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Doc 10089

Financial Statements and Reports of the External Auditor for the Financial Year Ended 31 December 2016



Documentation for the 40th Session of the Assembly in 2019



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**FINANCIAL STATEMENTS AND
REPORTS OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2016**

INTERNATIONAL CIVIL AVIATION ORGANIZATION
FINANCIAL STATEMENTS AND REPORTS OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2016

TABLE OF CONTENTS

	PAGE
PART I	REPORTS BY THE SECRETARY GENERAL
Presentation	I - 1
Statement on Internal Control	I - 15
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 Member States IV - 4
Table D	Technical Co-operation Project Activities by Group of Funds IV - 7
Table E	Technical Co-operation Project Activities - 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 2016 AND THE SECRETARY GENERAL'S COMMENTS IN RESPONSE TO THE REPORTS OF THE EXTERNAL AUDITOR

PART I: REPORTS BY THE SECRETARY GENERAL

INTERNATIONAL CIVIL AVIATION ORGANIZATION**PART I: REPORTS BY THE SECRETARY GENERAL****PRESENTATION****1. INTRODUCTION**

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

1.2 ICAO's membership comprises 191 Member States. Its Headquarters are in Montréal and it has regional offices in Bangkok, Cairo, Dakar, Lima, Mexico City, Nairobi and Paris as well as a regional sub-office in Beijing.

1.3 ICAO has a sovereign body, the Assembly, and a governing body, the Council. The Assembly, composed of representatives from all Member States, meets every three years, reviews in detail the complete work of the Organization, sets policy for the coming years and approves financial statements issued since the last Assembly. It also decides on the triennial budget. The Assembly last met in September 2016.

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 Resources 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, 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 2016. As required by Article XIII to the Financial Regulations, the External Auditor's opinion and his report on the 2016 financial statements are also submitted to the Council and Assembly as well as my comments (reflected in the Secretary General's Comments) thereon.

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

2. FINANCIAL REPORTING AND BUDGET PERFORMANCE HIGHLIGHTS

Adoption of International Public Sector Accounting Standards (IPSAS)

2.1 As reported in Note 1 to the financial statements, ICAO has continued to fully apply IPSAS in 2016. 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.

Financial Statements

2.2 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.

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

2.4 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.

2.5 The following paragraphs summarize the key information on the financial situation and performance of the Organization for 2016.

2.6 **Statement I** presents the financial position of the Organization. Assets totalling CAD 426.9 million at 31 December 2016 are mainly composed of cash and cash equivalents amounting to CAD 392.2 million and of assessments and other amounts receivable totalling CAD 28.7 million. Total liabilities amounts to CAD 494.4 million, of which an amount of CAD 312.6 million represents advance receipts mostly for technical co-operation projects, and a long-term liability of CAD 142.4 million for employee benefits recognized on this statement since 2010 with the application of IPSAS.

2.7 This statement also shows an accumulated deficit of CAD 67.5 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 66.3 million, it is not foreseen that additional funding will be necessary on a short term basis to cover the accumulated deficit.

2.8 **Statement II** presents the financial performance for the year 2016. There were significant changes made to this statement since 2010 to comply with IPSAS. Revenue from project agreement previously recorded on a cash basis is now recognized on the basis of services rendered and goods delivered to Technical Co-operation Projects (TCP). 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 1.4 million during 2016 to take into account the impact of the recognition of long-term receivables at fair value as required by IPSAS. Total 2016 surplus amounts to CAD 7.5 million. Table A shows the result by Fund or Group of Funds for regular activities. Expenses include an amount of CAD 9.9 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 2016, CAD 3.6 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 6.3 million between benefits accrued and benefits paid is included in the deficit for the year for that Fund. Explanations on the financial results and surplus of the General Fund of the Regular Programme (CAD 4.5 million) and surplus of the AOSC Fund (CAD 2.0 million) are provided in the following paragraphs.

2.9 With regard to the net surplus of other Funds (CAD 13.1 million), it is explained by surplus of 5 million in Environment Funds, as well as surpluses of 0.4 million in AFI Plan Fund, 1.0 million in AVSEC, 0.6 million in Regional Sub-Office Fund, 4.2 million in Ancillary Revenue Generation Fund and 1.7 million in all other Funds.

2.10 With regard to the Technical Co-operation Projects segment, there is no annual surplus or deficit for the year 2016 because revenue is recognized based on the stage of completion of projects, which is generally determined based on the costs incurred in each project. 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.

2.11 **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 87.3 million. The balance of the net accumulated deficit at the end of 2016 was CAD 67.5 million. The decrease to the accumulated deficit for 2016 is mainly caused by the actuarial gain of 12.2 million on After-Service Health Insurance (ASHI).

2.12 **Statement IV** gives the breakdown of the variation of cash flow from CAD 379.4 million at 31 December 2015 to CAD 392.2 million at 31 December 2016. As permitted by IPSAS, the indirect method is used which is also the method adopted by ICAO in previous years.

2.13 **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 38th Session of the Assembly in 2013, under Clause C of Resolution A38-22, voted appropriations in the amount of CAD 99 049 thousand for the year 2016. 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 2016, in thousands of Canadian dollars, is summarized as follows:

Original Appropriations	99 049
2015 Outstanding Commitments	12 191
Carry-over from 2015	6 647
Decrease in Appropriations	<u>(119)</u>
Approved Revised Appropriations	117 768
2016 Outstanding Commitments	(12 247)
Carry-over to following year	<u>(9 088)</u>
Revised 2016 Appropriations	<u>96 433</u>

3.3 **2015 Outstanding Commitments.** In accordance with Financial Regulation 5.7, an amount of CAD 12 191 thousand was approved by the Secretary General to supplement the 2016 appropriations, primarily for payment of outstanding commitments for the year ending as of 31 December 2015.

3.4 **Carry-over from 2015.** In accordance with the Financial Regulation 5.6, an amount of CAD 6 647 thousand was approved by the Secretary General to supplement the 2016 appropriations, financed by savings from 2015, for mandatory and other mission-critical activities that were not budgeted for in 2016.

3.5 **Decrease in Appropriations.** The amount of CAD 89 thousand was decreased because this amount was not reimbursed to the Regular Programme by the AOSC Fund, as approved by Council. This is the difference between the amount approved by the Council in C-DEC 200/2 (CAD 1 202 thousand) for the cost recovery in 2014 and the amount approved by the Assembly (CAD 1 291 thousand). In addition, an amount of CAD 30 thousand was transferred from the Regular Programme to the ICAO Programme for Aviation Volunteers (IPAV) fund in 2016, as decided by Council in C-DEC209/7

3.6 **2016 Outstanding Commitments.** The value of obligations entered into in 2016, but delivery against which is only expected in 2017, is CAD 11 007 thousand. Employee entitlements in an amount of CAD 1 240 thousand consisting primarily of accrued leave and repatriation grants are foreseen to be paid to staff separating from ICAO in 2017. Therefore, an amount of CAD 12 247 thousand (also see Figure 1, column (e)), has been reserved and carried forward to 2017, pursuant to Financial Regulation 5.7 to clear legal obligations incurred during 2016.

