely – project PER 07-801 compensated DGAC⁷⁶ employees with salaries that were incompatible with the Peruvian civil service wage schedule, or within a time-frame that was acceptable for aviation safety – as was the case for project PER 08-802. Given its exceptional nature in relation to local law, it is important that the service provided by ICAO be irreproachable.

The case of project PER 07-801 is no longer current, as Peruvian law has terminated the exceptional system for DGAC staff. However, for procurement of radar equipment, where the number of possible suppliers world-wide is limited (about ten in total), and if the observation is extended to all such projects carried out in the CAR/SAM area from 2005 to mid-2011, the external auditor can only note the small number of suppliers awarded contracts (one) and also the limited number of independent experts (four) used by TCB to prepare and consult these offers over a relatively long period.

⁷⁵ E-mail dated 21 June 2011 from Mr Patrick Molinari.

⁷⁶ *Directorate General of Civil Aviation*

Recommendation no.26: the External Auditor recommends that ICAO increase the circle of independent experts who commit its responsibility and reputation in awarding contracts and regularly appoint new ones. The experts shall be subject to regular evaluations.

9. FOLLOW UP OF EXTERNAL AUDITOR'S PREVIOUS OBSERVATIONS

345. In agreement with the Audit Committee, the decision was made that the External Auditor should now follow up himself the recommendations he has made since the start of his first appointment in 2008.
346. This first review looks at recommendations made to the Council concerning the Headquarters, and is based on the work done by the Organization's internal audit service, whose latest follow-up report was dated March 2011. The full report on follow-up of the recommendations is given in the Annex.
347. The 53 recommendations in the following reports have been examined:
- audit of the arrival of Mr Renaud and Mr Souka at ICAO (confidential - November 2008 – four recommendations);
 - audit of travel and mission expenses management (June 2009 – five recommendations);
 - performance audit of TCB (November 2009 – 24 recommendations);
 - audit of the recruitment of professional and higher category staff (March 2010 – seven recommendations);
 - audit of the AFI comprehensive implementation programme (December 2010 – five recommendations);
 - annual report 2010 (2 recommendations concerning human resources, two recommendations on IT and 4 recommendations concerning TCB).
348. Of the 53 recommendations examined, 45 have been implemented, three have been rejected and five are not yet fully implemented to date.
349. Moreover, one recommendation on human resources in the annual report for 2010 (June 2011) was not accepted. Notably this was the case for the recommendation that aimed to ensure, as part of the planned development of activities financed by voluntary contributions, that “the corresponding funds pay the regular budget a contribution to the revolving fund to finance the social security costs accumulated for this.” It is regrettable that the Secretary General is keeping up this unnecessary burden to the detriment of the Member States' financial interests.

ANNEX I – EXTERNAL AUDITOR’S OPINION (ORIGINAL)

- République Française -

Cour des comptes
Le Premier président

Paris, 30 MARS 2012

To the Assembly of
the International Civil Aviation Organization

AUDIT OPINION

We have audited the financial statements of the International Civil Aviation Organization (ICAO), for the 12 month period ended December 31st, 2011. These financial statements include a statement of financial position at December 31st, 2011, 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, 2011 and notes including a summary of the accounting principles and other information.

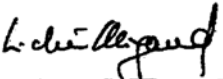
Within the general framework of Article 61 of the Chicago Convention and by virtue of Article XII of the ICAO Financial Regulations, the Secretary General of ICAO is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector 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, 2011, 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, 2011 in conformity with the IPSAS.


Didier MIGAUD

ANNEX II – FOLLOW UP OF RECOMMENDATIONS

Confidential audit of processes which led to the arrival of Messrs. Jean Renaud and Félicien Souka (November 2008)

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
1	The Council could ask the party in question for explanations and if they are not satisfactory, the Secretary General could be asked to implement an early termination of the Memorandum of Understanding	Accepted.	Both individuals have left the Organization.	Closed
2	<p>a) The employment of personnel on loan would benefit from being governed by texts stipulating namely the conditions of recruitment, the positions which may be offered, the maximum duration of their contract, the terms of their remuneration, the follow-up of their performance and their leave.</p> <p>b) The Procurement Code itself would benefit from being applied with more stringency and the assessment of tenders received should routinely be coupled with an assessment of the references of candidate companies.</p> <p>c) The recruitment of consultants would benefit from being governed by texts in the utmost of transparency and ensuring the competencies and references of candidates.</p>	Accepted.	<p>a) The new contractual arrangements, approved by the Council, also address loan/secondment contracts.</p> <p>b) Experts recruited on procurement projects to participate in various phases, such as technical specification development, are vetted as per the guidelines of the Field Personnel Section. In the case of consultancy contracts, all companies are requested to provide references on their employee profile, and experience; companies are held accountable as a collective which includes their employees.</p> <p>c) A transparent policy on the recruitment of consultants has been developed, which includes responsibility and accountability of line managers for identifying and selecting best candidates, and requirement for mandatory reference checks and for justification on the qualification/competency of the selected consultant.</p>	<p>a) Closed</p> <p>b) Closed</p> <p>c) Closed</p>

Audit of travel and mission management (June 2009)

