



International Oil Pollution
Compensation Funds

Agenda Item 5	IOPC/NOV21/5/5	
Date	24 September 2021	
Original	English	
1992 Fund Assembly	92A26	●
1992 Fund Executive Committee	92EC77	
Supplementary Fund Assembly	SA18	●

REPORT OF THE JOINT AUDIT BODY

Note by the Audit Body

Summary:	In accordance with its mandate, the joint Audit Body for the 1992 Fund and the Supplementary Fund shall report on its work to each regular session of the 1992 Fund Assembly and the Supplementary Fund Assembly. The joint Audit Body's report on its activities is set out in Annex I.
Action to be taken:	<p><u>1992 Fund Assembly and Supplementary Fund Assembly</u></p> <p>(a) Take note of the report of the Audit Body set out in Annex I and provide comments and instructions as may be warranted; and</p> <p>(b) consider the joint Audit Body's recommendation regarding the adoption of the 2020 Financial Statements (Annex I, paragraph 3.3.3).</p>

1 Introduction

- 1.1 Pursuant to the mandate of the joint Audit Body of the 1992 Fund and the Supplementary Fund, the Audit Body shall submit to each regular session of the governing bodies a report on its activities since the previous regular session.
- 1.2 This report is reproduced in Annex I.

2 Action to be taken

1992 Fund Assembly and Supplementary Fund Assembly

The 1992 Fund Assembly and the Supplementary Fund Assembly are invited to:

- (a) take note of the report of the Audit Body set out in Annex I and provide comments and instructions as may be warranted; and
- (b) consider the Audit Body's recommendation regarding the adoption of the 2020 Financial Statements (Annex I, paragraph 3.3.3).

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ANNEX I

JOINT AUDIT BODY REPORT COVERING THE PERIOD DECEMBER 2020 TO OCTOBER 2021

1 Introduction

1.1 At its December 2020 session, the 1992 Fund Assembly elected six members nominated by Member States and the external expert to the joint Audit Body^{<1>}. The six members were appointed for a period of service of three years and the external expert for a period of one year. The members of the Audit Body are as follows:

Mrs Birgit Sjølling Olsen, Denmark (Chair)
Mr Vatsalya Saxena, India (Vice-Chair)
Captain Thomas F. Heinan, Marshall Islands
Mr Michael Knight (external expert)
Dr Hideo Osuga, Japan
Mr Alfred H.E. Popp, CM, Q.C, Canada
Mr Arnold Rondeau, France

1.2 The Audit Body operates on the basis of an annual cycle, usually consisting of three meetings. For the period covered by this report, meetings were held on 29 January 2021, 16 April 2021 and 9 July 2021. In addition, induction sessions for the new Audit Body, led by the Chair and Secretariat, were held on 28 January and 15 April 2021. All activities were held virtually.

2 Audit Body programme of activities

2.1 At its inaugural meeting in January 2020, the seventh Audit Body planned the programme of activities for its three-year tenure and adopted its work programme. The work programme includes all core and ongoing activities, is updated at each Audit Body meeting and submitted to the governing bodies for information^{<2>}.

2.2 In carrying out its programme, the Audit Body has worked closely with the Director and Secretariat while being mindful of the balance required between the management responsibilities of the Secretariat and the oversight role of the Audit Body. In the conduct of its work, the Audit Body has also remained mindful of the need to ensure that the work of the Audit Body does not impose unnecessary demands on the resources of the Secretariat.

2.3 The programme of activities of the Audit Body focuses on six main areas in order to discharge its responsibilities under the Audit Body mandate^{<3>}:

- (a) ascertaining the adequacy and effectiveness of the IOPC Funds' management and financial systems;
- (b) reviewing the effectiveness of the IOPC Funds' risk management;
- (c) reviewing the IOPC Funds' Financial Statements and reports;
- (d) promoting the understanding and effectiveness of the audit function within the IOPC Funds;
- (e) managing the process for the selection of the External Auditor; and
- (f) undertaking any other tasks or activities as requested by the IOPC Funds' governing bodies.

<1> For ease of readability, the joint Audit Body is hereafter referred to as the Audit Body.

<2> For the Audit Body Programme, see Annex II.

<3> For the Audit Body mandate, see Annex III.

3 How the Audit Body carried out its programme of activities

This section reports on the work carried out by the Audit Body in relation to each of the six main areas presented above in paragraph 2.3 in the period since its last annual report to the governing bodies in December 2020.