3.7 **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 20 per cent of the annual appropriation for each of the SO or SIS to which the transfer is made.

3.8 **Carry-over to Following Year.** Under Financial Regulation 5.6, the Secretary General is authorized to carry over unspent appropriations, not exceeding 10 per cent per appropriation for each SO or SIS. The amount of CAD 9 088 thousand is within this limit. The amount being carried over will be used to fund activities that did not get funded by the 2017 budget and those 2016 activities that were deferred to 2017. Like prior years, Programme activities were treated as priority over non-programme activities. Programme activities being funded by unspent 2016 appropriations include mostly from activities related to A-39 decisions, such as Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); remotely-piloted aircraft systems (RPAS) standards; aviation security and facilitation; aviation medical issues, among others. Deferred activities include lithium battery regional workshops; validation of State progress in the resolution of USOAP CMA findings, and postponed ICVM and USOAP audits. Provision was also made for enhancing technical assistance activities by Regional Office, cybersecurity, conference services, and a new Language Service Management System (LSMS) – all initiatives intended to enhance programme delivery.

3.9 As a result of the increases and transfers outlined in the preceding paragraphs, the final approved appropriation for the year amounted to CAD 96 433 thousand.

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

FIGURE 1

	<u>2016</u> <u>Budget¹</u>	<u>Actual²</u>	<u>Exchange</u> <u>Differences</u>	<u>Actual</u> <u>at Budget Rate³</u>	<u>2016</u> <u>Outstanding</u> <u>Commitments</u>	<u>Total</u>	<u>Difference</u>
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
				= (b)+(c)		= (d)+(e)	= (f) - (a)
REVENUE							\$
Assessed Contributions	92 355	106 915	(13 200)	93 715		93 715	1 360
Other Revenue							
ARGF	5 082	5 083		5 083		5 083	1
Miscellaneous	321	562		562		562	241
Reimbursement from AOSC	1 291	1 202		1 202		1 202	(89)
	99 049	113 762	(13 200)	100 562	-	100 562	1 513
EXPENSES							
Staff salaries and employment benefits	90 108	85 041	(8 821)	76 220	8 301	84 521	(5 587)
Supplies, consumables and others	880	465	(87)	378	233	611	(269)
General operating expenses	18 042	14 047	(861)	13 186	3 558	16 743	(1 299)
Travel	5 654	4 919	(420)	4 499	120	4 619	(1 034)
Meetings	2 605	2 132	(173)	1 959	32	1 992	(614)
Other expenses	479	287	(96)	191	3	194	(284)
	117 768	106 891	(10 458)	96 433	12 247	108 680	(9 088)

¹ 2016 Budget-Expenses include carryover (and commitments) from prior year of CAD 18 838 thousand; decrease of CAD 89 thousand in reimbursement to Regular Programme (C-DEC 200/2); and transfer to IPAV of CAD 30 thousand (C-DEC 209/7).

² From Table A, Financial Statements, excluding Working Capital Fund

³ Includes (1) budget exchange gain of CAD 13 200 thousand due to impact of US dollar transactions budgeted at USD1.00=CAD0.9875, and (2) currency exchange loss of CAD 2 743 thousand such as revaluation of balance sheet items.

3.11 **Explanation of Differences – Revenues.** The overall budget of CAD 99 049 thousand (Figure 1, column (a)) refers to the four main funding sources of the Regular Programme Budget for 2016: Assessed Contributions, ARGF Surplus, Miscellaneous Income and Reimbursement from AOSC Fund. For the *Assessed Contributions*, the difference of CAD 1 360 thousand pertains to the discounted amount of the long-term contributions receivable.

3.12 **Explanation of Differences – Expenses.** The overall budget of CAD 117 768 thousand (Figure 1, column (a)) includes the 2016 original appropriations of CAD 99 049 thousand, the carry-over from 2015 along with 2015 Outstanding Commitments of CAD 18 838 thousand and the decrease of CAD 119 thousand. Savings (unutilized appropriations) from 2016 of CAD 9 088 thousand will be carried over to 2017.

3.13 **Exchange Differences.** The exchange differences (Figure 1, column (c)) is composed of the following:

- a) Budget exchange gain of CAD 13 201 thousand. Since 2010, Member States are being invoiced partly in USD and partly in CAD. The USD/CAD exchange rate on 1 January 2016 (the date when invoices were raised in USD) was higher than the rate used in developing the 2016 budget causing an addition to total assessed contributions of CAD 13 201 thousand; and
- b) The net currency realized exchange loss of CAD 2 743 thousand such as the revaluation of balance sheet items.

The net exchange difference (gain of CAD 10 458 thousand) 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, as shown in Figure 1, column (g)).

Assessment and Reporting Currencies

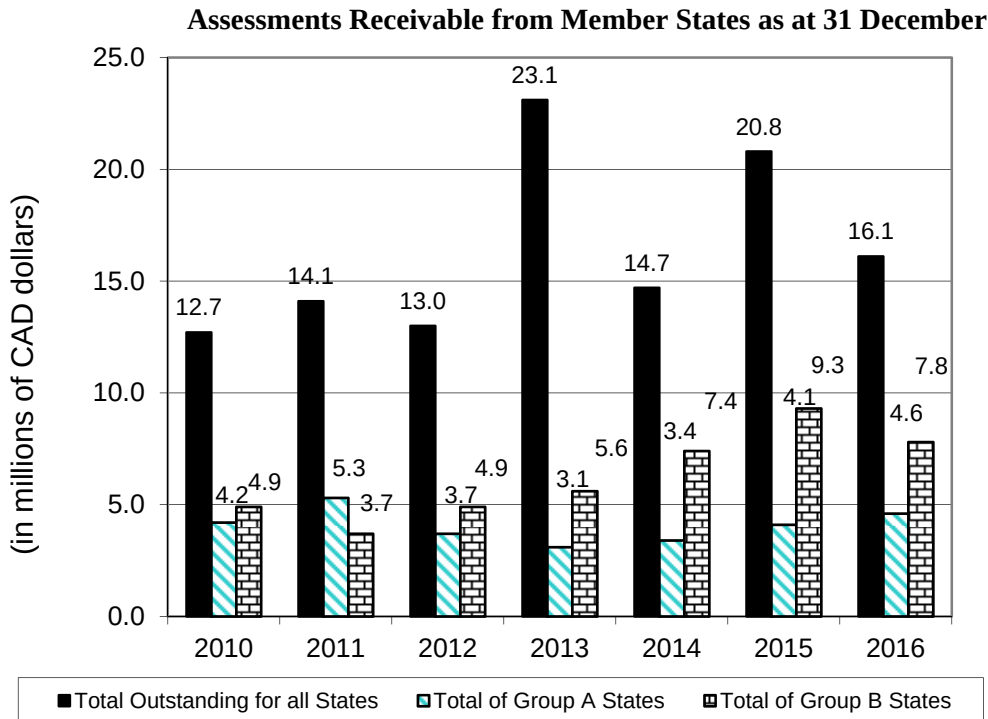
3.14 Assessments on Member States and other estimated sources of revenue were established in Canadian dollars for 2008 and for 2009. In 2010 a split assessment was introduced with about three quarters payable in Canadian dollars and one quarter payable in U.S. dollars. To ensure consistency and comparability between the approved budgets and the Accounts and Funds of the Organization, transactions are reflected in Canadian dollars and the financial statements are presented in Canadian dollars from 2008 onwards. This change is applicable to most of the Funds of the Organization for regular activities presented in Segment 1, while Funds presented in Segment 2 related to Technical Co-operation Projects are recorded in U.S. dollars, but presented in Canadian dollars in the financial statements. During 2016, the fluctuation of the Canadian dollar against the U.S. dollar was CAD 1.385 at the beginning of the year and CAD 1.354 at the end of the year.

