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INTERNATIONAL CIVIL AVIATION ORGANIZATION

ASSEMBLY — 35TH SESSION

ADMINISTRATIVE COMMISSION

**DRAFT TEXT FOR THE GENERAL SECTION OF THE
ADMINISTRATIVE COMMISSION'S REPORT
AND FOR THE REPORT ON
AGENDA ITEMS 42, 43, 44 AND 45**

The attached material on the General Section of its Report and Agenda Items 42, 43, 44 and 45 is submitted for consideration by the Administrative Commission.

REPORT OF THE ADMINISTRATIVE COMMISSION TO THE ASSEMBLY

General

1. The Administrative Commission held [REDACTED] meetings between 30 September and [REDACTED] 2004.
2. Ms. E. Chiavarelli (Italy) was elected Chairperson of the Commission at the fourth Plenary Meeting of the Assembly.
3. The Commission, at its first meeting, elected Mr. T. Peege (South Africa) as its First Vice-Chairman and Mr. P. Bilas (Croatia) as its Second Vice-Chairman.
4. Representatives from * Contracting States attended one or more meetings of the Commission.
5. The President of the Council, Dr. Assad Kotaite was present at the first meeting of the Commission, while the Secretary General, Dr. Taïeb Chérif, attended * meetings. The Director, Bureau of Administration and Services, Mr. A. Singh, also attended.
6. The Secretary of the Commission was Mr. S. Kandasamy, Chief, Finance Branch. Mrs. C. Ouerghi, Chief, Accounting Services Section, and Mr. Y. Jobe, Accounting Officer, acted as Deputies. Mr. A. Parson's, Project Manager, and Ms. L. Lim, Acting Budget Officer, acted as Assistant Secretaries. Mr. E. de Andrades, Accounts Assistant, acted as Liaison Officer.

Working arrangements

7. The Commission carried out its work in full session. A Budget Working Group was established to consider Items 39.1 and 39.2. A Contributions Working Group was established to consider Item 40.3. The membership of the two working groups and their terms of reference appear at Appendix A to this report (see page *).

Agenda

8. Items referred to the Commission by the Plenary and Executive Committee were considered.
 - 7 Annual Reports of the Council to the Assembly for 2001, 2002 and 2003
 - 8 Programme Budget for 2005, 2006 and 2007
 - 12 Discharge by Contracting States of their financial obligations to the Organization
 - 12.1 Report on arrangements to settle contributions in arrears
 - 12.2 Action to be taken in the case of Contracting States failing to discharge their financial obligations to the Organization

* Will be provided in final edition of the report.

- 39 Budgets
 - 39.1 Programme Budget - 2005, 2006, 2007
 - 39.2 Technical Cooperation Administrative and Operational Services Costs (AOSC)
- 40 Apportionment of expenses of ICAO among Contracting States
 - 40.1 Confirmation of Council action in assessing the contributions to the General Fund and determining advances to the Working Capital Fund of States which have adhered to the Convention
 - 40.2 Arrears of contributions of the former Socialist Federal Republic of Yugoslavia
 - 40.3 Assessments to the General Fund for 2005, 2006 and 2007
- 41 Financial Questions
 - 41.1 Financial aspects of the question of contributions in arrears
 - 41.2 Incentive scheme for settlement of long outstanding arrears
 - 41.3 Report on the Working Capital Fund
 - 41.4 Distribution of cash surplus
- 42 Review of expenditures, approval of accounts and examination of Audit Reports for the financial years 2001, 2002 and 2003
- 43 Appointment of External Auditor
- 44 Report on the Use of the Information and Communication Technology (ICT) Fund
- 45 Assembly resolutions to be consolidated or to be declared no longer in force

9. The documents and working papers considered by the Commission are listed by agenda items at Appendix B to this report (see page *).

10. The action taken by the Commission in respect of each item is reported on separately in the paragraphs that follow. The material is arranged according to the numerical sequence of the agenda items considered by the Commission.

* Will be provided in final edition of the report.

Agenda Item 42: Review of expenditures, approval of accounts and examination of Audit Reports for the financial years 2001, 2002 and 2003

42:1 At its second meeting, the Commission considered this item, which was documented as follows: A35-WP/28, AD/10 and Doc 9825, A35-WP/29, AD/11 and Doc 9833, and A35-WP/30, AD/12 and Doc 9834, covering respectively the years 2001, 2002 and 2003.

42:2 The Commission was informed that each of the reports consisted of three parts:

- a) the Organization's comments on the financial transactions for each financial year;
- b) the financial statements for each year as audited by the External Auditor; and
- c) the External Auditor's report on the audit of the financial statements of each year and the comments by the Secretary General thereon.

