



International Oil Pollution
Compensation Funds

Agenda Item 6	IOPC/APR19/6/1	
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Original	English	
1992 Fund Assembly	92AES23	●
1992 Fund Executive Committee	92EC72	
Supplementary Fund Assembly	SAES7	●

APPOINTMENT OF THE EXTERNAL AUDITOR

2020 ACCOUNTING YEAR

Note by the Audit Body

Summary:	The current term of the External Auditor, BDO International, covers the financial years 2016–2019. As a result, their period of office will end following their report on the 2019 Financial Statements at the 2020 regular sessions of the governing bodies. The management of the selection process of the External Auditor falls within the mandate of the Audit Body. Therefore, the Audit Body alerts the governing bodies to the various options and related issues in order that there can be sufficient time for an orderly transition of responsibilities if a new External Auditor is to be appointed.
Action to be taken:	<p><u>1992 Fund Assembly and Supplementary Fund Assembly</u></p> <p>(a) Consider possible approaches that could be taken to the process for appointment of the External Auditor (see section 4); namely</p> <ul style="list-style-type: none"> (i) a full tender process; (ii) a formal review of the incumbent; or (iii) a straightforward reappointment of the incumbent. <p>(b) note the Audit Body’s recommendation that a formal review of the incumbent be carried out (see section 6); and</p> <p>(c) decide which approach listed in paragraph (a) to adopt.</p>

1 Introduction

- 1.1 The current term of the External Auditor, BDO International (‘BDO’), covers the financial years 2016–2019. As a result, their period of office will end following their report on the 2019 Financial Statements at the 2020 regular sessions of the governing bodies. Because of the protracted timescale involved in organising and conducting a tender process – one of the options to be considered – there is a need now to alert the governing bodies to the various options and related issues in order that there can be sufficient time for an orderly transition of responsibilities if a new External Auditor is to be appointed.
- 1.2 This issue falls within the Audit Body mandate which states the Audit Body shall ‘manage the process for the selection of the External Auditor’. Notwithstanding this, the Secretariat is closely involved in the process with a heavy time commitment, and the Chairmen of the 1992 Fund and Supplementary Fund Assemblies are also invited to be involved in the process.

2 Background information

2.1 The IOPC Funds were served by the UK National Audit Office (NAO) from their inception until the conclusion of the 2015 accounting year whereupon BDO was appointed for the period 2016–2019. A brief history of the processes for periodic appointments approved by the governing bodies since 2000 is set out below:

- 2002: NAO reappointed for a four-year term on the recommendation of the Director.
- 2006: NAO reappointed for a four-year term on the recommendation of the Audit Body with the request by the governing bodies for the Audit Body to come forward with proposals for a future tender process. The Audit Body was given the responsibility for managing the process.
- 2010: NAO reappointed for a four-year term following a tender process which failed to attract other Member State national auditor bidders and following a review of the NAO bid by the Audit Body.
- 2015: NAO reappointed for one year following their initial intention not to seek reappointment but following a tender process that failed to attract other Member State national auditor bidders.
- 2016: BDO appointed following a tender process that included commercial firms for the first time.

2.2 The issue has been considered by the governing bodies on several occasions, and it is particularly relevant to note the Record of Decisions of the October 2010 meeting of the governing bodies (document [IOPC/OCT10/11/1](#), paragraphs 6.3.1–6.3.17). At that meeting, the Audit Body recommended, *inter alia*, ‘that there should be no automatic periodic competitive tenders for the external audit appointment for the Funds unless there is a breakdown in the audit relationship.’ (document [IOPC/OCT10/6/3](#), paragraph 4.4). At that time, and perhaps because of the history of the NAO tenure, this proposal was not accepted by the governing bodies and their views were summarised in a subsequent Audit Body document to the governing bodies, provided below (document [IOPC/OCT13/6/3](#); paragraphs 2.2 and 2.3):

‘At their session in October 2010, the governing bodies also decided that there would not be a process for automatic reappointment of the External Auditor on the basis of the review and monitoring process by the Audit Body. The governing bodies decided that the external audit relationship with the Funds would be kept under review (document [IOPC/OCT10/11/1](#), paragraph 6.3.16). In light of this, the Audit Body, in consultation with the Director, has sought to ensure selection process preparedness by way of a competitive tender. Notwithstanding its selection process preparedness, the Audit Body also recognises that, at its October 2010 session, the governing bodies did not necessarily rule out the reappointment of an External Auditor.’

3 Comparison with best practice

3.1 Mandatory rotation of audit firms has been the subject of regulator action within the European Union (and elsewhere) as part of a wider programme of audit reform in a drive to improve audit quality and ensure auditor independence.

3.2 New regulations, applicable for accounting periods commencing after 17 June 2016, stipulate rotation of auditors for public interest entities after 10 years, extendable for a further 10-year term if this follows a tender process. There is no presumption of or requirement for rotation after a shorter period e.g. four years.

4 Options

4.1 Given the above, the governing bodies will need to decide on the process to be adopted. This document aims to set out the various options together with an associated evaluation plus a recommendation as to the way forward. The options are:

Option 1: A full tender, inviting national auditors and commercial firms to apply for a four-year term. Given the quality of their work to date, BDO would be invited to tender, and it would be hoped for that other audit firms or national auditors would be interested in tendering.

Option 2: A formal review of BDO's performance to date by the Audit Body together with an evaluation of their proposals for a further term including fees and personnel. Following this review, the Audit Body would recommend either reappointment or a tender.

Option 3: A straightforward reappointment for a second four-year term, given BDO are willing to serve a further term.