Assessments and Other Voluntary Contributions

3.15 During the year 2016 assessments totalling CAD 101 374 thousand were received and a balance of CAD 4 182 thousand remained outstanding at the year-end against the current year's assessments. At the beginning of the year, CAD 17 901 thousand was receivable from States in respect to 2015 and prior years; payment of CAD 7 842 thousand was received, leaving a balance outstanding of CAD 10 059 thousand. The assessments receivable for all years totalled CAD 14 240 thousand as at 31 December 2016 (including the Working Capital Fund). CAD 14 240 thousand includes a

USD assessment component converted at CAD 1.354 yielding a re-valued assessment receivable balance of CAD 16 111 thousand. Details are provided in Table C of Part IV to this document. The percentage of receipts of contributions for the last four years in relation to the amount assessed averaged 92.38 per cent. Figure 2 shows the status of the assessed contributions receivable at the end of each year since 2010.

FIGURE 2



3.16 Of the total outstanding contributions of CAD 16 111 thousand at 31 December 2016, CAD 1 072 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

	Number of States 2016	Amount Outstanding as at 31 December 2016	Number of States 2015	Amount Outstanding as at 31 December 2015
Group A: States that have concluded agreements with the Council to liquidate their arrears over a period of years	12	4 623	11	4 146
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	15	7 779	18	9 287
Group C: States with contributions in arrears for less than three full years	8	1 031	17	5 695
Group D: States with contributions outstanding only for the current year	16	1 987	43	952
Sub-total	51	15 420	89	20 080
The Former Socialist Federal Republic of Yugoslavia	-	691	-	701
Total Outstanding Contributions	51	16 111	89	20 781

3.17 As at 31 December 2016, 12 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 2016.

3.18 Major contributions (*) received for the Regular Programme and other Funds in Segment 1 for 2016 are summarized in thousands of CAD below.

FIGURE 4

Member State	Assessment Received	Contributions In-Kind (Premises)	Contributions in Cash and In-Kind AVSEC	Total
Canada	2 723	21 338	1 797	25 858
United States	23 296		1 610	24 906
Japan	8 518		268	8 786
Germany	6 397		27	6 424
China	5 978		219	6 197
France	4 845	551	153	5 549
United Kingdom	5 035		8	5 043
Italy	3 399			3 399
Spain	2 607			2 607
Brazil	2 438			2 438
Republic of Korea	2 301		89	2 390
United Arab Emirates	1 900		34	1 934
Total	69 437	21 889	4 205	95 531

(*) Twelve highest contributions

3.19 Total expenses in 2016, including those for seconded staff and premises provided without charge, by Strategic Objective and Supporting Implementation Strategies (SIS) and for other activities are shown in thousands of CAD below:

FIGURE 5

	Safety	Air Navigation Capacity and Efficiency	Security and Facilitation	Economic Development of Air Transport	Environmental Protection	SIS	Others	Total
Regular Budget	27 275	19 259	9 993	4 014	4 473	41 877		106 891
Voluntary Funds and other								
Regular Activity funds	2 890	801	3 368	357	1 476	641	28 403	37 936
Premises						24 122		24 122
Seconded Staff (in-kind) (1)								
Argentina	13		88			5		106
Australia		214						214
China	863	385	156	439	76	506		2 425
France	366	137	153					656
Japan			161					161
Korea	233	56	89	4	6	8	207	603
Malaysia	240	33	33	7	4	3		320
Singapore	442	356	70	11	19	160		1 058
Turkey	379	337	38	9	14			777
United Arab Emirates	28	33	34		1	9		105
Others	716	222	1 166	14	50	116	14	2 298
Sub-total								
Seconded Staff	3 280	1 773	1 988	484	170	807	221	8 723
Total Expenses	33 445	21 833	15 349	4 855	6 119	67 447	28 624	177 672

(1): 10 highest contributions by alphabetical order

Cash Surplus

3.20 The cumulative surplus excluding reserves in Net Assets for the Regular Programme Budget at 31 December 2016 reflected in Table A of Part IV to this document amounted to CAD 14.7 million. Cumulative surplus less the Working Capital Fund balance of CAD 10.8 million and assessments receivable from Member States of CAD 14.2 million resulted in a cash deficit of CAD 10.4 million at 31 December 2016. Reserved surplus totalling CAD 19.5 million includes an amount of CAD 21.3 million to finance 2016 outstanding commitments and appropriations carried over to 2017, plus unrealized exchange gain of CAD 5.8 million, offset by an unrealized discount and provision on assessments receivables of CAD 7.6 million.

Ancillary Revenue Generation Fund (ARGF)

3.21 In 2016, ARGF achieved an operating surplus of CAD 10 355 thousand. This is before payment of the required contribution of CAD 5 082 thousand to the Regular Programme Budget, further costs contribution of CAD 71 thousand to the ICAO Work Programme and charges of CAD 974 thousand made to the cumulated surplus.

3.22 A summary of the ARGF revenue and expenses by business activities, including the Commissariat fund in thousands of CAD is as follows:

FIGURE 6

	Revenue	Expense	Surplus
Publications, Distribution & Printing	8 353	3 457	4 896
Training	4 726	3 248	1 478
Delegation and Conference Services & Rental	3 065	1 888	1 177
Licensing Agreements	2 102	278	1 824
Events	1 889	1 275	614
Periodicals	1 083	819	264
New Product Areas	781	564	217
Commissariat	511	503	8
Websites/e-Products	344	47	297
ARGF Operations and Admin. Fee & Admin. Support Costs	312	732	(420)
Sub-total	23 166	12 811	10 355
ARGF Inter-billing Elimination	(504)	(504)	-
Total	22 662	12 307	10 355
Amount Transferred to Regular Programme	-	5 082	(5 082)
Further Contribution to ICAO Work Programmes	-	71	(71)
Payments made from the Cumulative Surplus	-	974	(974)
Net	22 662	18 434	4 228

3.23 A budgetary comparison of the operating surplus is presented in the figure below in thousands of CAD.

FIGURE 7

	Actual	Budget	Variance
Revenue	23 166	23 304	(138)
Expense	12 811	14 676	1 865
Surplus	10 355	8 628	1 727

3.24 ARGF achieved an operating revenue of CAD 23 166 thousand (99% of budget) and an operating surplus of CAD 10 355 thousand (120% of budget). In 2016, 71% of the overall sales were priced in USD and the favourable USD/CAD exchange rate continued to have a positive impact on the ARGF revenue. Expenses of CAD 12 811 thousand were favourable compared to budget as a result of a combination of minimizing overall costs and unspent expenses in the New Products area.