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
1	For improved efficiency during internal audits, ICAO should regularly update the document that sets out the administrative rules pertaining to travel and missions.	Accepted	The travel regulations and rules have been updated in the Revised ICAO Service Code (9th Edition) as well as Revised Staff Rules and Personnel Instructions approved with effect from 1 Jan. 2011.	Closed
2	So as to encourage the declaration of accommodation and meals offered, ICAO should explicitly include on the statement of expenses, when meals or accommodation were offered to the official on mission.	Accepted	The new Travel Module in Agresso has been designed to facilitate the declaration of offered meals and accommodation.	Closed
3	ICAO should establish a plan to reduce travel costs expenses, guided by a permanent body bringing together the Heads of Finance, Human Resources and Technical Cooperation.	Accepted	The SG has introduced a new procedure under which justification is needed for each intended trip and a Mission report is required after the trip is completed.	Closed
4	ICAO should seek to anticipate the call for tenders procedure for renewing the contract with its travel agency	Accepted	The procurement process for renewal of the contract with the Travel Agency has been completed.	Closed
5	ICAO should call on American Airlines to apply the contractually binding terms that call for the payment of annual rebates..	Accepted	American Airlines does in fact offer a backend rebate in the form of "Business ExtraAA Awards" points incentive based on overall sales volume generated since 2006.	Closed

Performance audit of TCB (November 2009)

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
1	We recommend creating a Procurement Office that is independent of TCB, with overall responsibility for all ICAO procurement. This reorganization will need to come with reinforced coordination between the geographic sections and the Procurement Office. This will contribute to clarifying responsibilities both within TCB and for ICAO as a whole. This will make it possible to reduce risk by instituting mutual oversight covering the various players and their activities.	Not Accepted	This recommendation was and is not accepted. The revised organizational structure of the ICAO Secretariat, including TCB, proposed by the Secretary General and approved by the Council during the 188th Session, includes a Procurement Section in TCB, combining procurement for field projects and regular programme. The new TCB structure has been implemented as of 1 January 2010.	Rejected
2	Strict separation between the audit and control functions is recommended by excluding the internal auditor from the purchasing process.	Accepted	Responsibility for opening of sealed tenders has been transferred to D/ADB	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
	Furthermore, requests for proposals should be made secure by implementing a centralized and fully traceable procedure especially covering the way submissions are received.	Accepted	The Alito system keeps a full audit trail of all actions performed by Alito as to when they took place, when documents were uploaded and by whom.	Closed
3	We recommend that the way the Contracts Board acts and the oversight mechanisms in place be redefined so that the procurement process can be made more secure, ahead of time, especially as regards those points deemed critical like the decision to resort to local procurement or direct awards.	Accepted	An amendment to the draft Procurement Procedures Manual, defining criteria for cases when recourse to local procurement and/or direct awards (sole-source procurement) will be developed and finalized by end-November 2009. This will allow the Contracts Board to verify also in these cases whether proper procedures have been followed and transparent selection criteria have been used. This will follow up on an extensive review by the Procurement Procedures Review Group (PPRG) involving TCB, the Internal Auditor (EAO), the Finance Branch (FIN) and the Legal Bureau (LEB), which resulted in a new ICAO Procurement Code being approved in December 2006. This document has been reviewed again recently and final approval is pending. Both the Procurement Code and the draft Procurement Procedures Manual will be revised again upon completion of the implementation of the Agresso system.	Closed
4	We recommend that for the largest contracts (above a threshold that has yet to be defined), the Contracts Board should meet in person so as to be able to exchange views and reach their decision in a different way than by applying a purely documentary approach to the matters submitted to it.	Accepted	Effective 1 November 2010, the Contracts Board has been meeting regularly for procurement above USD 3 million, or any procurement that the Chairman of the Contracts Board deems necessary to discuss. This is reflected in the revised Procurement Code.	Closed
5	We recommend defining and implementing control procedures that are suited to the specific risks entailed by the local procurement procedure, especially covering the following points: exhaustiveness of any competitive process, the reality and degree of urgency and the description of the need followed by execution.	Accepted	Two authorizations are being requested by the local procurement entities in a format especially designed to mitigate risk	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
6	We recommend setting thresholds for having contracts signed by the Chief of FPRO (below an initial threshold), by the Director of TCB (between this initial threshold and a second one) and by the Secretary General of the Organization (beyond this second threshold).	Accepted	This recommendation has been addressed by having the Director of TCB countersigning all procurement greater than USD 5 million. It was deemed that the Secretary General's signature would be redundant since he is already an approving entity and decision maker on the Contracts Board process.	Closed
7	To legally safeguard the procurement procedures and align the rules set out with actual practice, we recommend updating the Procurement Code and finalizing the Procurement Procedures Manual, especially by taking into account the changes that have been made necessary by the deployment of AGRASSO.	Accepted	REF. TO RECOMMENDATIONS 7 and 8: An amendment to the Procurement Code and to the draft Procurement Procedures Manual has been made to take into account the changes resulting from the introduction of Agresso. In this process, options for presenting the Procurement Procedures Manual in a handier format have been explored and rules were defined for the rare cases when the customer contests the vendor chosen by ICAO.	Closed
8	To facilitate its use by staff, we also recommend that the Procurement Procedures Manual change to a handier format, e.g. in data sheet form (a presentation that is easy to view and update).	Accepted	See recommendation 7.	Closed
9	We recommend clearly setting out, in the Procurement Code, what rules should be applied when the customer contests the vendor chosen by ICAO.	Accepted	The revised Procurement code stipulates that if the State is in disagreement with ICAO's recommendation, then the procurement will cease	Closed
10	To limit the risks, especially legal ones, entailed by insufficient knowledge of the life of current contracts, we recommend implementing a formal and uniform system for monitoring policies and their main expiry dates.	Accepted	Procurement staff are now guided by procedures and guidance provided in the Procurement Procedures Manual.	Closed
11	We recommend implementing a dashboard intended both for internal use by the Director of TCB and for informing the Secretary General and the Council. This dashboard, built up from some summary indicators must be able to report on technical cooperation activities as regards their main aspects, especially budgetary and financial ones. This table should relate to both project management and AOSC funds.	Accepted	Dashboards have been developed to reflect various project related information required by TCB management. These dashboards will be displayed through the PPM which is currently under development.	Closed
12	We recommend setting up, for each of the main projects in progress or yet to come, a summary document kept up to date periodically and reporting, based on a number of indicators, on their execution in terms of various aspects (technical, financial, budgetary, contractual and human resources...) Responsibility for keeping and updating this summary document must be allocated as soon as the project is kicked off.	Accepted	A summary project sheet has been developed and is regularly updated by the Officer responsible in the Field Operations Section.	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
13	For transparency reasons, we recommend clearly setting out the rules that apply to assigning costs and income resulting from TCB's activities, when it comes to project management and AOSC aspects.	Accepted	Rules have already been established with respect to assigning costs and income resulting from TCP activities. All direct costs incurred to implement a project are charged as project costs whereas indirect costs are charged to the AOSC Fund.	Closed
14	Lastly, the External Auditor stresses the importance of making activities indicators and accounts trails match. We recommend that accounting data be used decision making elements and that they serve to improve the legibility of technical cooperation activities. The activity indicators must therefore be adapted to match the new reference framework set out by the IPSAS standards, standards that are applicable at ICAO since the 2008 financial year and that book operations as rights recorded. Therefore, it is necessary that the technical cooperation activity indicators particularly as in the annual report of the Council and the TCB internal dashboards be built up from the accounting data.	Accepted	Dashboards have been developed to reflect various project related information required by TCB management. These dashboards will be displayed through the PPM which is currently under development. PPM will have the capability to track internal KPIs defined by TCB management.	Closed
15	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.	Accepted Initial target date end of 2010 New target date end 2012	The Project Formulation Handbook (PFH) (Part I), the Field Operations Manual and the Regional Office Manual (Chapter 5) were updated in 2011. The Technical Co-operation Administration Manual (TCAM) (Part I) is currently being reviewed and updated. New standard templates for Part II of the PFH and TCAM are currently being developed. The Field Service Staff Rules continue to be regularly updated. The above manuals will be integrated in the ISO 9001 implementation process in the Field Operations Section and the Field Personnel Section. The Procurement Procedures Manual has been revised and is fully ISO compliant	Open
16	We recommend that project management documents be used systematically and that this should take place uniformly throughout the geographic sections so as to facilitate the work of these sections on the one hand and to allow, in line with Recommendation No. 14, on the other hand, improved follow up by its Director of the activities conducted by this Office.	Accepted	The restructuring of the Field Operations Section (FOS) into a Project Development Unit and a Project Implementation Unit in 2012 facilitated the standardization of project documentation for uniform and systematic application. Development of other standard documents will continue as needed, and also bearing in mind the requirements for ISO 9001 implementation.	Closed
17	We recommend fully and quickly implementing all of the Agresso modules, especially those relating to budget aspects.	Accepted	Full implementation of the Agresso system in TCB is ongoing with a new target date of December 2012 for completion.	Open