The financial statements and accounts for each year had been reviewed in detail by the staff of the External Auditor and had been reported by her as having been in accordance with the Financial Regulations and Rules of ICAO and the United Nations Development Programme (UNDP), and other applicable directives of the Assembly, Council and UNDP.

With respect to the year 2003, an unaudited report on the status of implementation of the External Auditor's prior years' recommendations is also presented for information purposes.

42:3 The Commission, while commending the Secretary General for the more comprehensive comments provided to the observations of the External Auditor in 2003, recommends that the draft Resolutions in the working paper be modified so as to urge the Secretary General to take action on the recommendations made by the External Auditor, as appropriate.

42:4 The Commission observed that, according to the comments in paragraph 3.3 of Appendix B of working paper A35-WP/28, AD/10, the AOSC Fund was not bearing any of the cost of after-service medical benefits, nor was the portion of the cost pertaining to the AOSC Fund disclosed in the accounts. The Secretariat informed the Commission that the issue raised by the External Auditors had been considered and the apportionment of the cost was found to be very difficult because staff did not work solely for the Technical Cooperation Programme or the Regular Programme, but could be funded by both at different times during their employment with the Organization. Determining the fair share to be borne by the Regular Programme and the AOSC Fund was therefore not straightforward. Also, it was noted that the Technical Cooperation Bureau provided services, such as travel and procurement, to the Regular Programme, and it was therefore appropriate that the Regular Programme bear some of the cost relating to the AOSC Fund. The Commission, while noting the action taken by the Secretary General, recommends that such action on the sharing of costs between the Regular Programme and the Technical Cooperation Programme be reported to the Council for review of its appropriateness.

42:5 The Commission recommends the approval by the Assembly of the Accounts of the Organization and the Financial Statements of UNDP, for the financial years 2001, 2002 and 2003 and the Audit Reports thereon.

42:6 Accordingly, the revised Draft Resolutions 42/1 and 42/2, which follow, are recommended for adoption by the Assembly.

**RESOLUTIONS FRAMED BY THE ADMINISTRATIVE COMMISSION
AND RECOMMENDED FOR ADOPTION BY THE ASSEMBLY**

Resolution 42/1

Approval of the accounts of the Organization for the financial years 2001, 2002 and 2003 and examination of the Audit Reports thereon

Whereas the accounts of the Organization for the financial years 2001, 2002 and 2003 and the Audit Reports thereon, submitted by the Auditor General of Canada - a member of the Joint Panel of External Auditors of the United Nations and Specialized Agencies - as the External Auditor of ICAO, have been submitted to the Assembly after being circulated to Contracting States;

Whereas the Council has examined the Audit Reports and submitted them to the Assembly for its review; and

Whereas in accordance with Chapter VIII Article 49 (f) of the Convention, expenditures have been reviewed;

The Assembly:

1. *Notes* the Report of the External Auditor on the audited accounts for the financial year 2001 and the comments by the Secretary General in response to the recommendations in the Audit Report;
2. *Notes* the Report of the External Auditor on the audited accounts for the financial year 2002 and the comments by the Secretary General in response to the recommendations in the Audit Report;
3. *Notes* the Report of the External Auditor on the audited accounts for the financial year 2003 with related comments by the Secretary General in response to the recommendations in the Audit Report, and the report on the status of the implementation of the External Auditor's prior years' recommendations;
4. *Urges* the Secretary General to take the necessary action, as deemed appropriate, to the recommendations made by the External Auditor;
5. *Approves* the audited accounts for the financial year 2001;
6. *Approves* the audited accounts for the financial year 2002; and
7. *Approves* the audited accounts for the financial year 2003.

Resolution 42/2

Approval of those accounts with respect to the United Nations Development Programme activities administered by ICAO as Executing Agency for the financial years 2001, 2002 and 2003 and examination of the Audit Reports on the financial statements of the Organization which also cover the United Nations Development Programme accounts.

Whereas those accounts showing the status of funds allocated to ICAO by the Administrator of the United Nations Development Programme and administered by ICAO as Executing Agency for the financial years 2001, 2002 and 2003 as well as the Audit Reports on the financial statements of the Organization which also cover the United Nations Development Programme accounts submitted by the Auditor General of Canada, a member of the Panel of External Auditors of the United Nations and Specialized Agencies, as the External Auditor of ICAO have been submitted to the Assembly after being circulated to Contracting States;

Whereas the Council has examined the Audit Reports and submitted them to the Assembly for review and for submission to the Administrator of the United Nations Development Programme; and

Whereas the Financial Regulations and Rules of the United Nations Development Programme provide that Organizations of the United Nations system entrusted with the execution or implementation of UNDP Programme activities shall transmit to the Administrator for submission to the Executive Board accounts showing the status of funds allocated to them by the Administrator and that such accounts shall bear audit certificates from the External Auditors of the Organizations and shall be accompanied by their reports.