Administrative and Operational Services Cost Fund (AOSC)

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

I-11
FIGURE 8

AOSC Fund Budget and Expenditures for 2016¹

	Submitted to the Assembly ²	Revised Budget 2016 ³	Actual Expenditure/ Income 2016	Balance of Revised Budget
Appropriation/Expenditure				
Major Programme	8 510	9 238	9 402	(164)
Income		9 970	11 134	
Excess/(Deficit) of Income over Expenditure		732	1 732	

¹ Excludes TCB Efficiency and Effectiveness Fund.

² Approved by the Assembly in 2013 (A38).

³ Noted by the Council at its 209th Session (C-WP/14509).

⁴ Expenditure includes CAD 336 thousand transferred to a Special Reserve Fund as per C-DEC 200/2 on the mechanism for adjusting the cost apportionment between the Regular Programme Budget and the AOSC Fund.

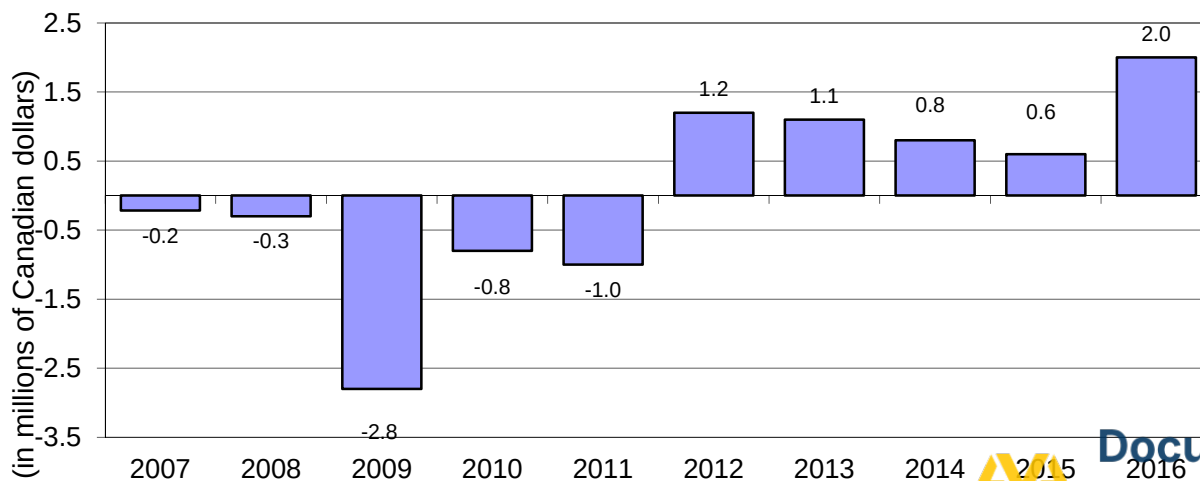
3.26 As indicated above, the Assembly approved the Indicative Budget Estimates (expenditure) of the AOSC Fund amounting to CAD 8 510 thousand for the financial year 2016. During the year, pursuant to Financial Regulation 9.5, the Secretary General submitted to the Council an update of the 2016 Budget Estimates (expenditure) in C-WP/14509. The revised estimated expenditures for 2016 amounted to CAD 9 238 thousand and the estimated income to CAD 9 970 thousand.

3.27 There is an excess of CAD 1 164 thousand in AOSC income versus budget mainly due to the combination of a slightly higher average overhead rate levied against projects implemented by TCB in 2016 and a favourable exchange rate. On the expenditure side, staff costs exceeded the budgeted amount by CAD 164 thousand though the overall result was a total positive variance of CAD 1 732 thousand between income and expenditures.

3.28 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



3.29 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 (TC) Programme be reported to the Council for review. The Council had considered this issue and based on a time survey, approved the amount of CAD 1 202 thousand to be recovered annually by the Regular Programme from the AOSC Fund for Regular Programme Support directly related to projects for the 2014-2016 triennium.

3.30 **Technical Co-operation Programme.** The Technical Co-operation Bureau (TCB) manages the Technical Co-operation Programme, a permanent priority activity of ICAO which complements the role of the Regular Programme by supporting Member States in their implementation of ICAO regulations, policies and procedures as stated in Assembly Resolution A36-17. Through this Programme, ICAO provides a broad spectrum of services, including assistance to States in the review of the structure and organization of national civil aviation institutions, updating the infrastructure and services of airports, facilitating technology transfer and capacity building, promoting ICAO Standards and Recommended Practices (SARPs), Air Navigation Plans (ANPs) and supporting remedial action resulting from the Universal Safety Oversight Audit Programme (USOAP) and the Universal Security Audit Programme (USAP) audits.

3.31 ICAO took steps aimed at increasing TCB's efficiency and quality of services, operational and financial controls and to continually improve the Bureau's working processes through the implementation of a Quality Management System based on the ISO 9001:2008 quality standard. Commencing in 2012, TCB now fully conforms to the ISO 9001:2008 Standard and was re-certified in early 2015 and underwent a surveillance audit in early 2016. The improved processes have contributed to the considerable progress in the Technical Co-operation Programme Performance and the AOSC fund's results in 2014-2016 triennium.

3.32 A rolling three year Management Plan for TCB is prepared in close coordination with the Technical Co-operation Committee, setting the goals and strategies to be followed during the current period with the aim at improving the governance, efficiency and quality of ICAO Technical Co-operation Programme activities. Consequently, continued efforts are being undertaken to ensure the sustained improvement of the AOSC financial situation through a review of the TCB organizational structure, staffing levels, cost savings and efficiency measures.

3.33 Technical Co-operation Projects represent one of the main activities of the Organization. Projects are financed by governments and other donors and the inflows and outflows of financial resources totalled CAD 121.4 million in 2016. Tables D to F in Part IV of this document provide more detail on these projects, summarized by the following figures in millions of CAD.