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
18	Given the results for the AOSC account (refer to the report on certifying the accounts), we recommend that corrective measures be presented soon to the ICAO Council if the latter attaches any priority to sustaining TCB's activities.	Accepted	Measures were taken by the Secretary General to address the financial situation described, including the restructuring of TCB, which was approved by the Council during the 188th Session, as part of the Secretary General's proposal for the organizational structure of the ICAO Secretariat.	Closed
19	We recommend that clear rules for determining when to charge operating costs to the regular program and when to charge them to the technical cooperation program be drawn up to ensure transparent accounts and seeing this rule formally set out in the context of an internal protocol.	Accepted	A Sub-Group composed of Members of the Technical Co-operation Committee and the Finance Committee was established after the 188th Session of the Council to review the methodology and assumptions for indirect cost allocation. Their proposal for a short-term and long-term cost recovery policy was presented to the TCC and FIC who agreed in principle with the methodology. The recommendations of the TCC/FIC were approved by the Council during the 189th Session. A report will be provided to the Administrative Commission of the Assembly on the subject.	Closed
20	We recommend that a personnel file be set up and kept up to date as well as a detailed organization chart showing staff names.	Accepted	Coordination with Project Coordinators and the Field Operations Section takes place on a bi-monthly basis, to ensure that Staffing Tables are provided and regularly updated. HRB maintains post descriptions and organizational charts.	Closed
21	We recommend implementing a national personnel file, updated regularly, so as to determine at any time, who is paid by ICAO, for what job, for which assignments, and since when.	Accepted	Electronic files have been developed by project.	Closed
22	We recommend setting up a file per staff member, with each one comprising their resume, a description of the job or successive jobs held, assignments performed, the various contracts, any elements that make it possible to identify which funds were impacted by the cost of this position.	Accepted	See 21	Closed
23	We recommend undertaking an annual analysis of the risk that ICAO could be exposing itself to, through its technical cooperation activities, in terms of pension rights for locally recruited staff.	Accepted	Local field staff are recruited under Special Services Agreements (SSAs) and are not entitled to a pension in accordance with the terms and conditions of the contractual agreements which were developed under LEB supervision. The need for the continuation of technical cooperation agreements for the recruitment of national personnel has steadily been reduced as the governments concerned progressed in enacting legislation to incorporate the staff within the public system in the	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ Comments	Current status
			cadre of their national civil aviation administrations	
24	We recommend following the various recruiting procedures, properly described, and to only use the various contract types taking care to comply with why they were set up and with a view to providing a better service at the lowest cost, something that is not the case with recourse to SSA. We also recommend keeping a directory of existing positions with a description of these positions and personnel assignments.	Accepted	ICAO has aligned its contractual arrangements with the UN contractual arrangements, and these have been incorporated in the Ninth Edition of the ICAO Service Code which was implemented on 1 January 2011. TCB has submitted revised Field Staff Rules, which have been updated taking into account the Ninth Edition of the ICAO Service Code and ICAO Staff Rules. The revised Field Staff Rules are currently under review by ADB and LEB. For Secretariat posts ICAO follows established recruitment procedures (for P and GS posts) and maintains post descriptions for these posts. TCB follows the revised ICAO Service Code issued through the Human Resources Branch for the granting of temporary contracts and SSAs, as appropriate. TCB staff contracts have progressively been regularized by the Human Resources Branch and replaced by fixed-term or regular contracts, as appropriate. Long-term needs are no longer covered by SSA contracts as in the past. Updated policy guidelines on the recruitment of individual consultants were issued in October 2011, effective 1 November 2011. Guidelines on temporary contracts will be issued by HRB in the upcoming months.	Closed

