



ASSEMBLY - 36TH SESSION

ADMINISTRATIVE COMMISSION

Agenda Item 57: Review of expenditures, approval of accounts and examination of Audit Reports for the financial years 2004, 2005 and 2006

**FINANCIAL STATEMENTS AND REPORT OF THE EXTERNAL
AUDITOR FOR THE FINANCIAL YEAR 2005**

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This paper presents the Financial Statements of the Organization for the financial year 2005, the Report of the External Auditor thereon, as well as the Secretary General's Response to the Report of the External Auditor, as contained in Document 9875. Draft resolutions for the consideration of the Assembly are in Appendix B.

Action: The Council recommends that the Assembly:

- a) note the Report of the External Auditor relating to the 2005 accounts and the Response of the Secretary General to the Audit Report of the External Auditor contained in Document 9875 the report on the status of implementation of the External Auditor's prior years' recommendations (Appendix A);
- b) approve the audited accounts of the Organization contained in Document 9875;
- c) approve the accounts with respect to the UNDP projects executed by the Organization (Schedule C of the Financial Statements); and
- d) Consider the two draft resolutions submitted in Appendix B to this paper.

<i>Strategic Objectives:</i>	This working paper relates to Supporting Implementation Strategy 1 and does not relate to any Strategic Objective.
<i>Financial implications:</i>	Not applicable.
<i>References:</i>	Chapter VIII, Article 49(f) of the Convention Doc 9848, <i>Assembly Resolutions in Force</i> (as of 8 October 2004) Doc 7515/12, <i>The ICAO Financial Regulations</i>

1. INTRODUCTION

1.1 The format and content of the Financial Statements for the year ended 31 December 2005, have been significantly changed from those of prior years, as approved by the Council in C-DEC 176/3.

1.2 The Foreword of the Secretary General has been replaced with a more comprehensive Report from the Secretary General on the financial activities of the Organization during the year. Paragraph 1 of the Report of the Secretary General describes the main changes that have been made to the 2005 Financial Statements. Much of the information previously reported in the Assembly working paper accompanying the Financial Statements and the Report of the External Auditor has been incorporated in the Report of the Secretary General and in the Annexes to the Financial Statements.

1.3 The document now includes, in addition to the Financial Statements and the Report of the External Auditor to the Assembly, the Secretary General's Response to the Report of the External Auditor and the actions proposed to be taken.

1.4 Further changes to the format and content of the financial statements will continue in the forthcoming years as the Organization moves to simplify the reporting and to keep pace with implementation of new accounting standards, the International Public Sector Accounting Standards, being adopted by the United Nations.

2. REPORT OF THE EXTERNAL AUDITOR

2.1 The External Auditor has provided an Opinion, without reservation, that the Financial Statements of the Organization for 2005 presented fairly, in all material respects, the financial position of the Organization as at 31 December 2005 and the results of its operations, and that the transactions of the Organization that came to her notice during her audit of the financial statements had, in all significant respects, been in accordance with the Organization's Financial Regulations and legislative authority. As required by the Financial Regulations, the External Auditor reported that, in her opinion, the accounting principles have been applied, after giving retroactive effect to the change in the method of accounting for user charges as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

2.2 The External Auditor has also reported the results of the examination of selected activities of the Organization in a Long-form Report and made recommendations for the consideration of the Organization, which are presented in Addendum No. 2. The Secretary General's Response to the Report of the External Auditor and the proposed action on the recommendations are in Addendum No. 3.

3. REVIEW BY THE COUNCIL

3.1 On 14 June 2006, in accordance with Financial Regulation 13.3, the Council reviewed the Financial Statements of the Organization for the financial year 2005, the Report of the External Auditor thereon, and the Secretary General's Response to the Report of the External Auditor (Document 9875). The Council also reviewed and considered the report of the Secretary General on the status of the prior years' recommendations of the External Auditor (Appendix A). After careful consideration of the Financial Statements, the External Auditor's Report, and the Secretary General's Response to the Report of the External Auditor, the Council agreed to transmit the document and to recommend action to the Assembly as reflected in the Draft Resolutions in Appendix B.

APPENDIX A

STATUS REPORT OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS ON THE 2004 AND PRIOR FINANCIAL YEARS

1. INTRODUCTION

This status report provides a listing of the recommendations made by the External Auditor in 2004 and prior years as of 31 March 2006. For each outstanding audit recommendation, the information presented includes the year of the audit report in which the recommendation was made, the paragraph number of that report, a description of the recommendation made by the External Auditor, an unaudited commentary on progress made in implementing the recommendation, its current status and its expected completion date.

