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Agenda item 7

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Agenda item 5

SUPPFUND/A/ES.2/4

ADMINISTRATIVE COUNCIL
18th session
Agenda item 4

71FUND/AC.18/3

APPOINTMENT OF EXTERNAL AUDITOR

Note submitted by the Chairman of the Audit Body

Summary:	The Audit Body raises the issue of the procedure for appointment of the External Auditor of the 1992 Fund, the 1971 Fund and the Supplementary Fund.
Action to be taken:	To decide whether to instruct the Audit Body to consider the procedure for appointment of the External Auditor.

1 **Introduction**

The Audit Body wishes to raise the issue of the procedure for appointment of the External Auditor of the 1992 Fund, the 1971 Fund and the Supplementary Fund.

2 **Procedure applied so far**

- 2.1 Under the 1971 and 1992 Fund Conventions and the Supplementary Fund Protocol, the External Auditor shall be appointed by the respective Fund's Assembly. The respective Fund's Financial Regulations (Regulation 14.1) provide that the External Auditor shall be the Auditor-General (or officer holding the equivalent title) of a Member State, to be appointed in the manner or for the period decided by the Assembly.
- 2.2 In the past, the appointment of the External Auditor has been for a period of four years and has taken place at the autumn sessions of the governing bodies in the year at the end of which the current appointment would expire. The governing bodies' decisions have been based on a proposal by the Director.
- 2.3 The Comptroller and Auditor General of the United Kingdom has been the External Auditor of the 1971 and 1992 Funds since these Organisations were created in 1978 and 1996 respectively and has been reappointed for successive periods of four years. The External Auditor's present

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appointment in respect of the 1992 and 1971 Fund is for the period 1 January 2003 – 31 December 2006 (document 92FUND/A.7/29, paragraph 11 and 71FUND/AC.9/20, paragraph 10).

- 2.4 At its 1st session in March 2005, the Supplementary Fund Assembly appointed the Comptroller and Auditor General of the United Kingdom as the External Auditor for the Supplementary Fund for an initial period up to 31 December 2006 in order that the expiry of the terms of office of the External Auditor of the three Organisations should coincide. It was also decided that the terms of office should thereafter be for four years (document SUPPFUND/A.1/39, paragraphs 30.3 and 30.4).
- 2.5 The Comptroller and Auditor General of the United Kingdom has informally indicated that he would be pleased to be proposed for reappointment as External Auditor for the three Organisations for a further term of four years from 1 January 2007.

3 Audit Body's considerations

- 3.1 The governing bodies will recall that the Audit Body was initially appointed in 2002 for a period of three years to allow, in part, the governing bodies to determine whether the existence of such a Body was of assistance to the governance of the Funds. The decision was taken by the governing bodies in October 2005 to maintain the Audit Body as a permanent part of the IOPC Funds' structure.
- 3.2 It is normal business practice, where an Audit Committee or corresponding body exists, for such a Committee to review the performance of external auditors and to consider questions of reappointment or audit tender. The Committee then reports to the body having the power of appointment.
- 3.3 Subject to approval by the governing bodies, as well as continuing to maintain effective communication with the External Auditor on a regular basis and to review his performance, the Audit Body is also prepared to assume responsibility for making recommendations to the governing bodies with regard to the appointment of the External Auditor. Accordingly the Audit Body seeks instruction from the governing bodies as to whether it should also consider the issue of appointment or re-appointment.
- 3.4 In order to avoid any misunderstanding, the Audit Body would like to emphasise that, in its view, the present External Auditor has over the years always carried out his task in an efficient and competent manner, providing good value for money, and has provided the Organisations with valuable support, eg in respect of the development of better corporate governance. The Audit Body has reviewed the services provided by the External Auditor and has noted that the fees charged to the Funds are significantly lower than it would be expected to be charged for similar services by one of the large accountancy firms. It must be reiterated, however, that the respective Fund's Financial Regulations provide that the External Auditor shall be the Auditor-General (or officer holding the equivalent title) of a Member State (cf paragraph 2.1). The External Auditor has also over the years developed the audit in scope and depth, in conformity with the International Standards on Auditing as issued by the International Auditing and Assurance Standards Board.
- 3.5 Whilst it is not the case that all major audit appointments are periodically subject to competitive tender, some organisations follow such a procedure, notwithstanding the administrative implications for the organisation. In some instances such a procedure is used when the organisation is not convinced that the audit service it is receiving is as effective and economical as possible. This is not the case in this instance. Although the Funds are under no obligation to open the nomination of External Auditor to competition, the Audit Body would like to know if the

governing bodies would wish to initiate such a tendering procedure for the nomination of the External Auditor.

- 3.6 However, since the present term of office of the External Auditor expires at the end of 2006, the Audit Body takes the view that there would not be sufficient time for the governing bodies to consider properly a new procedure for appointment of the External Auditor for the next period.
- 3.7 If the governing bodies were to decide that it would be appropriate to consider whether a more open procedure should be used in the future for appointment of the External Auditor, the issue could first be considered by the Audit Body, this being the body of the Funds closely involved in the audit of the Organisations.
- 3.8 If this were to be the case, the governing bodies may wish to decide to instruct the Audit Body to consider the procedure for appointment of the External Auditor for later periods and submit a proposal to the governing bodies for consideration at their October 2006 sessions.
- 3.9 If the governing bodies were to agree to such a procedure, the Audit Body recommends that the present External Auditor (the Comptroller and Auditor General of the United Kingdom) be reappointed for a further term and a proposal to this effect would be presented to the October 2006 session of the governing bodies.

4 Action to be taken by the governing bodies

The governing bodies are invited:

- (a) to take note of the information contained in this document;
 - (b) to decide whether to instruct the Audit Body to consider the procedure for appointment of the External Auditor for later periods and submit a proposal to the governing bodies for consideration at their October 2006 sessions;
 - (c) to consider whether to instruct the Audit Body to develop proposals for a competitive tender; and
 - (d) to consider the Audit Body's proposal as regards the reappointment of the present External Auditor.
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