3.1 Ascertaining the adequacy and effectiveness of the IOPC Funds' management and financial systems

3.1.1 The Audit Body performed this core function largely through its review and consideration of the work of the External Auditor. Consistent with established practice, the Audit Body met with the External Auditor to review the audit programme for the IOPC Funds' 2020 Financial Statements at its January 2021 meeting. The External Auditor carried out the interim audit in January/February 2021 and the final audit in March/April 2021. At the April 2021 meeting, the Audit Body reviewed the Audit Completion Report of the final audit of the 2020 Financial Statements. The Audit Body also reviewed the Director's responses and updates to the External Auditor's recommendations following the audit of the 2020 Financial Statements and, where appropriate, those from prior years.

3.1.2 The Audit Body has noted with great appreciation that the Secretariat has continued to function effectively during the COVID-19 crisis even though there has been a significant change in working conditions as a response to the pandemic. Controls have been maintained and management meetings have been conducted virtually.

3.1.3 The Audit Body recognises that responsibility for the conduct of the external audit and the external audit opinion rests entirely with the External Auditor. Nonetheless, the mandate of the Audit Body calls for it to 'discuss with the External Auditor the nature and scope of each forthcoming audit and provide input to the development of the strategic audit plan'.

3.1.4 Accordingly, the structured approach, which underlies the conduct of the IOPC Funds' external audit, allows for a constructive and productive working relationship with the External Auditor. It enables the Audit Body to be aware of the planned scope and focus of the audit, including the assessment of high-risk areas, and the timetable for audit reports.

3.2 Reviewing the effectiveness of the IOPC Funds' risk management

3.2.1 Risk management is a key responsibility of the Secretariat. The mandate of the Audit Body calls for it to review the effectiveness of the IOPC Funds' risk management procedures with particular focus on institutional, financial and operational risks. The Audit Body's work programme prescribes a number of activities which have a bearing on the Funds' risk management process as well as its management and operating systems.

3.2.2 On an ongoing basis, the Audit Body seeks to monitor the way in which the Secretariat addresses risk while discharging its responsibilities of managing the IOPC Funds' operations. While it is the Secretariat's role to identify and manage risks, the Audit Body's oversight centres on ensuring that the Secretariat's risk management framework is adequate and that its approach to maintaining sound internal controls is effective.

3.2.3 As part of its mandate to focus on risk management, the previous Audit Body presented its document on the risk associated with non-IG Insurers and its findings and recommendations to the governing bodies at the December meeting in 2020. In accordance with the report from the meeting, the Chair of the Audit Body and the Director of the IOPC Funds had an informal meeting with the International Maritime Organization (IMO) in February 2021 on the issue. At its meeting in April 2021, the Audit Body recommended that the document on non-IG insurers should be formally introduced to IMO. The document has now been forwarded to IMO and was on the agenda of the 108th session of the Legal Committee held remotely in July 2021 (document LEG 108/5). The Audit Body also decided to follow the further developments at IMO on the issue.