The information provided is based on management representations and has not been audited by EAO. The External Auditor in the 2003 report (Doc 9834) recommended that EAO should express an opinion on the status of recommendations and indicate whether follow-up is being done by managers and whether progress is being achieved. In response to that recommendation, EAO noted that the very limited resources of EAO makes complete coverage in this area impossible. Since that time the number of professional staff in EAO has been reduced from three to two officers.

2. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 1998

2.1 Cash Management

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
2.1.1	<u>1998 - Paragraph 89</u> The accounting system be modernized in order to facilitate timely action, including payment on due dates.	Action to modernize the accounting system is underway. Payments will be better controlled in a new system. In the meantime, all invoices payable are carefully monitored to ensure timely payments.	In progress	2007

3. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 1999

3.1 Universal Safety Oversight Audit Programme (USOAP)

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
3.1.1	<u>1999 - Paragraph 47</u> Resource issues at Headquarters and Regional Offices should be resolved in order to meet the necessary commitment of resources in safety oversight audit activities.	Resource requirements for the Universal Safety Oversight Audit Programme (USOAP) are being addressed through the long-term secondment of officials from States. Currently five long-term seconded officers have joined USOAP and two more are scheduled to join by September 2006. One more long-term secondment officer is required.	In progress	December 2006
3.1.2	<u>1999 - Paragraph 47</u> The Safety Oversight Audit (SOA) Unit should implement a time-recording system. This basic tool would provide management with detailed information on the use of resources and comparative data for future audit cycle planning and decision making.	A formal time reporting system was not instituted during the initial audits, although some individual auditors kept track of their time. During the audit follow-up phase, team leaders were empowered to assess the time required to complete an audit follow-up prior to establishing the schedule, and missions were set up accordingly. An assessment of time usage is made at the end of the mission as part of the Team Leader's Mission Report. Similar procedures are now in place under the comprehensive systems approach. In addition a team leader is required to keep a recording system of the surplus hours spent on each mission to provide management with the ability to continuously monitor the effectiveness of SOA procedures used for audit planning.	Implemented	

4. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 2000

4.1 The 2002-2004 Draft Programme Budget Planning Process

Paragraph 40 of the year 2000 Report of the External Auditor recommended: to develop a Programme Budget that can take into account the global needs and strategic priorities of ICAO, the Secretariat should consider doing the following:

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
4.1.1	<p><u>2000 - Paragraph 40</u> Implement a formal means such as a strategic planning function or a challenge review process at the senior levels to assist in establishing strategic objectives in their order of importance at the outset of the programme budget planning process.</p>	<p>The Strategic Objectives for 2005-2010, adopted by the Council, are being revised and reviewed by the Working Group on Strategic Objectives. These objectives are the core of the Business Plan, upon which the 2008-2010 Programme Budget will be based.</p>	Implemented	
4.1.2	<p><u>2000 - Paragraph 40</u> Propose to the Council that overall performance information on programmes and key activities be developed and provided to the Council on a regular basis.</p>	<p>The Council has discussed this subject. The Business Plan will have Key Performance Indicators (KPI), by which the performance of the Organization can be assessed against its Strategic Objectives. As mentioned above, the Programme Budget for 2008-2010 will be aligned with the Business Plan. For the 2005-2007 triennium, a Finance Committee working paper (FI-WP) will be presented for the 178th Session of the Council on the assessment of performance and results achieved to date against the performance indicators contained in the approved 2005-2007 Programme Budget.</p>	Implemented	

4.2 Human Resource Management

In paragraph 64 of the year 2000 Report, the External Auditor recommended: to ensure that ICAO has a competent and sustainable work force, capable of achieving its strategic goal, the Secretariat needs to do the following:

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
4.2.1	<u>2000 - Paragraph 64</u> Ensure that adequate funding is provided to improve management and recruitment practices.	During 2004, the Council approved U.S. \$50,000 for Performance Reporting Management and U.S. \$50,000 for Executive Management Training. This is in addition to the U.S. \$45,000 for Language Training. Further to the above, a workshop on Performance Reporting was offered to staff at the executive level and a limited number of managers followed a workshop on Project Management at McGill University. Lastly, a workshop was offered to Executive Management. In 2005, executive training for management continued. McGill University conducted a one-day seminar on Creative Thinking and Innovation and a three-day seminar on Project Management. A Personal Efficiency Programme was also undertaken. In 2006, the Creative Thinking and Innovation seminar was again offered for senior managers in March. An Executive Management Overview seminar is scheduled to be conducted by Concordia University in October. The Project Management seminar will again be offered by McGill in November. The Personal Efficiency Programme is also scheduled to take place in November.	Partially implemented Executive training activities are being undertaken, based on limited availability of funds.	Ongoing