The Assembly:

1. *Notes* the Report of the External Auditor on the financial statements of the Organization, which also covers those accounts relating to the United Nations Development Programme administered by ICAO as Executing Agency, for the financial year 2001 and the comments by the Secretary General in response to the recommendations in the Audit Report;

2. *Notes* the Report of the External Auditor on the financial statements of the Organization, which also covers those accounts relating to the United Nations Development Programme administered by ICAO as Executing Agency, for the financial year 2002 and the comments by the Secretary General in response to the recommendations in the Audit Report;

3. *Notes* the Report of the External Auditor on the financial statements of the Organization, which also covers those accounts relating to the United Nations Development Programme administered by ICAO as Executing Agency, for the financial year 2003 and the comments by the Secretary General in response to the recommendations in the Audit Report;

4. *Urges* the Secretary General to take the necessary action, as deemed appropriate, to the recommendations made by the External Auditor;

5. *Approves* those accounts with respect to the United Nations Development Programme administered by ICAO as Executing Agency for the financial year 2001;

6. *Approves* those accounts with respect to the United Nations Development Programme administered by ICAO as Executing Agency for the financial year 2002;

7. *Approves* those accounts with respect to the United Nations Development Programme administered by ICAO as Executing Agency for the financial year 2003; and

8. *Directs* that the financial statements of the Organization, which also include accounts of the United Nations Development Programme administered by ICAO, and the Audit Reports be transmitted to the Administrator of the United Nations Development Programme for submission to the Executive Board.

Agenda Item 43: Appointment of External Auditor

43:1 At its second meeting, the Commission noted A35-WP/31, AD/13, concerning the Council's approval of the extension of the appointment of Mrs. Sheila Fraser, the Auditor General of Canada, as ICAO's External Auditor for the accounts of the financial years 2002 to 2004. The Commission expressed appreciation of the high quality of Mrs. Fraser's service to the Organization as its External Auditor (2000 – 2003) and for her effective and cooperative assistance during that period to the officials of ICAO.

43:2 The Commission supported the appointment decision made by Council.

43:3 It was recommended that, in future evaluation of nominations for the position, the Council should not put too much emphasis on the previous experience gained as ICAO's Auditor, as this criterion could unfairly skew the evaluation in favour of the existing auditor. It was also suggested that the Council explore whether it would be appropriate to:

- a) appoint the External Auditor of the host country to perform the Organization's audit on a permanent basis in order to avoid the cost and administrative effort of the selection process; or
- b) limit the number of terms served by the External Auditor.

43:4 After due consideration, the Commission recommends that the Assembly confirm the appointment of Mrs. Fraser as External Auditor of ICAO, for the accounts of the financial years 2005, 2006 and 2007, by adopting the following Resolution:

**RESOLUTION FRAMED BY THE ADMINISTRATIVE COMMISSION
AND RECOMMENDED FOR ADOPTION BY THE ASSEMBLY**

Resolution 43/1

Appointment of the External Auditor

The Assembly:

1. Notes that:

- a) the Financial Regulations provide that, subject to confirmation by the Assembly, the Council shall appoint an External Auditor to the Organization;
- b) the Council approved the extension of the appointment of Mrs. Sheila Fraser, the Auditor General of Canada and a member of the Joint Panel of External Auditors of the United Nations and Specialized Agencies, as ICAO's External Auditor for the accounts of the financial years 2000 to 2004, in accordance with Financial Regulation 13.1; and
- c) the Council reviewed the nominations submitted by Contracting States in 2004 and approved the appointment of Mrs. Sheila Fraser, the Auditor General of Canada, as ICAO's External Auditor for the accounts of the financial years 2005, 2006 and 2007; and therefore

2. *Expresses* its sincere appreciation to Mrs. Sheila Fraser for the high quality of her service to the Organization as its External Auditor (2000 - 2003) and for her effective and cooperative assistance during that period to the officials and organs of ICAO; and
3. *Confirms:*
 - a) the action taken by the Council in appointing Mrs. Sheila Fraser, the Auditor General of Canada, as ICAO's External Auditor for the accounts of the financial years 2000 to 2004; and
 - b) the action taken by the Council in appointing Mrs. Sheila Fraser, the Auditor General of Canada, as ICAO's External Auditor for the accounts of the financial years 2005, 2006 and 2007; and
4. *Declares* that this resolution supersedes Resolutions A29-34 and A33-22.

Agenda Item 44: Report on the Use of the Information and Communication Technology (ICT) Fund

44:1 At its second meeting, the Commission considered A35-WP/32, AD/14.

44:2 The Commission notes the progress made on the three priority projects financed by the Information and Communication Technology (ICT) Fund.