- 3.2.4 While acknowledging the separate and distinct mandate of the IAB, the Audit Body has found it particularly useful, in the exercise of its own mandate, to have a good understanding of the views of the IAB on investment and financial risks and their approach to currency exposure and hedging policy. At its meeting in July 2021, the Audit Body had the benefit of receiving an oral presentation from the IAB.
- 3.2.5 The Audit Body also considers the programme of periodic internal audit type reviews commissioned by the Director. No such reviews were conducted during the period covered by this report; however, the Audit Body considered the programme of work planned for 2021-22 at its July 2021 meeting via a presentation from Mazars LLP, the Funds' internal audit service provider.
- 3.2.6 The Audit Body is being consulted by the Director on the possibility of levying contributions based on estimated oil receipts where relevant oil reports have not been received. The Audit Body is currently examining the issue, including the legal aspects.
- 3.3 Reviewing the IOPC Funds' Financial Statements and reports
- 3.3.1 At the April 2021 meeting, the External Auditor provided the Audit Completion Report on the final audit of the 2020 Financial Statements to the Audit Body and the Secretariat submitted the draft Financial Statements for the 1992 Fund and the Supplementary Fund containing a substantial and detailed report on the Funds' finances and activities. The Audit Body also had a closed session with the Auditors without members of the Secretariat being present during the January 2021 and July 2021 meetings.
- 3.3.2 As in previous years, the Audit Body looked to the external audit for reasonable assurance that the Financial Statements were free from material misstatement, whether caused by fraud or error. In its review of the IOPC Funds' Financial Statements and Report, the Audit Body was attentive to completeness and consistency while also taking into account the findings and comments by the External Auditor.
- 3.3.3 **Recommendation to the governing bodies:** Pursuant to its review of the Financial Statements and consideration of all relevant reports and comments by the External Auditor and in light of the assurances provided by the results of the external audit, the Audit Body recommends that the relevant governing body approve the Financial Statements of the 1992 Fund and the Supplementary Fund for the year ending 31 December 2020.
- 3.4 Promoting the understanding and effectiveness of the audit function within the IOPC Funds
- 3.4.1 As part of its mandate, the Audit Body is to promote the understanding and effectiveness of the audit function within the IOPC Funds. The Audit Body addresses this core responsibility through a number of means.
- 3.4.2 The Audit Body meets three times per year. However, due to the COVID-19 situation, the meetings and discussions took place remotely. The meetings are conducted in accordance with a structured agenda and detailed programme of activities. The Executive Assistant in the Office of the Director serves as Secretary to the Audit Body. The Audit Body carries out its work programme on the basis of an annual cycle of scheduled activities which supports consistency and rigour in the Audit Body's approach and interactions.
- 3.4.3 By means of its programme of activities and annual report to the governing bodies, the Audit Body has sought to make clear the nature of its interactions with various entities (i.e., the Secretariat, the External Auditor and the IAB).
- 3.4.4 The meetings of the Audit Body provide a forum to discuss a broad range of matters germane to the Audit Body's mandate and involve the participation of the Director, Deputy Director/Head of Finance and Administration and representatives of the External Auditor. Other members of the Secretariat are invited to attend discussions where agenda items being considered are related to their responsibilities.

By means of these meetings, the Director also keeps the Audit Body fully appraised of the activities of the IOPC Funds, including developments on incidents and outcomes of inter-sessional meetings.

3.4.5 The periodic participation of one or more of the Chairs of the governing bodies at meetings of the Audit Body further serves to promote effective communication. The Chair of the Audit Body and the external expert attend the sessions of the governing bodies to report on the activities of the Audit Body. Other members of the Audit Body also attend the sessions of the governing bodies, either the extraordinary session normally held in April or the regular session normally held in October, and this allows the Audit Body to gain better insight of the work of the IOPC Funds and appreciation of the perspectives and positions of Member States on key issues and developments.

3.4.6 Audit Body members consider induction training, which was provided with the considerable support and assistance of the Secretariat and the external expert during the initial meetings of the seventh Audit Body very useful, particularly for new members. They also consider periodic attendance at the sessions of the governing bodies an important element which ensures their effectiveness and enables them to have informal interaction and discussions with representatives from Member States. These objectives are now properly reflected in the Rules of Procedure that the seventh Audit Body updated at its inaugural meeting in January 2021.

3.5 Managing the process for the selection of the External Auditor

3.5.1 Following the recommendation of the Audit Body at their October 2019 sessions, the governing bodies re-appointed BDO International as the External Auditor for the financial years 2020–2023 (inclusive), subject to continuing satisfactory performance.

3.5.2 In addition, the Audit Body's programme of activities calls for an annual statement to the governing bodies on the effectiveness of the external audit relationship. The Audit Body takes into account the following elements in considering the effectiveness of the relationship between the IOPC Funds and the External Auditor:

- (a) the effectiveness of the working relationship with the Audit Body and the IOPC Funds' Secretariat;
- (b) the effectiveness of the audit process and assessment of key risks;
- (c) the quality of review of the Financial Statements;
- (d) the communication of key issues between parties; and
- (e) the independence and value for money of the External Auditor.

3.5.3 The statement by the Audit Body regarding the effectiveness of the relationship between the IOPC Funds and the External Auditor is set out at Annex IV.

3.6 Undertaking any other tasks or activities as requested by the IOPC Funds' governing bodies

3.6.1 The Audit Body mandate provides for the Audit Body to undertake any other task or activity as requested by the IOPC Funds' governing bodies; however, no such activity has been carried out during the year under review.

3.6.2 The Audit Body regards the effectiveness of the system of internal controls exercised by the Secretariat in respect of financial reporting, operational procedures and risk management to be critical to the long-term viability and veracity of the IOPC Funds. Furthermore, the work of the External Auditor helps to ensure that operations of the IOPC Funds are carried out in conformity with recognised standards and procedures.

3.6.3 The Audit Body remains satisfied that the Director shares this view and carries out the management of the IOPC Funds accordingly.