4.3 Information Technology

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
4.3.1	<u>2000 - Paragraph 81</u> ICAO has attempted to renew its financial system but has made little progress, despite the acknowledged urgency of the need. The Organization will need funding, project leadership, and competencies in implementing modern information systems.	The scope of the project has changed from an initial replacement of the core financial system to the possible replacement of several back-office systems such as the Payroll, Human Resources Management, Sales of Publications and Travel Systems. A Project Team has been nominated by the Secretary General and given the task to prepare a Business Case that will finalize the scope of the project, evaluate possible alternatives, provide cost estimates and a timeframe for implementation.	In progress	During the 2005–2007 triennium

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
4.3.2	<u>2000 - Paragraph 82</u> ICAO should reconsider the priority it has given to replacing the existing financial systems. Funding for the renewal initiative, training, future upgrades and maintenance is necessary for success.	As noted above, the scope of the project has changed and is no longer to replace the core financial system only, this recommendation has been superseded by developments.	All further action will be included under 4.3.1	
4.3.3	<u>2000 - Paragraph 82</u> A change management strategy is necessary to mobilize and sustain the efforts to change to a new, modern system.	This recommendation will be implemented as the system is acquired, developed and installed.	In progress	During the 2005–2007 triennium

5. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 2001

5.1 Regional Offices with Special Reference to the South American Office (Lima)

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
5.1.1	<u>2001 - Paragraph 72</u> The Secretary General should institute a formal annual review of plans with each regional office. This review should involve representatives of each Headquarters bureau and focus on planned results and the expected resource costs to achieve them, in order to identify and agree on realistic priority activities.	The Secretary General supports the recommendation of the External Auditor for establishing a formal annual review process of the Regional Office plan for each of the seven Regional Offices. All Regional Offices are an integral part of the Business Plan which provides priorities, expected results and resource utilization. The Business Plan of the entire ICAO Organization, including the Regional Offices, was presented to Council in June 2005.	Implemented	
5.1.2	<u>2001 - Paragraph 72</u> Regional offices should report the results, the resource costs, and the variances from plans for all major activities such as air navigation planning and implementation, air transport planning, and management improvement initiatives. This would apply both to internal reporting to Headquarters throughout the year and in the Annual Report to the Assembly.	In relation to reporting of the results, the resource costs and the variance from plans for all the major activities of the regions, this recommendation will be completed as part of the Performance Management section of the Regional Office Business Plan. The framework for establishing Performance Management is in progress and will be completed in December 2006. The results of this work will be applied subsequently to the Regional Offices. KPIs have been formulated, by which the performance of the Organization can be assessed against its Strategic Objectives.	Partially implemented	December 2006

6. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 2002

6.1 Technical Cooperation Projects

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
6.1.1	<p><u>2002 - Paragraph 78</u> Sufficient information and documentation should be provided on the overhead rate to be charged at the planning phase of the project, tracked over the duration and reported on a timely basis.</p>	<p>In order to monitor the actual cost of support of technical cooperation projects to recover the costs incurred, the Technical Co-operation Bureau (TCB) regularly undertakes an analysis of the income derived from all projects implemented in a given year in comparison with the related expenses incurred by the Administrative and Operational Services Cost (AOSC) Fund by type of project. In addition, a document on the establishment of overhead rates was developed by TCB to help identify elements of support costs, providing guidelines to determine overhead charges. These guidelines are to be applied by all Field Operations Sections, and the process for establishing the overhead documented in the respective project files.</p>	Implemented	

6.2 Regional Offices with Special Reference to the Asia and Pacific Office (Bangkok) and the European and North Atlantic Office (Paris)

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
6.2.1	<p><u>2002 - Paragraph 114</u> The Secretary General should institute a formal annual review of plans with each Regional Office. This review should involve representatives from each Headquarters bureau and should focus on planned results and the expected costs required to achieve them. This will enable realistic priorities to be identified and agreed upon.</p>	<p>Work has started on the issue of performance management and reporting at the level of the Senior Management Group (SMG) and development of the methodology. The formal annual review of plans will be a part of the Performance Management section of the Business Plan. The framework for establishing Performance Management is in progress and will be completed by December 2006. The results of this work will be applied subsequently to the Regional Offices.. KPIs have been formulated. The Business Plan will have KPIs, by which the performance of the Organization can be assessed against its Strategic Objectives.</p>	Partially implemented	December 2006