FIGURE 10

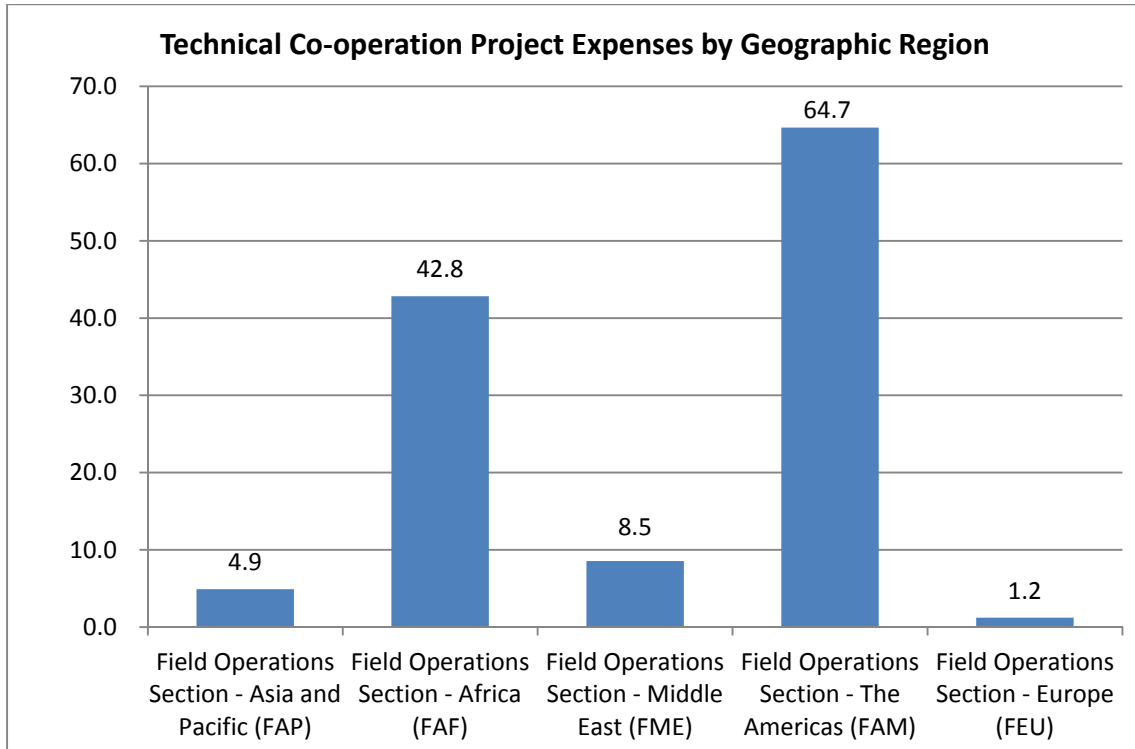
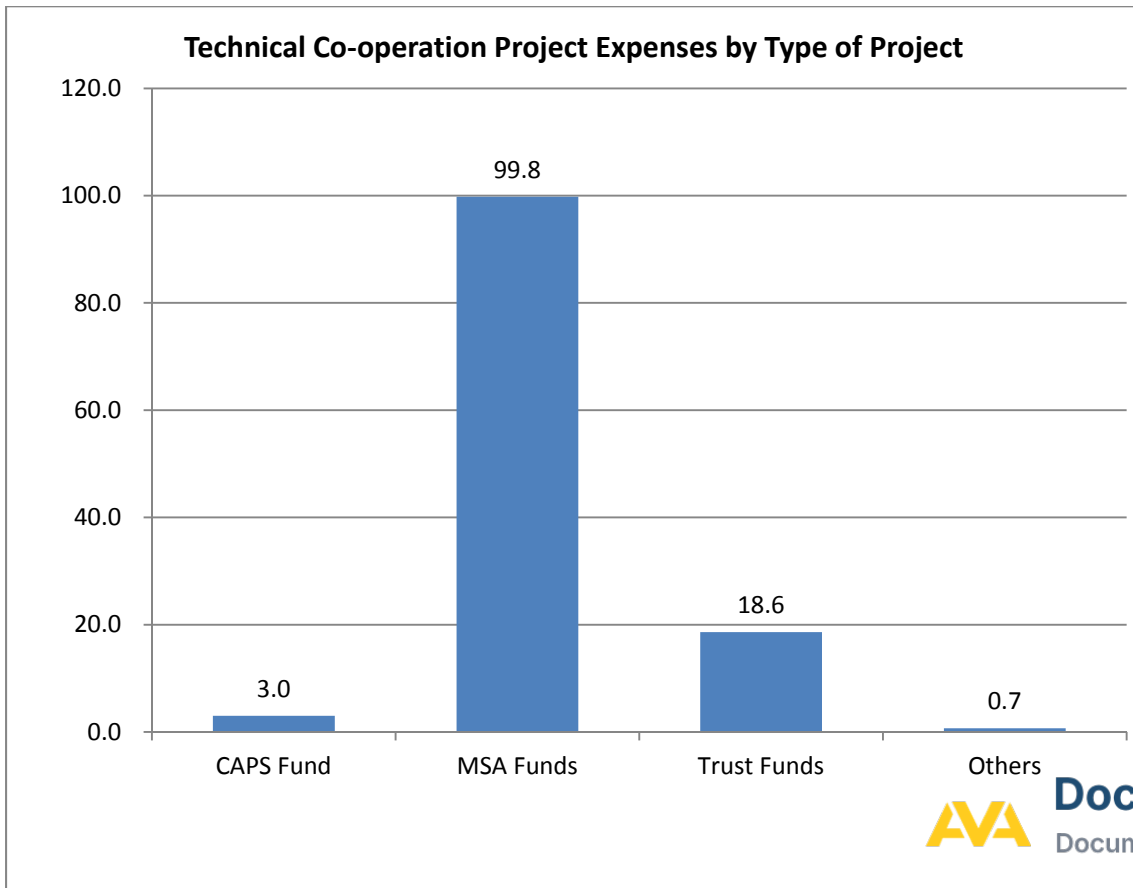


FIGURE 11



4. RESPONSIBILITY OF MANAGEMENT

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

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

To fulfill 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 2016.



Fang Liu
Secretary General

Montréal, Canada
30 March 2017

Statement on Internal Control 2016

Scope of responsibility

1. As Secretary General of the International Civil Aviation Organization (ICAO), in accordance with the responsibility assigned to me and, in particular, Article XI of the Financial Regulations, I am accountable for maintaining a sound system of internal control.

Purpose of the system of internal control

2. Internal control is designed to reduce and manage, rather than eliminate, the risk of failure to achieve the Organization's aims, objectives and related policies. Therefore, it can provide reasonable but not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks, evaluate the nature and extent of those risks and manage them efficiently and effectively.

3. Internal control is a process affected by Governing Bodies, the Secretary General, senior management and other personnel, and designed to provide reasonable assurance on the achievement of the following general internal control objectives:

- a) effectiveness and efficiency of operations;
- b) safeguarding of assets;
- c) reliability of financial reporting; and
- d) compliance with applicable regulations and rules.

4. Thus, on an operational level, ICAO's internal control system is not solely a policy or procedure that is performed at certain points in time but, rather, operated continually at all levels within the Organization through internal control processes to ensure the above objectives.

Capacity to handle risk

5. ICAO initiated in 2012 the deployment of a conceptual framework of internal control that includes a risk management system. ICAO's approach to risk management is an integral and systematic process that is identifying, mitigating, monitoring and communicating top risk events to the Organization.