Audit of recruitment of professional and higher category staff (March 2010)

Rec . n°.	Recommendation	Secretariat Response	Secretariat action plan/ comments	Current status
-----------	----------------	----------------------	-----------------------------------	----------------

Rec · n°.	Recommendation	Secretariat Response	Secretariat action plan/ comments	Current status
4	<p>With respect to the recruitment procedure for Principal Officers (D1) reporting directly to the Secretary General; this includes the seven Regional Directors but also to the Chief of the Financial Branch, the Chief of the Regional Coordination and Communications Office and the Chief of the Evaluation and Internal Audit Office, the auditor suggests to:</p> <p>a) merge the interview panel with the APB as proposed in the above recommendation 3</p> <p>b) maintain the current review of the procedure by the HRC and agreement of the President</p> <p>The rules about the term of contracts and number of renewals would however remain unchanged.</p>	Accepted.	This recommendation is incorporated in the revised ICAO Service Code (9th edition) and also reflected in the revised staff rule 104.8 and the appendix on appointment and procedures approved with effect from 1 January 2011.	Closed
5	<p>In order to ensure that applicants are selected objectively, on the basis of their skills, whilst taking regional balance into account for Director positions, the auditor recommends that, in preselecting applicants for D2 grade positions, head-hunting firms should be used, informing such firms of the Council's preferences in terms of regional and gender balance, in order to provide the President and Secretary General with a shortlist, an analysis of the selected profiles and a proposed ranking?</p>	Partially Accepted on a pilot basis only to test the use of an external company to assist in assessing management skills of shortlisted candidates subject to the availability of funding.	An external firm has been selected through the procurement process to assist in assessing the managerial competencies of candidates identified by iCAO for the short-list for director posts. The experience gained with the external firm will be assessed taking into account the cost implications.	Closed
6	<p>Whatever method is used for short-listing applicants for D2 grade (issuing an open call for applications or commissioning a head-hunting firm), the final selection procedure should be reconsidered. For this purpose, the auditor proposes the following procedure: the interview should be conducted by the Secretary General, assisted by the Director of the Administration and Services Bureau (unless the interview is for renewal of this Director, in which case the longest-serving of the other D2 staff should take the role). For applicants that are already in post, the interview could be conducted solely by the Secretary General. In all cases, the President of the Council shall be entitled to attend the interview, at his own discretion. Prior to the appointment, the HRC would receive the full file, including the interview report and the assessment of the applicants. All recruitments/renewals would be subject to approval by the President, prior to appointment by the Secretary General.</p>	Accepted.	The recommendation is incorporated in the appendix to the revised staff rule 104.8 with effect from 1 January 2011.	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ comments	Current status
7	Having dealt with issues of budgetary and financial flexibility through the contracts offered to its staff, the ICAO has not defined a career management policy for its international civil servants. The auditor suggests that the Council should mandate the Secretary General to put forward a career management policy for international civil servants within ICAO, taking into account the observations made above, and make proposals as to the consequences for the current rewrite of the Service Code.	Accepted.	New provisions on the performance and competency assessment and enhancement system (PACE), as well as on career management and staff development have been added to article IV of the revised ICAO Service Code approved with effect from 1 January 2011.	Closed

Audit of AFI Comprehensive implementation programme (December 2010)