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
6.2.2	<u>2002 - Paragraph 114</u> The roles and responsibilities of Regional Offices should be clarified and the Regional Office Manual should be revised accordingly and made available in electronic format.	The Regional Office Study has been completed. The Manual was finalized in December 2005 and an electronic version is available in RAO.	Implemented	
6.2.3	<u>2002 - Paragraph 114</u> Regional Offices should report the results, the resource costs, and the variances from plans for all major activities such as air navigation planning and implementation, air transport planning, and management improvement initiatives. This would apply to both internal reporting to Headquarters throughout the year, and in the Annual Report to the Assembly.	The framework for establishing Performance Management is in progress and will be completed by December 2006. The results of this work will be applied subsequently to the Regional Offices.. KPIs have been formulated , by which the performance of the Organization can be assessed against its Strategic Objectives.	Partially implemented	December 2006
6.2.4	<u>2002 - Paragraph 114</u> Regional Offices should report potential benefits in their budgetary plans, and actual benefits from their work in their monthly reports to Headquarters. Accomplishments could also be published in the Council's Annual Report, along with any appropriate caveats about attribution.	Several press releases have been issued describing the accomplishments of the Regional Programmes. Benefits of the implementation efforts are represented as well. Accomplishments have been published in the Council's Annual Report. This task will be taken into account in the formulation of the Business Plan and Performance Management for the Regional Offices. The Business Plan was completed in June 2005. Establishment of Performance Management is in progress.	Partially implemented	December 2006

7. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 2003

7.1 Regional Offices with Special Reference to the Western and Central African Office (Dakar)

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.1.1	<p><u>2003 - Paragraph 126</u> ICAO Headquarters and Regional Offices should work together to set priorities that define in more detail the role of its Regional Offices in promoting and/or assisting particular projects that are part of regional air navigation plans, and that provide a basis for accountability.</p>	<p>Formulation of the Business Plan including the Regional Offices has been completed. The Business Plan will assist in prioritizing and promoting the implementation of requirements contained in the global and regional air navigation plans, as well as further improve the plans themselves.</p>	Implemented	
7.1.2	<p><u>2003 - Paragraph 126</u> ICAO Headquarters should provide guidance before each regional planning group meeting about how to deal with the implications of incompatible systems and standards between States and groups of States, and should organize meetings with all regions from time to time to address global problems.</p>	<p>The coordination with Air Navigation Bureau (ANB) sections is an integral part of preparation for the Planning and Implementation Regional Group (PIRG). The ANB is currently preparing a roster of officers at both Headquarters and Regional Offices to lead the various air navigation-related critical tasks under Objectives A and D. The roster will be used to share information and to make sure that the accomplishment of all such tasks in the Operational Plans of ANB and the regional programmes are well coordinated.</p>	Partially implemented	Ongoing
7.1.3	<p><u>2003 - Paragraph 133</u> ICAO should develop a chain of planned outputs and results linked to its objectives to provide a better base for accountability.</p>	<p>The introduction of the Business Plan and Performance Management reporting will further improve the effectiveness of ICAO's work. The Business Plan of the entire ICAO Organization, including the Regional Offices, was presented to Council in June 2005. The framework for establishing Performance Management is in progress and will be completed by December 2006. KPIs have been formulated. The mechanisms regarding the measurability of KPIs have been evolving.</p>	Partially implemented	December 2006
7.1.4	<p><u>2003 - Paragraph 133</u> ICAO should collect statistics and carry out evaluations to identify the actual results of its work.</p>	<p>External Auditor's recommendations are applicable to all Regional Offices and will be implemented as such. The External Auditor's recommendations had been introduced through the Business Plan by June 2005. Actual results of the Regional Offices will be monitored through the Performance Management system.</p>	Partially implemented	December 2006

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.1.5	<u>2003 - Paragraph 133</u> Results should be reported in the Regional Office monthly reports and in the Annual Report to the Assembly.	As part of the Business Plan, it is intended to enhance the reporting format of the Regional Offices' monthly reports to ensure that the major activities specific to the region are included and later reflected in the Annual Report of the Council to the Assembly. This information may also be used by the Regional Offices during the budget planning process to demonstrate their need for resources. Actual results of the Regional Offices will be monitored through the Performance Management system. The Annual Report to the Council has been revised.	Partially implemented	December 2006

7.2 Office for Programmes Evaluation, Audit, and Management Review (EAO)

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.2.1	<u>2003 - Paragraph 175</u> EAO should update its risk assessment study on an on-going basis and seek senior management involvement in its assessment of risks.	The risk assessment study and SWOT analysis was part of the EAO work programme for 2005. Risk assessment will be incorporated into the operational plan of the Organization and thus will become a part of organizational planning.	In progress	December 2006
7.2.2	<u>2003 - Paragraph 175</u> EAO should explore how it can use the annual report to inform Member States on the results achieved against goals or objectives explicitly stated in the Programme Budget, report on key indicators of its performance, note any progress, and outline future actions.	The developments under the Business Plan and performance reporting should facilitate communicating how results are achieved against goals or objectives for the entire organization. Periodic annual monitoring/reporting of results achieved against goals is highly desirable and should be built into the reporting framework. With its limited resources, EAO does not have the capacity to undertake an organization-wide monitoring exercise, however EAO emphasizes the results achieved against specific goals and objectives when it undertakes evaluations of specific programmes.	No further action planned	
7.2.3	<u>2003 - Paragraph 175</u> EAO should continue its efforts to build its evaluation capacity, and to develop appropriate standards and guidelines. Plans should be realistic given the current and planned resource levels.	EAO will continue with its effort to build its evaluation capacity within its very limited resources. EAO will continue to participate in certain common system fora which provide standards and guidelines which can easily be adopted to ICAO. To significantly improve audit and evaluation capacity, additional staff resources are necessary.	No further action planned	