4 **Concluding remarks**

In conclusion, I would like to thank my Audit Body colleagues for their hard work over the last year, as well as all members of the Secretariat for their considerable assistance in helping us discharge our responsibilities and also the Chairs of the governing bodies who attended our meetings or otherwise provided wise counsel to our deliberations.



Birgit Sølling Olsen
Chair, Joint Audit Body,
18 August 2021

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ANNEX II

Audit Body Work Programme Schedule 2020 to 2023

July 2021

1	Audit Body input to the External Cycle			Person(s) responsible
1.1	Audit Body review of External Auditor Planning Report/input to audit strategy	Annually December Audit Body meeting	Core	All members of the Audit Body
1.2	Audit Body review/comment on External Auditor's interim report	Annually December or April Audit Body meeting	Core	All members of the Audit Body
1.3	Audit Body review/comment on External Auditor's long form report and recommendations	Annually April Audit Body meeting	Core	All members of the Audit Body
1.4	Monitor Director's response to External Auditor's recommendations	Annually Review at April and June Audit Body meeting	Core	All members of the Audit Body
2	Audit Body activities in respect of the adequacy and effectiveness of the organisations' management and financial systems			Person(s) responsible
2.1	Review risk management process, operating procedures systems and internal controls	Ongoing	Core	All members of the Audit Body
2.2	Review of Key Risk Register	Annually April Audit Body meeting	Core	All members of the Audit Body
2.3	Audit Body input to Secretariat review of business process, risk identification and mitigation strategies	Audit Body meetings throughout the year	Occasional	Secretariat lead External expert/Audit Body members
2.4	Non-IG insurers	<ol style="list-style-type: none"> 1) The Audit Body presented an interim report to the governing bodies in October 2018 2) The Audit Body reported its consideration to the governing bodies in October 2019 3) The Audit Body presented its recommendations to the governing bodies in December 2020. 4) Document forwarded to the International Maritime Organization 	Occasional	Preliminary task completed. Further work TBA

		(IMO). The Audit Body is following the deliberations in IMO.		
2.5	Audit Body to review planned programme of internal audit activity and associated reports when work is completed	Audit Body meetings throughout the year as necessary	Core	All members of the Audit Body
2.6	Invoicing contributors who have not submitted oil reports	July Audit Body meeting	Occasional	The Secretariat and all members of the Audit Body
2.7	Functioning of the guidelines on small claims – <i>Hebei Spirit</i> incident	To be discussed	Occasional	The Secretariat and all members of the Audit Body
2.8	Succession plans with regard to the Finance and Administration Department	To be discussed at the March/April meeting 2022	Occasional	The Secretariat and all members of the Audit Body
3	Audit Body review of organisations' Financial Statements and Reports			Person(s) responsible
3.1	Review of Financial Statements presentation/accounting policy	Annually December Audit Body meeting	Core	All members of the Audit Body
3.2	Review Financial Statements	Annually April Audit Body meeting	Core	All members of the Audit Body
3.3	Monitor International Public Sector Accounting Standards (IPSAS) implementation	Ongoing	Core	All members of the Audit Body
4	Audit Body activities to promote understanding and effectiveness of audit function within the IOPC Funds			Person(s) Responsible
4.1	Provide a forum to discuss matters in relation to management/financial systems, risk management and external audit	Audit Body meetings throughout the year	Core	All members of the Audit Body
4.2	Annual report to the governing bodies on mandated activities	Annually October	Core	Chair and all members of the Audit Body
4.3	Audit Body meeting with Investment Advisory Body (IAB)	Semi-annually or annually as appropriate in Dec/June Audit Body meetings	Core	All members of the Audit Body and IAB members

4.4	Study/promote best practices of audit body committees	Ongoing	Core	All members of the Audit Body
4.5	Promote effective communications between Audit Body, Secretariat, governing bodies, IAB, etc.	Ongoing	Core	All members of the Audit Body
4.6	Triennial review the functioning of the Audit Body	1) Audit Body self-assessment process and report presented to governing bodies in December 2020, inclusive of Audit Body's response to External Auditor's recommendations 2) Governing bodies decided to maintain current Audit Body mandate and composition 3) Seventh Audit Body to develop format for next review (in 2023)	Core/ Rotational	Chair/External expert/ Audit Body members
4.7	Presentation of Claims Handling System and internal measures in place to mitigate fraud	TBA	Core	The Secretariat
5	Audit Body management of the process for the selection of the External Auditor			Person responsible(s)
5.1	Annual statement to governing bodies	Annually as part of the annual Audit Body's Chair report	Core	Chair
5.2	Selection process preparedness & recommendation to governing bodies	Process for the next Audit cycle to be presented to regular sessions of the governing bodies in October 2022 with a view to making a recommendation in October 2023	Rotational	External expert All members of the Audit Body
6	Audit Body to undertake any other tasks requested by the Funds' governing bodies			Person(s) responsible
6.1	Non-IG insurers	See point 2.4	See point 2.4	Preliminary task completed. Further work TBA