44:3 The Commission notes that the estimates for the acquisition and implementation of a modernized financial management and other related systems amounts to about \$ 8 million. The Commission also notes that the stringent budgetary position of the Organization does not permit the inclusion of the required additional resources for the modernization of the financial systems and the enhancement of ICAO websites in the Regular Programme Budget.

44:4 Therefore, the Commission supports the modalities for funding, as proposed in A35-WP/32, AD/14, noting that this will allow the allocation of additional resources without increasing the States' assessed contributions.

44:5 The Commission, considering the significant amount of funds, estimated at \$ 8 million, to be invested for the modernization of the financial and related systems, recommends that the External Auditor pay particular attention to the use of the funds allocated to this project in the course of her audit.

44:6 Recognizing the importance of investing in information and communication technology, particularly the financial management and other related systems, in order to increase the efficiency and effectiveness of the Organization, the Commission recommends the adoption of Draft Resolution 44/1 on the Information and Communication Technology (ICT) Fund as amended by the Commission.

**RESOLUTION FRAMED BY THE ADMINISTRATIVE COMMISSION
AND RECOMMENDED FOR ADOPTION BY THE ASSEMBLY**

Resolution 44/1

Information and Communication Technology (ICT) Fund

The Assembly,

Recalling that:

1. improvements to information and communication systems of the Organization are important means to improve the efficiency and effectiveness of the Organization set forth in Assembly Resolutions A31-2 and A32-1;
2. the current accounting system is over 30 years old and improvements are necessary to meet the information requirements of Contracting States for the Regular and Technical Cooperation Programmes;
3. programme budget estimates do not include significant investments in information and communication technology; and

4. under Assembly Resolution A33-24, an Information and Communication Technology (ICT) Fund was established to fund the modernization of financial systems, the enhancement of ICAO websites and consolidation of file servers;

Notes the Report on the ICT Fund and the progress made on the three projects and the expenditure incurred thereon to date.

The Assembly,

Notes that:

1. the \$ 2.5 million allocated to-date would be insufficient to fund the modernization of the financial and related systems;
2. the preliminary estimated cost of implementing a modern integrated and related systems amounts to approximately \$ 8 million;
3. another \$ 500,000 could be required to maintain and enhance the development of the ICAO website.

The Assembly,

Resolves:

1. to authorize the transfer of an amount of \$ 2 million from the accumulated funds of the Administrative and Operations Services Fund of the Technical Co-operation Programme to the ICT Fund to fund part of the cost of modernizing the financial and related systems;
2. to authorize the Council to transfer from the Incentive for Settlement of Long-Outstanding Arrears Account to the ICT Fund such amounts as are available and are deemed appropriate to fund the modernization of the financial and other related systems after carefully examining its estimated costs and taking into account the needs of the Organization.

The Assembly,

Requests:

1. States to make voluntary contributions in cash or in kind for the modernization of the financial and related systems and the further development of the ICAO websites;
2. the Council to monitor progress achieved through the use of the ICT Fund and report at the next ordinary session of the Assembly on the use of the ICT Fund;
3. the External Auditor to pay particular attention to the appropriate use of the funds allocated to the modernization of financial and related systems in the course of her audit.

Agenda Item 45: Assembly Resolutions to be consolidated or to be declared no longer in force

45:1 Certain resolutions, which it was proposed be declared no longer in force, were referred to the Commission for consideration and recommendation to the Plenary. Those resolutions were listed in A35-WP/33, P/5, Appendix E.

45:2 At its second meeting the Commission examined those resolutions and noted that action had been completed on each resolution. The Commission was satisfied that the proposed action was in order and recommends to the Assembly that these resolutions be declared no longer in force.

RESOLUTIONS TO BE DECLARED NO LONGER IN FORCE

Doc 9790 - Assembly Resolutions in Force

Part X - Finance

| Resolution* | Subject | No longer in force because |
|--------------------|---|-----------------------------------|
| A 31-20 (X-6) | Apportionment of expenses of ICAO among Contracting States | Obsolete |
| A32-26 (X-7) | Assessments to the General Fund for 1999, 2000 and 2001 | Action completed |
| A33-25 (X-10) | Confirmation of Council action in assessing the contributions to the General Fund and determining advances to the Working Capital Fund of States which have adhered to the Convention | Action completed |
| A32-24 (X-11) | Budgets 1999, 2000 and 2001 | Action completed |
| A 33-30 (X-17) | Approval of the accounts of the Organization for the financial years 1998, 1999 and 2000 and examination of the Audit Reports thereon | Action completed |
| A 33-31 (X-18) | Approval of those financial statements with respect to the United Nations Development Programme administered by ICAO as Executing Agency for the financial years 1998, 1999 and 2000 and examination of the Audit Reports thereon | Action completed |

— END —

* The number in brackets refers to the page on which the relevant resolution will be found in Doc 9790.