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.2.4	<p><u>2003 - Paragraph 176</u> EAO should identify, for each product or project the objectives, key issues and recommendations, indicating the number of recommendations made and management's comments, where relevant.</p>	<p>EAO has gradually improved its report presentation. The report format has been simplified and has become more consistent; focusing on key issues and including the number of recommendations and managements comments.</p>	Implemented	

7.3 Follow-up on External Auditor 2000 Report: Human Resource Management

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.3.1	<p><u>2003 - Paragraph 82</u> ICAO should conduct an organization-wide programme and activity-based review focussed on the strategic priorities of the Organization.</p>	<p>At its 173rd Session of the Council, a working group prepared and presented C-WP/12383 on the updating of the Organization's Action Plan whereby ICAO's Strategic Objectives were emphasized. Human Resources Management strategies for the current and forthcoming triennia will be reflected/prepared according to ICAO's Strategic Objectives. At its 174th Session of the Council, a Framework for Human Resources Management (HRM) was presented in C-WP/12418. Subsequently, at the 176th Session, C-WP/12557 reported on the progress made in the implementation of Human Resources (HR) strategies in support of achieving the Strategic Objectives of the Organization.</p>	Implemented	
7.3.2	<p><u>2003 - Paragraph 82</u> ICAO should develop a shared understanding of staff competencies at the senior management level to assess whether ICAO has the right knowledge and skills needed to achieve its objectives, and if not, to develop programmes that address knowledge and skill gaps.</p>	<p>Directors of Bureaux and Chiefs of Offices have been requested to provide their Human Resources needs for this triennium. At the beginning of each year, this list of requirements is updated to reflect changes in priorities and to specify the list of competencies that are required for the forthcoming next two triennia, i.e. until 2013. These requirements will be translated into strategic HR planning underlining the competencies required for the next two triennia. To further assist the managers in assessing the competency requirements of their respective Bureaux/Offices, an inventory of in-house skills profiles for level of education, languages and experience has been compiled. This data is presently being analysed and will be shared with managers. In order to further assist managers in assessing the gap between</p>	In progress	December 2006

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
		available skills and required skills, a workshop will be conducted.		
7.3.3	2003 - Paragraph 82 ICAO should devote the necessary funding to address the technical training programmes identified in a recent survey of training needs to help ensure that ICAO has the skills and competencies needed to achieve its current and future objectives.	Except for limited funds which were made available in 2006, funding is not provided for technical training. A centralized approach for technical training is under consideration. Each Director submitted a list of requirements for technical training for their respective Bureau for 2006. A consolidated list of the 2006 technical training requirements will be presented to the Directors in a meeting to be held in May 2006. In addition to this initiative, a long-term plan for general and technical training programmes up to 2010 will be prepared, based on the needs assessment which will be conducted through the help of external consultants.	In progress	December 2006
7.3.4	2003 - Paragraph 82 ICAO should implement more stringent measures to address delays in producing an initial short-list of candidates and in appointed candidates reporting to work.	Except for some isolated areas in the Organization, an overall improvement has been noticed in producing the initial short-list. Systematic follow-ups with the Bureaux have been established and direct dialogue with the Directors/Chiefs of Bureaux/Offices has been established in order to further accelerate the process. (Also see comments in 7.3.5 below.)	In progress	April 2006
7.3.5	2003 - Paragraph 82 ICAO should analyze, monitor, and report on the lead times to recruit at all stages of the recruitment process in order to identify and address problem areas.	In 2006, specific HR policy decisions were taken with regard to aim to implement a strict seven-month timeline for the recruitment of Professional posts. For each stage in the recruitment process, a specific time frame has been identified which has to be adhered to by all concerned participants. Adherence to the specific timeline for each component/phase of the recruitment timeline will be carefully monitored to ensure that there are no delays. In addition, the offers of appointment to selected candidates will be amended to reflect that if he/she does not report within a stipulated period of time, the offer will become null and void.	In progress	April 2006
7.3.6	2003 - Paragraph 82 ICAO should reassess the representation of women in the aviation field and the targets established for ICAO. From this assessment, formulate a revised plan of action to improve the representation of women in professional and higher categories, and devote the senior	Actions have been taken to promote the candidacies of women for Professional positions within the Secretariat, such as outreach to women's groups in Montreal and attendance at local area meetings and UN inter-agency meetings on the gender issues, linking ICAO to the Womenwatch website, contacting female delegates attending ICAO meetings, sending out letters to Council Representatives in order to establish links with the national authorities in charge of promoting the status of women, speaking engagements and participation in conferences attended by women in the	In progress	Ongoing