6. As the Secretary General of the Organization, I chair a senior management group, that is responsible for establishing the control environment and providing the discipline and structure for the achievement of the primary objectives of the system of internal control. The senior management group collaborates with the Sub-Group on ICAO's Corporate Risks Register and Assurance Framework (SGRA) under the direction of Working Group on Governance and Efficiency (WGGE), created by the Council to provide guidance to the Secretariat on how to address the adequacy of the ICAO Corporate Risks Register and Assurance Framework in the future and also on identifying, assessing and monitoring risks associated with the implementation of programmes and projects and the overall operations of the Organization. As proposed by the SGRA and recommended by WGGE, ICAO Council members as well as ICAO Resident Delegations and the Secretariat participated in a one-day workshop facilitated by an external professional for the purpose of assisting with the development of a comprehensive ICAO Corporate Risk Register suitable for the needs of the Council and the senior management of the Organization.

Risk and internal control framework

7. The Organization's risk and internal control framework includes:
 - a) the identification of risks classified according to areas of activities, relevance, impact and probability of occurrence; and
 - b) the establishment of a risk management review composed of my senior managers whose mandate is to implement mitigation actions to address major risks, build up an integrated risk-management framework, strengthen a risk management culture, and regularly re-evaluate risks and the Organization's tolerance levels in light of the evolving environment. The documentation of risks and mitigation actions taken and to be undertaken are summarized in risk registers.

8. A comprehensive "Internal Control System Framework" has been designed to ensure that the Organization's objectives are achieved efficiently through the establishment of criteria based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which represents best practice adopted by several United Nations Organizations. The framework is supported by a range of assertions confirmed by senior managers and a range of policies, procedures and processes underpinned by appropriate ethical values.

9. Furthermore, my senior managers and I are committed to a continuous improvement programme to strengthen the system of internal control across the Organization.

Review of effectiveness

10. My review of the effectiveness of the system of internal controls is mainly informed by:
 - a) my senior managers, in particular Directors of Bureaus and Chiefs of Offices, play important roles and are accountable for expected results, performance, controlling their Bureaus/Office activities and the resources entrusted to them. The information channels rely mainly on periodic meetings held by the Senior Management Group (SMG) and the full SMG of the Secretariat. For the year ended 31 December 2016, control issues, together with remedial actions, have been identified through a self-assessment process and also the application of best practices, as confirmed by my senior managers' personal written attestation;
 - b) the Evaluation and Internal Audit Office (EAO) of whose reports on internal audits, evaluations and advisory services I rely also are provided to me. These include independent and objective information on compliance and programme effectiveness, together with recommendations for improvement;
 - c) the Evaluation and Audit Advisory Committee (EAAC), whose purpose is to advise me and the Council on risk management, financial and internal controls and the related functions of oversight;
 - d) the Ethics Officer, who provides advice and counsel to the Organization and its staff on ethics and standards of conduct, and promotes ethical awareness and responsible behavior in handling referrals concerning allegations of unethical behavior, including conflict of interest;
 - e) the reports of the Joint Inspection Unit of the United Nations system on matters applicable to ICAO; and
 - f) the Council's observations and decisions.

Significant control issues

11. As reported last year, the 2016 statements of assurance on the effectiveness of internal control have identified one significant internal control issue, namely, the absence of the risk assessment process in the Regional Offices (ROs). Although, some of risks that are related to ROs activities are taken into account by headquarters (HQ), the risk management process should be in place in all ROs to enable them to understand, predict and anticipate different risks and any potential damage that they may cause. Risk registers will be implemented in 2017 in all the ROs through their respective annual operating plans. It is imperative to note that the implementation will be accompanied with a training process to help the Regional Directors to identify and monitor their risks in an effective way.

12. The internal audit has also reported in their 2016 audit reports some deficiencies that were rated as “major improvement needed” in regards to the audit of the Ancillary Revenue Generation Fund (ARGF) governance. Areas for improvements included the need to formulate a long-term strategy and more detailed working level business/operational plans; to clearly assign individual managerial responsibilities and accountability for the various ARGF activities; to formally document operating guidelines and procedures; to identify, manage and monitor risks; to prepare a human resources plan, as well as to track and report on the meaningful KPIs. ARGF management has accepted the above recommendations and plans to implement them by the end of 2017.

13. The audit of recruitment of experts and other personnel for TCB projects found that there is need to improve the efficiency and effectiveness of internal work processes within TCB. The audit noted that recruitment requests are often submitted as high priority and/or urgent, and do not factor in the necessary lead time to complete all the required procedures, or take into account the current workload in the Field Personnel Section. TCB has accepted the recommendations to improve internal planning and the efficiency of administrative procedures; to expand the use of automated tools and reports; to take active steps to increase the roster of experts; and to strengthen the oversight by TCB of the recruitment process for locally recruited national project personnel.

14. The audit of the Aviation Security (AVSEC) Fund received also a “some improvement needed” rating due to the the need to finalise the Fund’s terms of reference (ToR) in order to reinforce governance arrangements; the need to review and strengthen the role and authority of the Project Review Committee (PRC); and the need to establish a policy to encourage more voluntary contributions, and a detailed plan of action which identifies the projects to be implemented under the AVSEC Fund, in order to highlight where funding is required. AVSEC Fund ToR was finalized and approved by the Secretary General in 2015 and the PRC ToR was reviewed in 2016 to address the audit findings taking into account the newly established Resource Mobilization Policy that aims at achieving adequate and sustainable voluntary contributions.

15. Funding of the After-Service Health Insurance (ASHI) Liability remains a major ongoing concern for the Organization. In 2014 and 2015, the External Auditor issued a Matter of Emphasis regarding the negative total net assets due to the ASHI liabilities. In 2015, several proposals and measures to reduce the ASHI liability and to contain costs of the current medical plan were evaluated and presented to the Governing Bodies. In 2016, at its 208th session, the Council approved the increase of the retirement age from 62 to 65 years with effect from 1 January 2019 and noted the option of offering incentives to retirees to opt out of the ASHI plan and take up nationally-sponsored healthcare options instead by providing annual annuities of CAD 2 500, indexed to the Canadian Consumer Price Index (CPI), in addition to reimbursement of the premium for the nationally-sponsored healthcare options. The Council also requested the Secretariat to continue monitoring developments at the level of the UN in terms of finding a solution to this very important issue and to present any viable options for funding ICAO’s growing ASHI liability for the Council’s consideration at a later stage. The Secretariat will be conducting consultations with the Staff and retirees as well as with other UN organizations on the opt-out option during the second quarter of 2017.

16. With regard to the identified areas for improvements reported in past years and this year by key managers through their Management Assurance Statements (MAS) on the performance management tool, a new system called the Corporate Performance Management (CPMF) tool will be fully functional in 2017.

17. Concerning the issues reported in the previous year's MAS and for which further corrective actions were needed, significant progress has been made in the following:

- a) there are significant shortcomings in the level of assurance that can be provided by EAO to ICAO's Governing Bodies as a result of a continued lack of resources which is due to limited budget for EAO. In the current triennium, an increase of EAO budget to regularize a professional post was approved; and
- b) There was no specific budget for Ethics Officer (EO) which prevented continuity of his/her work in terms of investigation and training. The budget in the current triennium includes a full time dedicated Ethics Officer and the related travel expenses. As a result, the budget has increased by 44 per cent.