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ comments	Current status
1	In order to bring the budgetary regime for the AFI Plan into line with others, annual budgets for the ACIP should be prepared within the triennial allocation for 2011–2013, starting with the 2011 accounting period. The ICAO should report to Council both its projected and actual annual budgets, including any voluntary contributions.	Accepted	Effective 2011, the AFI plan is part of the ICAO regular budget under the ESAF regional Office. Therefore the annual budgetary forecasts for the AFI plan are to be aligned with the rest of ICAO.	Closed
2	Were this trend actually to occur, it would be questionable whether a structure specifically for aviation safety in Africa (the only function that currently the ACIP actually discharges) should be maintained. The question would become more pressing if, with the percentages at this level, it were proposed to extend the scope of the AFI Plan to cover the various medium- and long-term objectives initially defined, by incorporating CNS/ATM and other functions. This point should be borne in mind when deciding whether or not to extend the Plan beyond 2013.	Accepted	Up to 2013, the programme will remain a special ICAO project and it is expected that the cost structure will remain specific. Once some of the activities (establishment of RSOOs, RAIAs, training standardization and harmonization, etc.) are achieved to an acceptable level, the Organizations safety-related activities will only continue as part of the Regional Offices activities as contained in the Regional Office Manual. This would mean every subject that has an impact on safety would be continuously monitored and States supported for its effective implementation	Closed
3	The External Auditor welcomes in principle the new gap analysis, and recommends: - as far as the perspective of a continuation of the AFI plan until 2015 being confirmed, this analysis to be carried out at a timetable that provides a snapshot of the position as near as possible to the later General Assembly meeting voting on a possible extension of the AFI Plan beyond 2013. From this	Accepted	The 9th AFI Plan Steering Committee held 30 April – 1 May 2012 agreed that a GASR workshop and gap analysis will not be required as there is sufficient information available to assess the progress made in the States. Regarding the creation of the post of ACIP Coordinator: Creating a post of Coordinator was found to be unnecessary and was never implemented. The activities of	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ comments	Current status
	<p>viewpoint, the first half of 2013 would perhaps be a better time than 2012. On the other hand, if it appears, as some assume, that the plan should end in 2013, the current schedule (gap analysis in 2012) would be consistent.</p> <p>- this analysis should be carried out by a team of aviation-safety experts sufficiently independent of the ACIP's management, to ensure that the conclusions to be taken from the analysis are as objective as possible.</p>		<p>ACIP have been integrated into the work programmes of the regional offices with the Regional Director ESAF taking the lead coordination role and acting as secretariat of the AFI Plan Steering Committee.</p>	
4	<p>This flexibility might be justified on the grounds that it gave the ACIP its initial impetus. In future, it must be controlled as proposed in the general budgetary procedure discussed in Observation 1 above, by setting in advance an annual figure for resources allocated to ACIP mission costs and reporting annually after the event.</p>	Accepted	<p>Since the AFI plan has been integrated with the regular budget for 2011-2012-2013, the expenditure for mission travel is subject to the discipline of the budgetary regime and oversight of the Council. Effective 2011, all mission travel authorizations are approved by C/FIN and before certifying funds availability, outstanding commitments are taken under consideration.</p>	Closed
5	<p>Concerning the AFI continuation plan, it would be advisable to quit the current ambiguity which, according to the interlocutors, led the external auditor to notice the coexistence of two interpretations radically different from the governing scheme currently envisaged, according as it was addressed to the Secretary General, or to the current ACIP program Director. The external auditor can of course only stick to the Secretary General's interpretation, which was, at the time of the audit, clearly based on the abandon of the single "ACIP director" formula, acting on Secretary General direct delegation.</p> <p>According to the Council view (190th session), the impulsion and the coordination of the plan should obviously not be delegated to one of the Regional directors. But according to the same view, the technical coordination function should be either fulfilled from the headquarters (by one of the direct collaborators of the Secretary General), or, to be closer out in the field, be shared between two technical officers, one in Nairobi, the other in Dakar, in charge of gathering and analysing, each one in its own area and under the responsibility of his Regional Director, the information necessary for the plan coordination, the Secretary</p>	Accepted	<p>As per Council decision, the AFI Plan is being integrated into the Regional Offices in the current triennium. In November 2010 the Council decided to revert to the original setting that RD Nairobi and RD Dakar will share responsibility and that Senior RD Nairobi will be responsible for the overall supervision of the AFI Plan. He will be reporting to the SG and the Steering Committee for which he will act as Secretary, in coordination with RD Dakar. The Regional Directors will be supported by specific safety officers placed in their offices under the AFI Plan financing scheme, and by the Deputy Director, forming the Regional Office Safety Teams (ROST). A focal point at HQ will also ensure the proper integration of planning, reporting and administrative support.</p>	Closed

Rec. n°.	Recommendation	Secretariat Response	Secretariat action plan/ comments	Current status
	General performing, in case of divergence, the necessary arbitration. If need be, if the Secretary General estimate necessary to maintain a high level impulsion, on the execution of the program, which the external auditor can only recommend, both formulas could be cumulated (one collaborator in charge of the coordination at the Secretary General level, with two field collaborators, one in Nairobi and the other in Dakar).			