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
	management attention and dedicated resources (financial and human) required to implement the plan.	<p>aviation field, improving recruitment procedures to allow greater emphasis on women candidates, etc. Moreover, several actions are also planned for the forthcoming years alongside the affirmative action programme initiated by the United Nations to promote and improve employment of women in the Professional categories.</p> <p>Pursuant to the decision taken by the 35th Session of the Assembly, an amendment to Staff Regulation 4.1 of the ICAO Service Code was approved by Council at its 175th Session (C-WP/12483 refers) to implement an affirmative action programme for the recruitment and status of women, along the lines of that of equitable geographical representation. This same working paper also reported on the progress made to implement family-friendly policies in ICAO and on the actions taken to further promote gender equality. Some recent achievements include naming focal points for gender issues in the Regional Offices. Efforts to further improve the status and representation of women in the Secretariat are continuing. A report on the recruitment and status of women is presented to the Council each year. A report is also presented to the Assembly.</p>		

7.4 Follow-up on External Auditor 2000 Report: Modernization of Financial Information Systems

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.4.1	<p><u>2003 - Paragraph 96</u> As the search for a new financial system continues, the Organization should carefully consider all those factors likely to affect the long-term success of the financial system renewal project and thoroughly evaluate the impacts and risks associated with each factor at the time when a decision on system acquisition is made.</p>	<p>Since the last report on the Status of Prior Years' Recommendations of the External Auditor, the Secretary General has consulted with other UN agencies to learn from their experience and to identify ways to minimize project cost and risks. In addition to these consultations, a project team has been established to develop a Business Case containing further justifications, risks, cost-benefit analysis, recommendation on the scope of the project, and the timeline for the implementation of the new system for presentation to Council in the 178th Session.</p>	In progress	June 2006

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
7.4.2	<u>2003 - Paragraph 82</u> In the absence of a commitment to long-term, sustainable funding, ICAO should give greater weight to those system solutions that best meet the immediate needs of key stakeholders and minimize known post-implementation related costs.	It should be noted that the Organization will need to determine the final scope of the project on the basis of priorities and resources available. In the absence of long-term and sustainable sources of funding for the modernization of its financial system, severe limitations to the scope of the project will have to be imposed, more particularly if less costly alternative solutions are not found. These issues and the impact on project scope will be considered in the Business Case mentioned in 7.4.1 above.	In progress	June 2006
7.4.3	<u>2003 - Paragraph 82</u> ICAO should seek to ensure that the necessary skills and human resources will exist within the Organization to support the new system prior to implementation.	The Organization cannot acquire the necessary skills to support a new financial system before the selection of a specific solution, as different solutions would require different skills. Therefore, the necessary resources required to support the new system will be determined in due course on the basis of the solution that will be selected and the resources available.	In progress	2006

8. RECOMMENDATIONS OF THE EXTERNAL AUDITOR REPORTED IN 2004

8.1 Attest Audit Results

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
8.1.1	<u>2004 – Paragraph 10 c)</u> Value of non-expendable items still not disclosed in 2004 financial statements.	See comments for 8.1.4.		
8.1.2	<u>2004 – Paragraph 10 d)</u> Income recognition for sales of publications does not comply with United Nations System Accounting Standards (UNSAS).	As part of the actions approved in C-DEC 176/3, the Council approved the proposal to move to accrual accounting for publications revenue for the accounts of the financial year 2005. However, it was not possible to do so for the 2005 accounts as planned because the External Auditor required a corresponding recognition of the inventory of publications held for resale as an asset on the balance sheet. As explained in paragraph 3.6 of C-WP/12394, the cost of producing publications is currently recorded as	In progress	2008

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
		expenditure in the Regular Programme and recognizing the publications inventory as an asset on the balance sheet can only be implemented as part of the next triennium's Budget. Accordingly, the sales of publications will continue to be recorded on a cash basis until the adoption of International Public Sector Accounting Standards (IPSAS) in 2008.		
8.1.3	<p><u>2004 – Paragraphs 11 and 12</u> The financial statements need to be simplified and they should contain one set of accounting policies. The Secretariat should establish an action plan to undertake a review of its financial statements, notes and accounting principles.</p>	<p>C-WP/12394 was presented and approved by the Council in the 176th Session containing a work plan for simplifying the 2005 accounts with one set of Notes only. A follow-up working paper is being prepared for the 178th Session describing the impact and the timeframe for adoption of IPSAS to replace UNSAS accounting standards, and approval of the action is expected in May/June 2006.</p>	In progress	May/June 2006