ANNEX III

COMPOSITION AND MANDATE OF THE JOINT AUDIT BODY OF THE 1992 FUND AND THE SUPPLEMENTARY FUND

(REVISED IN APRIL 2019)

COMPOSITION

1. The members of the Audit Body shall perform their functions independently and in the interest of the Organisations as a whole and shall not receive any instructions from anyone, including their Governments.
2. The Audit Body shall be composed of seven members elected by the 1992 Fund Assembly: six named individuals nominated by 1992 Fund Member States and one named individual not related to the Organisations ('external expert') with expertise and experience in financial and audit matters, nominated by the Chair of the 1992 Fund Assembly. Nominations, accompanied by the curriculum vitae of the candidate, should be submitted to the Director in response to a call for nominations made by the Director. The Chair of the 1992 Fund Assembly will, in consultation with the Chair of the Supplementary Fund Assembly, propose the names of two of the elected members of the Audit Body for consideration and approval by the governing bodies as Chair and Vice-Chair of the Audit Body.
3. Members of the Audit Body shall hold office for three years, once renewable. Should nominations for election to the Audit Body not be sufficient to fill vacancies at an election, existing members of the Audit Body having served two terms will be eligible for a once-only re-election, provided they are re-nominated by one or more 1992 Fund Member States. The external expert shall hold office for three years, twice renewable.
4. Travel and subsistence expenses of the members of the Audit Body shall be paid by the Organisations. The Assembly of the 1992 Fund will, from time to time, decide on the quantum of the honorarium paid to the six elected members and the fee paid to the external expert. The timing and method of payment will be agreed between the Audit Body and the Director.

MANDATE

5. The Audit Body shall:
 - (a) review the adequacy and effectiveness of the Organisations' management and financial systems, financial reporting, internal controls, operational procedures, risk management and related matters;
 - (b) promote the understanding and effectiveness of the audit function within the Organisations, and provide a forum to discuss matters referred to in (a) above and matters raised by the external audit;
 - (c) discuss with the External Auditor the nature and scope of each forthcoming audit and provide input to the development of the strategic audit plan;
 - (d) review the Organisations' Financial Statements and reports;
 - (e) consider all relevant reports by the External Auditor, including reports on the Organisations' Financial Statements, and make appropriate recommendations to the Funds' governing bodies;
 - (f) manage the process for the selection of the External Auditor; and
 - (g) undertake any other tasks or activities as requested by the Funds' governing bodies.

6. The Chair of the Audit Body shall report on its work to each regular session of the 1992 Fund Assembly and the Supplementary Fund Assembly.
7. Every three years the functioning of the Audit Body and its mandate shall be reviewed by the 1992 Fund Assembly and the Supplementary Fund Assembly on the basis of an evaluation report from the Chair of the Audit Body.

ANNEX IV

Statement of the Audit Body regarding the effectiveness of the relationship between the IOPC Funds and the External Auditor

Pursuant to the directive of the IOPC Funds' governing bodies at their October 2010 sessions, the Audit Body has continued to be attentive to the effectiveness by which the External Auditor discharges its responsibilities to the IOPC Funds.

In this regard, and for the period under review, the Audit Body considers the structure, approach, scope and coverage of the audit process to be both relevant and comprehensive.

The Audit Body finds the examination of the Financial Statements carried out by the External Auditor to be thorough and systematic. The results of the audit process are communicated in a clear and timely manner.

The work of the External Auditor, and the results of the audit process, help to ensure compliance with the accounting policies, regulations, standards and procedures of the IOPC Funds. The Audit Body finds the work of the External Auditor in the examination of operational procedures and processes to be helpful in ensuring the adequacy of internal controls.

The Audit Body considers that the External Auditor carries out its functions with an independent and objective approach while maintaining an effective and professional relationship with the Director and Secretariat. Equally, the working relationship between the External Auditor and the Audit Body is constructive and suitably focused.

Overall, it is the view of the Audit Body that the work of the External Auditor has been effective and is of tangible value to the operations of the IOPC Funds.