Annual Report 2010 - Human resources (June 2011)

Rec. n°.	Recommendations	Secretariat Response	Secretariat action plan/ Comments	Current status
3	Within the framework of the planned development of activities financed by voluntary contributions (an objective recalled during the 192 nd session of the council), arrangements should be made for the corresponding funds to pay the regular budget a contribution to the revolving fund to finance the social welfare costs accumulated in this way.	Not accepted	Charging an administrative fee to voluntary funds to pay to the regular budget an appropriate contribution to the revolving fund to finance social security costs has been considered and eventually rejected.	Closed
4	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.	Accepted	In future, C/FIN will provide in the budget an indication of the actual headcount compared to the budgeted headcount	Open

Annual Report 2010 - IT (June 2011)

Rec. n°.	Recommendations	Secretariat Response	Secretariat action plan/ Comments	Current status
5	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.	Accepted Targeted date June 2012	A Service Management specialist consultancy was supposed to 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. But this has not been done yet.	Open
6	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 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.	Accepted Targeted date June 2012	A medium-term Master Plan is to be produced. On-going.	Open

Annual report - TCB (June 2011)

Rec. n°.	Recommendations	Secretariat Response	Secretariat action plan/ Comments	Current status
12	<p>In order to limit risk, the role of “authorized purchaser” currently exercised by TCB should not be limited, as it is today, to formal application of rigorous administrative tendering procedures, but should also rely on better price analysis.</p>	Not accepted	<p>In the UN system, and in the Technical Co-operation Bureau’s Procurement Section (PRO), contracts are based on competitive solicitation processes. In principle, negotiations on a tendered price are not allowed. Suppliers are requested to submit a firm and final proposal that adheres to the requirements expressed in the tender document. There would be no legal basis on which to request a reduction in price as this would invalidate the tender process, since all bidders would be willing to potentially reduce their cost or bid profit margin and hence mirroring an auction. There are, however minor permissible instances where a proposal can be negotiated such as:</p> <ul style="list-style-type: none"> - the offer contains additional equipment or services which were not required in the solicitation document; - marginally higher quantity required compared to original quantity in the solicitation document leading to a potential quantity discount. 	Rejected
13	<p>So that ICAO can maintain the break-even point in TCB’s technical cooperation effort consideration must be given to:</p> <ul style="list-style-type: none"> - rate-setting for technical cooperation are set; - the reliability of the AOSC fund as a monitoring tool; - what management tools that are now lacking, should be developed. 	Accepted	<p>TCB does not employ a true cost accounting method to determine the real cost to TCB of executing a project. In the absence of such method, TCB is reviewing and formulating a new methodology in determining the appropriate overhead rates to be applied in order to fully recover its direct and indirect cost for the AOSC.</p> <p>A new project Portfolio management (PPM) tool is in its developmental phase to address various issues such as reporting, risks and key performance indicators to properly measure TCB’s outputs.</p>	Closed
14	<p>When projects involve assigning government staff to international posts, TCB should systematically ensure, by inserting appropriate clauses in the MSA that the staff cannot later make any claims against it, including for retirement benefits;</p> <p>In all cases, this type of contract constitutes only a temporary solution, and ICAO should set time limits for this practice, and avoid automatic renewal of this type of contract (for the projects in Peru and Bolivia that were examined, the for renewal period is three years).</p>	Accepted	<p>The draft Secretariat Action Plan accepts this recommendation. ICAO adds the following comment: "the recruitment of this category of personnel is done under Special Service Agreements in order to perform specific functions. Under the provisions of the agreement, they are not considered in any respect as being a staff member of ICAO. Furthermore the terms and conditions of Special Services Agreements clearly stipulate that the personnel are not entitled to pension after separation. Both the current and draft revised MSA</p>	Closed

			include the hold harmless clause. The draft revision has further strengthened it in stipulating that the obligation does not lapse upon termination or completion of the agreement."	
15	<p>ICAZO should: when extending, prolonging or supplementing old MSAs, include a hold harmless clause as provided by article 17 of the template contract and, if necessary, renegotiate the agreement for this purpose;</p> <p>Regularly examine and review the terms of the Lloyds PLI contract and ensure that it is in line with the various risks incurred;</p> <p>More generally, conduct a legal assessment of the adequacy and robustness of the liability protection measures currently in place.</p>	Accepted	<p>Both the current and draft revised MSA include the hold harmless clause. The draft revision has further strengthened it in stipulating that the obligation does not lapse upon termination or completion of the agreement. Certain States in the past did not agree with it and requested that the clause be removed. When renegotiating with these States, FOS will ensure that the clause is reintroduced into the agreements.</p> <p>PLI is an insurance covering procurement only. PRO is currently preparing a call for tender for a new insurance broker that will be engaged to handle insurance for all of ICAO (not just PLI). PRO shall submit the terms of reference to LEB for review and request their participation in the evaluation of submissions.</p>	Closed

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
Financial Analysis (paras 58 to 68)		
1	<p>Considering the importance and the relative volatility of the organization's debt resulting from the evolution of employee benefits (ASHI, repatriation grant and annual leave), and although the present levels do not bring into question the "pay as you go" approach, ICAO is recommended to prepare cash forecast on a 3 year basis, in order to better anticipate the potential financing needs. ICAO is also recommended to follow up AOSC Fund performance in 2012, in order to anticipate as soon as possible a potential loss and the means to finance it.</p>	<p>The cash position is monitored on a daily basis to ensure that funds are available to meet our current liabilities. Funds that are not needed immediately are transferred in short term deposits. ICAO also submits quarterly working papers to the Council outlining the current cash position of the Organization as well as the status of assessments receivable. This is followed up with appropriate further actions when necessary. In the rare circumstance where cash is deemed insufficient in the short term, which happened once in 2011, the Working Capital Fund is used to temporarily cover the shortage.</p> <p>That having been said, the risk of running out of cash is present mainly if ICAO were to overspend its appropriation or if a major contributor defaulted on its payment. ICAO's expenditure is very strictly monitored against appropriation. On non-payment of dues, it will serve to point out here that just 5 countries collectively pay 50% of the budget; 16 countries pay 75% of the budget. The chance of a default by any one of these large contributors is not believed to be significant.</p> <p>As required by Assembly Resolution A37-28, the level of the Working Capital Fund is reviewed yearly in order to determine if an increase is needed during the current year or for the following year. In order to determine if an increase is necessary, cash forecasts are performed by the Finance Branch during the review. Thus, for efficiency purposes, detail of cash forecasts would be presented formally to Council when and if an increase to the level of the Working Capital Fund was needed.</p>