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
8.1.4	<p data-bbox="306 295 743 545"><u>2004 – Paragraphs 13 and 14</u> Controls for inventory of expendable and non-expendable items should be improved. Conference and Office Services Section (COS) should not further delay the approval and distribution of the new procedure for managing non-expendable items.</p> <p data-bbox="306 581 743 701">Further efforts are required to produce an accurate inventory of non-expendable items to improve its management and to comply with UNSAS.</p>	<p data-bbox="760 295 1579 1018">The following measures have been taken to improve inventory controls in the Organization; (i) The manual for the management of non-expendable property providing guidelines on the procedures for managing non-expendable items has been approved by the Secretary General. Copies have been distributed to all offices in order to standardize the inventory control practices throughout the Organization. (ii) Redistribution and prioritization of work assignments were made so that one full-time, trained staff member is dedicated to managing the inventory until the UNSAS requirements are met. COS has dedicated staff to deal with non-expendable property (NEP). The Building Services Officer (BSO) is responsible for NEP and is the focal point for all inventory matters and is assisted by a General Service staff member. Progress has been achieved, and the NEP value has been submitted to the External Auditor for the audit of the 2005 accounts. (iii) Identification and reconciliation of all items have been relocated and reassigned. An inventory count was carried out for the year end 2005 by an independent company and reconciliation of the items was done by COS. All inventory items were bar coded for ease of counting and monitoring. (iv) Procedures have been streamlined for prompt recording of all new acquisitions and property movements. All new acquisitions have been promptly recorded. (v) Independent verification of all data entry is performed to ensure accuracy of the database. Data entries were verified by the supervisor of the inventory unit (BSO) for accuracy. (vi) Periodic as well as year-end physical verifications were carried out after the count by COS.</p>	In progress	2006

8.2 Follow-up on External Auditor 2002 Report on Management of Technical Co-operation (TC) Projects

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
8.2.1	<p data-bbox="306 1226 743 1369"><u>2004 – Paragraph 26</u> Although there have been several changes in the technical co-operation programme, there seems to be no consolidated TC Policy available.</p>	<p data-bbox="760 1226 1554 1369">The TCB Administrative Manual (TCAM), which contains the Bureau's policies and instructions to personnel of a lasting nature, is currently being updated to include a separate chapter containing a consolidated technical cooperation policy, on the basis of Assembly Resolutions and Decisions in force, as well as applicable decisions by the ICAO Council.</p>	In progress	August 2006

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
8.2.2	<u>2004 – Paragraphs 29-31</u> We expected to find information on project justification in the files for all projects.	Detailed procedures to address and document information on project justification are included in Chapter 9 of the TCB Project Formulation Handbook. Instructions were issued to all Field Operations Sections to follow these procedures, at all times, in the planning and development of a project document. Section Chiefs were also informed that no project will be submitted for approval where information on project justification is not adequately provided.	Implemented	
8.2.3	<u>2004 – Paragraphs 32-34</u> In our 2002 report, we recommended that assessment of project risks be improved.	The Project Formulation Handbook, in particular the section on risk assessment in Chapters 8 (Project Formulation Framework) and 9 (Project Document), was reviewed by TCB management, and a revised text on risk assessment was prepared and approved for immediate application by all Field Operations Sections. Applicable procedures require that all project documents have a separate section on risk assessment; guidelines were developed to facilitate the identification of internal/external risk factors that may affect the achievement of project objectives, the production of outputs or implementation of activities, as well as the recommended action to mitigate such risks. Project risks are to be periodically reassessed and the risk analysis properly documented on file.	Implemented	
8.2.4	<u>2004 – Paragraphs 35-38</u> Lack of information on overhead rates and project costs makes it difficult to assess the actual costs for managing and reporting on technical co-operation projects.	In order to monitor the actual cost of support of technical cooperation projects to recover the costs incurred, TCB regularly undertakes an analysis of the income derived from all projects implemented in a given year in comparison with the related expenses incurred by the AOSC Fund by type of project. In addition, a document on the establishment of overhead rates was developed by TCB to help identify elements of support costs, providing guidelines to determine overhead charges. These guidelines are to be applied by all Field Operations Sections, and the process for establishing the overhead documented in the respective project files.	No further action planned until implementation of new financial system	

