



INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1971

ASSEMBLY
20th session
Agenda item 9

71FUND/A.20/8
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SYSTEM OF FINANCIAL CONTROL

Note by the Director

- 1 At its 2nd extraordinary session, the Assembly considered a proposal by the Chairman that the 1971 Fund should establish an Audit Committee in order to strengthen the involvement of Member States in the monitoring of the operations of the Organisation and to increase the transparency of the latter (document 71FUND/A/ES.2/21/1). It was noted that this matter had been discussed between the Chairman and the Director, and that discussions had also been held with the External Auditor.
- 2 The Assembly noted that, under the Chairman's proposal, the Audit Committee could meet with the External Auditor before the audit of the accounts for a given year commences, to discuss the priorities and special areas to be dealt with, that the Committee might, for example, propose that the audit should cover not only the financial operations but also certain aspects of the Fund's management (performance audit), and that the Audit Committee could meet again with the External Auditor when the audit had been completed, to obtain a more detailed oral presentation of the audit than was possible at the session of the Assembly.
- 3 Although many delegations supported the Chairman's proposal, a number of delegations questioned the need for an Audit Committee. Moreover, several delegations considered that the proposed mandate needed to be considered further.
- 4 The Assembly instructed the Director to study this issue further, and to submit a revised mandate to the Assembly for consideration at its 19th session (document 71FUND/A/ES.2/22, paragraph 21.2).
- 5 At its 19th session, the Assembly examined a document which contained some further considerations by the Chairman concerning the advisability of establishing an Audit Committee (document 71FUND/A.19/7).
- 6 The Assembly shared the Chairman's view that it was important that there was a consensus in the Assembly on the best way to ensure an effective financial control within the 1971 Fund. It was therefore

decided that an open consultation group should be established, led by the Chairman of the Assembly, with the following mandate:

- (a) to review the system of financial control in the 1971 Fund; and
- (b) to make proposals, if appropriate, for improvements in the system.

7 Following the Assembly's decision an informal Consultation Group met in June 1997 to discuss the question of whether the 1971 Fund should establish an Audit Committee. During the meeting of this Group it was agreed that the Chairman of the Group would present proposals on this subject. These proposals are set out in the Annex to this document.

8 The question has been discussed with the External Auditor, who has indicated that he supports the establishment of an Audit Committee.

Action to be taken by the Assembly

- 9 The Assembly is invited:
- (a) to take note of the information contained in this document; and
 - (b) to consider further the establishment of an Audit Committee for the 1971 Fund.

ANNEX**ESTABLISHMENT OF A 1971 FUND AUDIT COMMITTEE: POINTS TO BE CONSIDERED****Note by the Chairman of the Informal Consultation Group
On the Establishment of An Audit Committee****1 Reasons for establishing a 1971 Fund Audit Committee**

1.1 The 1971 Fund is not a company, but it is necessary that its financial operations are completely transparent. This is essential for its Member States, for the persons required to contribute to its financing, and not least for the victims of pollution damage.

1.2 To date the 1971 Fund has been remarkably well managed by the Director and the Secretariat, and there is every reason to expect that this will continue in the future.

1.3 Moreover, the Member States can have nothing but praise for the involvement of the External Auditor, the Comptroller and Auditor General of the United Kingdom, who, from the beginning of his involvement, has continually extended the scope of the audit and the information given.

1.4 Three elements, nevertheless, make it appropriate to establish an Audit Committee.

1.5 Since the beginning of the 1990's, the 1971 Fund has become involved in an increasing number of major incidents. This has resulted in a considerable increase in the level of contributions.

1.6 On the basis of the criteria adopted by the Executive Committee, it is the Director's responsibility (often under difficult conditions) to settle large individual claims. The Director must himself make decisions on the basis of analyses made by the 1971 Fund's external experts.

1.7 Without questioning the quality of the decisions of the Director and the assessments of the experts, it is appropriate for the 1971 Fund Assembly to ensure the consistent application of the 1971 Fund's policy in respect of the admissibility of claims.

1.8 The 1971 Fund and the 1992 Fund will co-exist for a number of years, and this is likely to result in an increase in the number of incidents to be handled by the joint Secretariat. For this reason the Funds' organs would find it important to improve the financial control.

1.9 Finally, in spite of the quality of information given by the External Auditor, the discussions within the Assembly can only be general and are limited by time constraints. It is important for the External Auditor to be able to discuss his conclusions with representatives of Member States and to obtain their comments.

2 What the 1971 Fund Audit Committee would not do

2.1 The Audit Committee would not duplicate the work of the External Auditor, who would continue to carry out his role with total independence.

2.2 The Audit Committee and its members would not duplicate the work of the Secretariat and would not intervene in the day-to-day management of the Organisation.

2.3 The members of the Audit Committee would not themselves carry out any financial controls.

3 What would be the role of a 1971 Fund Audit Committee?

3.1 Before the External Auditor begins his work programme, the Audit Committee would be informed of the details of this programme and, if appropriate, would make suggestions for modifications. It is nevertheless clear that the External Auditor would finally adopt his programme in complete independence.

3.2 After the External Auditor has finished his audit, the Audit Committee would be informed of the Auditor's observations in a more detailed presentation than can be given during the Assembly session.

3.3 In principle, the Audit Committee would meet twice a year, the first time in October or November to consider the External Auditor's work programme, and a second time, in June, to consider and discuss the observations of the Auditor.

3.4 The Audit Committee could also meet at the request of the External Auditor.

4 Composition of the Audit Committee

4.1 It would be useful to have a single Audit Committee for the two Funds.

4.2 The Audit Committee could consist of five members, and in addition the Chairmen of the two Assemblies.

4.3 The Director and the Finance Officer, as well as the External Auditor, should attend the Committee's meetings.

4.4 The members of the Audit Committee should be elected in their personal capacity. The individuals elected should have a good knowledge of the functioning of the 1971/1992 Funds and a personal interest in financial matters.

4.5 The members of the Audit Committee would not be entitled to send substitutes to the meetings of the Committee.