Rec. No.	Recommendation	Secretary General's Comments
		With regard to the AOSC Fund, several concrete measures such as reduction of workforce and the introduction of registration fees were introduced in 2011 with a view to correct the negative financial trend. The Fund performance was closely scrutinized in 2011 and will continue to be in 2012 in order to anticipate financial results and to take further action as required.
ICAO's budget position (paras 69 to 98)		
2	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.
3	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.
Human Resources (paras 99 to 126)		
4	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.

Rec. No.	Recommendation	Secretary General's Comments
5	In order to reinforce the HR function, measures should be taken to increase the number of HR section staff, to bring it in line with the ratio of 3 to 4 per cent of the total staff number usually observed in organizations of comparable size, and to appoint a senior manager exclusively in charge of human resources, reporting directly to the ADB Director. If this recommendation is accepted, consideration should be given to reorganizing ADB senior management as a whole, in particular to manage activities such as information technology, languages, conferences, assembly and council secretariat, etc	<p>The Secretary General has accepted to establish a senior management post to cover human resources management, and potential savings in the current budget are being identified. Furthermore, the Secretary General has agreed to establish additional posts for the HR sections within the existing budget.</p> <p>The incorporation of these additional posts will also be considered for the budget of the next triennium.</p>
Information and Communication Technology (paras 127 to 155)		
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.).	The use of the accounts specifically created for IT expenditures in Agresso will be reinforced.
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.	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.
8	The sole means of ensuring better control and greater security for all of the Organization's ICT functions is better planning in terms of requirements, and transferring the budget resources for the biggest projects to the ICT Section, thereby placing information system projects within the structure which is specifically set up to manage them.	An Information Management Committee (IMC) was set up by ICAO to oversee information management matters of the Organization. Under this IMC, an ICT Project Management Group has been set up to coordinate organization-wide IT projects.

Rec. No.	Recommendation	Secretary General's Comments
9	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.	<p>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.</p> <p>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.</p>
ANB and ATB audits (paras 156 to 224)		
10	The general application of a uniform tool such as the IKSAN 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 IKSAN 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.

Rec. No.	Recommendation	Secretary General's Comments
11	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.	Please refer to Secretariat's response for Recommendation no. 3.
12	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.	<p>Please refer to Secretariat's response for Recommendation no. 3. Since the proposed budget structure will be by functions, this will resolve the issue of presentation gap between the budget and actual activities.</p> <p>The new framework proposed for the budget will allow both ANB and ATB to properly reflect all of their activities in the Budget.</p>
13	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.	<p>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.</p> <p>A customized IKS report will be created to provide greater transparency into this matter. The expected target date is the end of the third quarter of 2012.</p> <p>The current practice of including a 'consultancy/outsourcing' line for each programme in the budget will be continued.</p>

Rec. No.	Recommendation	Secretary General's Comments
14	<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 been appointed and 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:</p> <p>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 :</p> <p>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>
Audit of the Ancillary Revenue Generation Fund (paras 225 to 252)		
15	<p>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</p>	<p>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.</p>

Rec. No.	Recommendation	Secretary General's Comments
	summary document clearly defining the objectives, policies and rules for allocating activities to the ARGF.	RGA Administrative Instructions will be developed, which will also include accounting guidelines for the fund.
16	The Council could ask the Secretary General to assign the operational departments targets for contributing to the generation of ancillary revenue derived from their activities. The achievement of these objectives could be monitored on a monthly basis.	Under the new accountability structure of RGA, which has already been implemented, Bureaus will be held responsible to meet their RGA revenue targets. Under the new RGA governance structure, monthly meetings will be held to review revenue targets with the designated Focal Points of Bureaus.
17	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.
18	In view of this relative failure, consideration should be given to outsourcing certain functions that are not part of ICAO's core activity, and refocusing staff employed by ICAO, regardless of their status, on jobs that continue to be "normal" for an international organization. With this in mind, the Council could ask the Secretary General to suggest a more efficient internal organizational and operational structure, based on this report's analyses and Raymond Chabot Grant Thornton's technical study, taking account of the constraints on the contracts and pay offered by ICAO. This would probably mean gradually transferring various tasks currently performed internally by the ARGF to external service providers.	Under the newly implemented RGA structure, the new RGA Service Model has been determined as a combination of in-house core staff and outsourcing. As a result, core staff for each RGA activity are being identified and options of cooperation with outside personnel providers and/or service suppliers at local contract conditions are being explored.
19	To avoid the ambiguities that exist at present, it would be desirable for ICAO to succeed in having the Agreement changed to stipulate explicitly that, provided that ICAO remains within the limits of an international	This request has already been brought to the attention of the Canadian authorities.