18. On the other hand, funding remains an issue for the following areas:

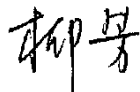
- a) setting apart funds to mitigate the identified risks in risk registers. Funds are not available to address any unforeseen events or emerging priorities.
- b) staff training identified in PACE and which is needed to raise the competency level of staff to allow them to better perform their duties. Funding is not always permitted for all the training identified in PACE.

19. The Internal Control Framework is supported by a living document to be updated and subject to be improved overtime. My senior managers and I are committed to addressing any weaknesses in internal controls identified and to a continuous improvement programme to strengthen the system of internal control across the Organization.

Statement

20. As already noted above, effective internal control, no matter how well designed, has inherent limitations including the possibility of circumvention and, therefore, can provide only reasonable assurance. Furthermore, because of changes in conditions, the effectiveness of internal control may vary overtime.

21. Based on the above, I conclude to the best of my knowledge and information, that ICAO operated satisfactory systems of internal control for the year ended 31 December 2016 and up to the date of approval of the financial statements.



Fang Liu
Secretary General

Montreal, Canada
27 March 2017

PART II: OPINION OF THE EXTERNAL AUDITOR



Corte dei conti

AUDIT CERTIFICATE

Opinion

We have audited the financial statements of the International Civil Aviation Organization (ICAO), which comprise the statement of financial position as at 31 December 2016, the statement of financial performance, the statement of changes in net assets, the statement of cash flow and the statement of comparison of budget and actual amount for the Regular Programme General Fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the International Civil Aviation Organization (ICAO) as at 31 December 2016, and its financial performance, its changes in net asset, its cash flows and its comparison of budget and actual amounts for the Regular Programme General Fund for the year then ended, in accordance with IPSAS and the ICAO Financial Regulations and Rules.

Basis for Opinion

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and the ICAO Financial Regulations and Rules. In the field of financial statements audit, the ISSAIs are a direct transposition from the International Standards on Auditing (ISAs). The Corte dei conti applies the provisions of the ISAs in so far as they are consistent with the specific nature of its audits. Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the ICAO in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Nations system, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The ICAO Secretary General is responsible for the other information. The other information comprises the “Part IV – Tables (unaudited)”.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the ICAO Secretary General and Those charged with governance for the Financial Statements

The Secretary General is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as the Secretary General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary General is responsible for assessing the ICAO’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Secretary General either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ICAO’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ICAO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ICAO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the ICAO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, the transactions of ICAO that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in

accordance with the ICAO Financial Regulations and Rules and its legislative authority.

In accordance with the ICAO Financial Regulations and Rules (Article XIII) and the Additional terms of reference governing the external audit (Annex B to these Financial Regulations and Rules) we have also issued a detailed report on our audit of the ICAO Financial Statements for 2016.

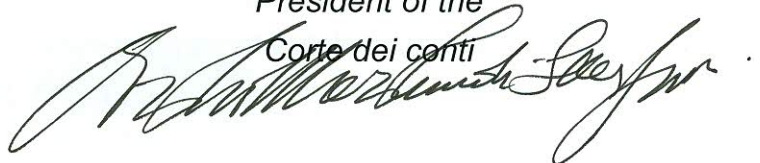
Emphasis of matter

We draw attention to the fact that the Statement of financial position shows a negative Net Asset (-67.5 MCAD), mainly due to the impact of 142.4 MCAD in actuarial liabilities relating to long-term employee benefits recorded in the financial position. Details of our analysis are included in our report. Measures are being undertaken by Management, which has assured us that it will monitor the effectiveness of these measures. Our opinion is not modified in respect of this matter.

Rome, 5 May 2017

Arturo Martucci di Scarfizzi

President of the
Corte dei conti



PART III: FINANCIAL STATEMENTS

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT I

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

(in thousands of Canadian dollars)

	Notes	2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2.1	392 172	379 436
Assessed contributions receivable from Member States	2.2	3 992	6 822
Receivables and advances	2.3	19 858	21 065
Inventories	2.4	513	753
Others	2.3	1 747	2 111
		418 282	410 187
NON-CURRENT ASSETS			
Assessed contributions receivable from Member States	2.2	4 551	5 022
Receivables and advances	2.3	280	354
Property, plant and equipment	2.5	3 017	2 438
Intangible assets	2.6	793	866
		8 641	8 680
TOTAL ASSETS		426 923	418 867
LIABILITIES			
CURRENT LIABILITIES			
Advanced receipts	2.8	312 594	320 324
Accounts payable and accrued liabilities	2.9	29 646	27 871
Employee benefits	2.10	8 301	7 227
Credits to contracting/servicing governments	2.11	1 465	1 674
		352 006	357 096
NON-CURRENT LIABILITIES			
Employee benefits	2.10	142 395	149 102
		142 395	149 102
TOTAL LIABILITIES		494 401	506 198
NET ASSETS			
Accumulated deficit	2.12	(52 759)	(56 544)
Reserves	2.12	(14 719)	(30 787)
		(67 478)	(87 331)
NET ASSETS (ACCUMULATED DEFICIT)		(67 478)	(87 331)
TOTAL LIABILITIES AND NET ASSETS		426 923	418 867

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 2016

(in thousands of Canadian dollars)

	Notes	2016	2015
REVENUE			
Contributions for project agreements	3.2	121 490	136 300
Assessed contributions	3.2	106 915	92 393
Other revenue producing activities	3.2	21 019	19 061
Other voluntary contributions		14 996	10 912
Administrative fee revenue		959	307
Other revenue	3.2	2 560	13 280
TOTAL REVENUE		267 939	272 253
EXPENSES			
Staff salaries and employee benefits	3.3	157 256	159 504
Supplies, consumables and others	3.3	59 909	66 932
General operating expenses	3.3	21 123	20 057
Travel	3.3	12 104	11 994
Meetings		2 339	1 774
Training		2 857	3 294
Other expenses		4 850	6 248
TOTAL EXPENSES		260 438	269 803
SURPLUS FOR THE YEAR		7 501	2 450

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 2016
(in thousands of Canadian dollars)

	Notes	Accumulated Deficit	Reserves	Net Accumulated Deficit
Balance at 31 December 2015		(56 544)	(30 787)	(87 331)
Movements in fund balances and reserves in 2016				
Variation to carry forward balance	2.12	(2 497)	2 497	
Variation of actuarial gain/(loss)	2.10		12 198	12 198
Other reclassifications and transfers	2.12	(17)		(17)
Unrealized exchange gain		(1 202)	1 202	
Variation of translation adjustment	2.12		171	171
Surplus of the year		7 501		7 501
Total movements during the year		3 785	16 068	19 853
Balance at 31 December 2016		(52 759)	(14 719)	(67 478)