No.	Audit Report Year, Paragraph Number and Recommendation	Implementation Progress/Comments	Status	Expected Completion Date
8.2.5	<u>2004 – Paragraphs 39-41</u> Project assessment done prior to approval needs to be improved. Our review showed that no checklist was used to track the review of agreements.	A checklist was developed by TCB to track the review of project documents and agreements, and circulated to all areas for immediate application. The objective was to ensure that all phases in the development of a project document, from its planning to its approval and signature, are properly reviewed, in coordination with the appropriate areas of the Organization, including the Legal Bureau and the Finance Branch, and adequately documented. In addition, at the suggestion of EAO in March 2006, a checklist covering procurement contracts, including CAPS, is also being developed to include all actions to be taken for the completion of a procurement transaction, including an official request to users enquiring on their satisfaction with the procurement services provided by ICAO.	In progress	July 2006
8.2.6	<u>2004 – Paragraphs 42-45</u> Project monitoring activities are done on an ongoing basis but monitoring and reporting system needs to be improved. TCB should continue its efforts to establish an integrated monitoring and reporting structure that would provide it with the necessary information and flexibility to manage technical cooperation projects.	During the year 2005, TCB management undertook a review of the monitoring and reporting structure for technical cooperation projects. Detailed instructions were issued to ensure that follow-up and monitoring of technical cooperation projects are carried out on a regular basis by all Field Operations Sections, and the necessary information documented in a separate Monitoring Report, in addition to the Mission Report, in the respective project files. Further instructions were issued stipulating that monitoring activities should not be restricted to missions but also include activities undertaken by Headquarters and Regional Offices, which are to be also documented on project files.	No further action planned until implementation of new financial system	

**Summary of Recommendations from External Auditor
for the period 1998 to 2004
Status as of 31 March 2006**

Subject	Ref.	Recommendations		
		Total	Number Completed	Number in Progress
1998				
Air Transport Bureau - The Statistics Programme (completed 2004)		3	3	-
Environmental Protection (completed 2004)		1	1	-
Cash Management	2.1	10	9*	1
Total		14	13 (93%)**	1
1999				
Universal Safety Oversight Audit Programme	3.1	8	7	1
Total		8	7 (88%)**	1
2000				
The 2002-2004 Draft Programme Budget Planning Process	4.1	4	4	-
Human Resource Management	4.2	4	3	1
Information Technology	4.3	6	4	2
Total		14	11 (79%)**	3
2001				
Management Services Agreement Projects (completed 2004)		4	4	-
Regional Offices with Special Reference to Lima	5.1	2	1	1
Total		6	5 (83%)**	1
2002				
Technical Cooperation Projects	6.1	8	8	-
Regional Offices with Special Reference to Bangkok and Paris	6.2	5	2	3
Total		13	10 (77%)**	3
2003				
Regional Offices with Special Reference to Dakar	7.1	5	1	4
Office for Programmes Evaluation, Audit, and Management Review	7.2	10	9*	1
Follow-up on 2000 Report: Human Resource Management	7.3	6	1	5
Follow-up on 2000 Report: Modernization of Financial Information Systems	7.4	3	-	3
Total		24	11 (46%)**	13
2004				
Attest Audit Results	8.1	4	-	4
Follow-up on 2002 Report on Management of TC Projects	8.2	6	2	4
Total		10	2 (20%)	8

* Includes recommendation with no further action planned.

** Represents percentage completed of total recommendations.

APPENDIX B

DRAFT RESOLUTIONS

Resolution 57/5

Approval of the accounts of the Organization for the financial year 2005 and examination of the Audit Report thereon

Whereas the accounts of the Organization for the financial year 2005 and the Audit Report thereon, 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 Report and submitted it 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 2005 with related Response of the Secretary General to the Audit Report, and the report on the status of the implementation of the External Auditor's recommendations for prior years;
2. *Urges* the Secretary General to take the necessary action, as deemed appropriate, on the recommendations made by the External Auditor; and
3. *Approves* the audited accounts for the financial year 2005.

Resolution 57/6

Approval of those accounts with respect to the United Nations Development Programme activities administered by ICAO as Executing Agency for the financial year 2005 and examination of the Audit Report on the financial statements of the Organization which also covers 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 year 2005 as well as the Audit Report on the financial statements of the Organization, which also covers 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;

Appendix B

Whereas the Council has examined the Audit Report and submitted it to the Assembly for its 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 2005;
2. *Approves* those accounts with respect to the United Nations Development Programme administered by ICAO as Executing Agency for the financial year 2005; and
3. *Directs* that the financial statements of the Organization, which also include accounts of the United Nations Development Programme administered by ICAO, and the Audit Report be transmitted to the Administrator of the United Nations Development Programme for submission to the Executive Board.

— END —