Rec. No.	Recommendation	Secretary General's Comments
	non-profit making organization, it can freely use the building, including by earning income from hiring out rooms when they are not being used for its own needs.	
20	If it is confirmed that the original objective of achieving a competitive cost structure, particularly in terms of staff, is not possible for an organization like ICAO, the gradual outsourcing of the corresponding activities should be envisaged in the medium/long term.	See recommendation no.18.
Lima Regional Office (paras 253 to 268)		
21	The contrast between the evolution of LACAC on the one hand and GREPECAS and the three regional technical cooperation programmes on the other should encourage the Lima office to pursue increasing transfer of responsibility to national governments in the region when implementing ICAO objectives.	The actual MoU signed between LACAC and ICAO is helping to mitigate the duplication of efforts by LACAC with any ICAO project. The three regional technical cooperation programmes and new GREPECAS structure are aimed at increasing the integration and commitment of States when implementing ICAO objectives under coordination and supervision of the SAM Regional Office.
Technical Cooperation Projects in South America (paras 269 to 344)		
22	The External Auditor suggests a new addendum to the memo of 29 January 2010 that clarifies provisions concerning "execution" of technical cooperation projects, as well as the scope of application for integration (regional projects only, or identical treatment for all projects), in order to eliminate any doubt about its interpretation, and define simple reporting rules for field officers with regard to TCB and the regional director. Lastly and most importantly, it should ensure that it is possible, while adhering to the management principle of economic equilibrium of technical cooperation, assigning TCB the same priorities as the rest of ICAO.	The Addendum to the IOM of 29 January 2010, approved by the Secretary General on 31 March 2011, provides the necessary clarity on the role of D/TCB, the Regional Director and the Technical Co-operation Officers (TCOs) in the implementation of the Technical Co-operation Programme. The Addendum was drafted in coordination with all parties concerned. Subsequently, on-the-job training was provided to all TCOs at ICAO Headquarters. Further discussions and clarification resulted in a summary of conclusions regarding the further delineation of duties and responsibilities between TCB Officers and TCOs for the identification, formulation, implementation, monitoring and evaluation of technical cooperation projects. The Regional Office Manual was amended to reflect the agreed principles.

Rec. No.	Recommendation	Secretary General's Comments
		In addition, an IOM dated 03 May 2011 was issued by D/TCB to all Regional Offices with specific instructions for the recruitment of field experts, delineating the respective responsibilities.
23	It is too late to make a recommendation for the current project. However, especially in cases where the schedule cannot be followed, ICAO should be more wary of partner governments requirements that are more political than technical.	The execution of TCB projects is impacted by factors outside the control of the Organization, including changing requirements by the governments who are funding their civil aviation developments in accordance with their national priorities. As per the UN mandate, ICAO endeavours to adapt to the government's requirements, such as a change in schedule, insofar as its integrity and the project's outcome is not compromised.
24	In the future, ICAO should refuse to fund expenses unrelated to the project objective for technical cooperation projects.	The charges referred to in the Audit Report were made at the request of the government funding the two projects in question. The unrelated charges have since been reversed and a reimbursement made to the project, as shown in the financial statements for the projects. The review of procedures as part of the ISO 9001-2008 implementation and certification process also reflects this rule which is already being enforced by TCB management.
25	<p>The monitoring process ensuring proper application of the "ICAO Field Service Staff Rules" need to be significantly reviewed at headquarters level as well as local level in order to be in a position to prevent this kind of breach of the ICAO Field Service Staff Rules in the future.</p> <p>Regarding the decision to renew Mr. Gamarra's appointment, and based on the information reported by the external auditor at that time, Secretary General should have reported the issue to the Council, as "ICAO Field Service Staff Rules" edicted in 1992, included the provision that a field service staff should not assume at the same time a position for an external authority.</p>	The review of the sixth edition of the ICAO Field Service Staff Rules has been completed ensuring the harmonization of the conditions of service for field staff with the ICAO Service Code and ICAO Staff Rules and Regulations, as well as the UN Common System, reflecting best practices in day to day operations. Implementation of ISO9001 will be extended to the Field Personnel Section in 2014. Preparation for ISO certification has started and involves the comprehensive review of all related business process in the Field Service Staff Rules (FSSR), National Personnel Project Manual, Field Personnel Instructions and the Technical Co-operation Administrative Manual. The External Audit recommendation to enhance the monitoring process at Headquarters and local levels has been taken into account.
26	The External Auditor recommends that ICAO increase the circle of independent experts who commit its	TCB is continuously seeking to increase its base of internationally recruited experts (roster of experts). The

Rec. No.	Recommendation	Secretary General's Comments
	<p>responsibility and reputation in awarding contracts and regularly appoint new ones. The experts shall be subject to regular evaluations.</p>	<p>Field Personnel Section is continuously searching through different actions and means (i.e. promotional CD) for new potential candidates.</p> <p>Experts are regularly evaluated by TCB and the recipient entity, in conjunction with the Regional Offices, when needed.</p> <p>However, it should be noted that given the complexity, in general, of procurement of equipment and services provided by TCB, once an expert is recruited in the initial phase of a project or procurement, in order to guarantee continuity on the project, especially in terms of technical efficiency, the same expert is utilized throughout the course of the project or procurement implementation.</p> <p>Moreover, utilizing the same experts on various procurements is strictly related to the discipline for which that expertise is required. The experts themselves represent a foundation of lessons learned on past procurement and projects for ICAO, as well as being organizational process assets who, because of lessons learned on past projects, can aid in improving the project's success. Using the same experts on different projects that are related in the type of commodity being purchased increases ICAO's knowledge base in areas of historical information and lessons learned including data on issues and risks as well as techniques that worked well which can be applied to future projects or procurement.</p>

— END —