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 2016

(in thousands of Canadian dollars)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Surplus/(Deficit) for the year		7 501	2 450
(Increase) decrease in contributions receivable	2.2	2 830	(3 331)
(Increase) decrease in receivables and advances	2.3	1 209	(11 259)
(Increase) decrease in inventories	2.4	240	98
(Increase) decrease in other assets	2.3	365	(84)
(Increase) decrease in non-current contributions receivable (net of discount)	2.2	471	(1 306)
(Increase) decrease in non-current receivables and advances	2.3	74	135
Increase (decrease) in advanced receipts	2.8	(7 730)	92 667
Increase (decrease) in accounts payable and accrued liabilities	2.9	1 775	5 590
Increase (decrease) in short-term employee benefits	2.10	1 074	1 189
Increase (decrease) in credits to contracting/servicing governments	2.11	(209)	228
Increase (decrease) in long-term employee benefits	2.10	(6 707)	1 574
Actuarial gain (loss) reflected in reserves	2.10	12 198	7 366
Interest income		(1 345)	(941)
Depreciation and amortization		1 075	1 433
Foreign currency translation adjustment		171	(114)
NET CASH FLOWS FROM OPERATING ACTIVITIES		12 992	95 695
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and Intangibles	2.5 & 2.6	(1 582)	(1 394)
Interest income		1 345	941
NET CASH FLOWS FROM INVESTING ACTIVITIES		(237)	(453)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfers from net assets to liabilities and other transfers		(19)	(4 694)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(19)	(4 694)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		12 736	90 548
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		379 436	288 888
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		392 172	379 436

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT V
REGULAR PROGRAMME GENERAL FUND
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Canadian Dollars)

Strategic Objective / Supporting Implementation Strategy	Appropriations						Expenditures ¹				Balance		
	Original A38-22	2015 Outstanding Commitments ^a	Carry-over from Prior Year ^b	Decrease of Appropriations ^c	2016 Appropriations Before Transfers	2016 Outstanding Commitments ^a	Transfers among SO/SIS ^d	Carried over to following year ^b	2016 Appropriations Revised	Total		Budget Exchange Difference ²	At budget rate of exchange
Safety	24 722	3 114	2 163		29 999	(2 408)	(1 154)	(3 000)	23 437	27 275	(3 839)	23 437	0
Air Navigation Capacity and Efficiency	18 353	1 513	1 199	(3)	21 062	(2 037)	(965)	(2 100)	15 960	19 259	(3 299)	15 960	0
Security and Facilitation	9 341	501	657		10 499	(437)	55	(1 000)	9 117	9 993	(876)	9 117	0
Economic Development of Air Transport	3 535	614	172		4 321	(532)	121	(120)	3 790	4 014	(224)	3 790	0
Environmental Protection	5 129	334	244		5 706	(300)	(891)	(571)	3 944	4 473	(529)	3 944	0
Sub-Total	61 080	6 076	4 435	(3)	71 587	(5 715)	(2 834)	(6 791)	56 248	65 014	(8 767)	56 248	0
Programme Support	13 136	2 613	806	(51)	16 503	(2 300)	1 866	(1 310)	14 760	15 342	(582)	14 760	0
Management & Administration	16 078	2 220	1 072	(63)	19 307	(3 177)	289	(487)	15 932	16 769	(836)	15 933	0
Management & Administration - Governing Bodies	8 756	1 282	335	(1)	10 370	(1 055)	678	(500)	9 493	9 766	(273)	9 493	0
Sub-Total	37 970	6 115	2 212	(116)	46 181	(6 532)	2 834	(2 297)	40 185	41 877	(1 691)	40 186	0
Total	99 049	12 191	6 647	(119)	117 768	(12 247)	0	(9 088)	96 433	106 891	(10 458)	96 433	0

^a Approved by the Secretary General, Financial Regulations 5.7.^b Approved by the Secretary General, Financial Regulations 5.6.^c Approved by Council to reimburse Regular Programme \$1,202 million instead of \$1,291 million (G-DEC 2002). In addition, an amount of \$30,000 was transferred to IPAV fund (G-DEC 209/7).^d Approved by the Secretary General, Fin. Regulation 5.9¹ Expenditures other than Canadian dollars are reflected at the UN rate of Exchange² Exchange differences: (1) \$13.2 million budget exchange gain due to impact of US dollar transactions budgeted at USD1.00 = CAD 0.9875; and (2) \$2.7 million net currency exchange (realized) loss, such as revaluation of balance sheet items.

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION
Notes to the Financial Statements
31 December 2016

NOTE 1: ACCOUNTING POLICIES

Basis of Preparation

1. The financial statements of the International Civil Aviation Organization (ICAO) have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS). These standards have been applied since 1 January 2010.
2. As permitted on the initial adoption of IPSAS, transitional provisions have been used until the end of 2015 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, since their net book value is nil as at 31 December 2016.
3. Except as otherwise stated in these statements, the measurement basis used in preparing the financial statements is the amortized cost.
4. The Cash Flow Statement (Statement IV) is prepared using the indirect method.
5. 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 Co-operation Projects (TCP) is the United States dollar (USD) because these activities are generally carried out in USD. Transactions in currencies other than CAD, and other than the USD for TCP, are translated at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Monetary assets and liabilities in currencies other than CAD, and other than USD for the TCP, are translated at the prevailing UNORE at year-end closing rate, which reasonably approximates the spot rate. Resulting gains or losses are accounted for in the Statement of Financial Performance except for differences arising from the translation of TCP activities into CAD for financial statement presentation purposes which are reflected in Reserves in the Statement of Financial Position.

Cash and Cash Equivalents

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

Financial Instruments

8. 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).
9. 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.
10. 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

11. 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.
12. 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.
13. Publications and other documents for internal use are expensed when produced.

Receivables and Revenue

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

- discounted long-term contributions receivable represent the outstanding balance of assessed contributions for which States have concluded agreements to liquidate their arrears over a period of years. Discounting is also applied to a number of other long outstanding contributions considering the probability that such agreements will be concluded to liquidate arrears. These receivables are stated at amortized (discounted) cost using the effective interest method and are therefore presented net of the cumulative discount.
19. 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

20. 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

21. 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.
22. 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

23. 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.
24. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life for intangible asset classes is as follows:

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

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

Advanced Receipts

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

Employee Benefits

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

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

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

Provisions and Contingent Liabilities

34. Provisions are made for future liabilities and charges where ICAO has a present legal or constructive obligation as a result of past events, when it is probable that ICAO will be required to settle the obligation and when the amount can be reliably estimated.
35. 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

36. 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 Co-operation 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.
37. A fund is a self-balancing accounting entity established to account for the transactions relating to a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the year the consolidated position of all ICAO's funds. Fund balances represent the accumulated residual of revenue and expenditures.
38. 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.
39. The Regular Activities segment includes the following Funds or groups of Funds:
 - **The Regular Budget Fund comprises the General Fund** financed by assessed contributions from Member States according to the scale of assessments determined by the Assembly, by miscellaneous income, by the Ancillary Revenue Generation Fund (ARGF)