Option 1 – A full tender

- 4.2 A full tender process, similar to that undertaken in 2014/2015 is a good way of demonstrating that appointments made represent value for money as they result from a competitive process and a 'level playing field'. The most recent tender did produce a good result in terms of service level obtained at a competitive fee.
- 4.3 However, this contrasts with previous attempts at a tender process that were not successful as they failed to attract bidders other than the incumbent. Audit tenders are expensive for commercial firms and national auditors of Member States in terms of time to prepare the bids and, in the case of the latter category, travel costs. It is debatable whether a tender would be of much interest to an audit organisation given it is held after a short term of office for the incumbent who has provided a good service at a competitive fee.
- 4.4 In addition, there is an extensive time commitment required from the Secretariat in inviting bids; organising and conducting familiarisation visits and managing the process (as well as dealing with the transition necessary as a result of the change of External Auditor). The Finance Section is currently engaged in an overhaul of the organisation's financial systems and this commitment will include the period covered by any tender process.

Option 2 – Formal review of the incumbent

- 4.5 A further option represents a hybrid of the other two identified options and blends the need to obtain value for money, ensure independence and a commitment to continuing service quality.
- 4.6 The process would involve inviting BDO for a formal review and interview session with the Audit Body (with the Secretariat and Chairmen of the 1992 Fund and Supplementary Fund Assemblies as invitees) for a structured review covering, *inter alia*, the following:
- (a) review of service to date with emphasis on value delivered and any lessons to be learned;
 - (b) proposal for ensuring the continuity of key team members and associated structure in order to safeguard audit quality and service;
 - (c) audit approach proposals;
 - (d) assessment of future challenges facing the IOPC Funds and BDO observations; and
 - (e) fee proposals.
- 4.7 The process would be similar to that followed in the 2015 tender process whereby the audit firm would prepare a written proposal setting out their credentials and service commitment for a further term and this document, supplemented by a structured interview, would provide the basis for evaluation by the Audit Body.
- 4.8 Following this review, the Audit Body would be in a position either to recommend reappointment or that a formal tender be undertaken. This approach is similar, in practical terms to the approach adopted by the Audit Body in the past when there were no bidders other than the NAO.

Option 3 – Straightforward reappointment

- 4.9 This option has the merit of being ‘cost-free’ in terms of the time involved by the Audit Body, Secretariat and the Chairmen of the 1992 Fund and Supplementary Fund Assemblies. It could be considered appropriate given the relatively short tenure to date of BDO and their good service quality. It would also be consistent with the approach taken in the past but would, perhaps, be inconsistent with the sentiment of the governing bodies expressed in 2010 and, indeed, evolving best practice.

5 **Evaluation of options**

The identified advantages and drawbacks of the identified options are set out as follows:

Option 1 – A full tender

- (a) Consistent with the sentiment expressed at the October 2010 meeting of the governing bodies requesting delivery of ‘periodic tenders’.
- (b) Rebuttable presumption that a tender ensures value for money is obtained, although any headline monetary savings are offset against the costs of disruption to Secretariat from the tender process and process of transition to a new External Auditor.
- (c) Costly and time-consuming.
- (d) Inconsistent with best practice where changes of auditors after a short period are not considered to be practical or efficient.
- (e) The process, and any period of transition to a new External Auditor, would occur during the implementation phase of the new finance systems with its attendant risk of disruption.

Option 2 – Formal review of the incumbent

- (a) Provides a blend of the advantages of the other options in that it combines economy with the need to obtain value for money.
- (b) A process consistent with the current satisfaction of the service provided by BDO in terms of independence, rigour and a competitive fee.
- (c) Consistent with current corporate governance best practice.
- (d) Arguably consistent with a balance of comment from governing bodies and a recognition that circumstances have changed since 2010 as the Funds have had a recent change in External Auditor.
- (e) Assuming a satisfactory outcome, the reappointment of BDO for a further term would avoid disruption to the working of the Secretariat at a time when new finance accounting and IT systems are to be implemented.
- (f) If the outcome of the review were to be unsatisfactory, there remains sufficient time and scope to conduct a tender process as per option 1 (see Annex).

Option 3 – Straightforward reappointment

- (a) Consistent with short period of tenure of BDO, their demonstrated independence and in view of their good service to date.
- (b) The organisation would benefit from minimal disruption and there would be no need to accommodate for a ‘learning curve’ transition associated with a change of External Auditor.
- (c) May not be consistent with the need to ensure value for money is obtained beyond the original service period of 2016–2019.

6 Recommendation by the Audit Body

- 6.1 Having regard to the above considerations, the Audit Body recommends the adoption of Option 2: a formal review of BDO's performance and proposals for a further term by way of evaluation of a written submission by BDO and subsequent interview with the members of the Audit Body. This option is recommended on the basis that it takes account of the fact that the current External Auditor has only recently been appointed and is providing a good service; is consistent with best practice; has regard to the circumstances prevailing in the Secretariat; delivers value for money; and, the option also allows alternatives to be pursued should there not be a satisfactory outcome to the recommended approach.
- 6.2 It should be noted that the above approach is not intended to act as a template to be followed at the conclusion of the next period of tenure by the External Auditor.

7 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 information contained in this document;
- (b) consider possible approaches that could be taken to the process for appointment of the External Auditor (see section 4); namely
 - (i) a full tender process;
 - (ii) a formal review of the incumbent; or
 - (iii) a straightforward reappointment of the incumbent.
- (c) note the Audit Body's recommendation that a formal review of the incumbent be carried out (see section 6); and
- (d) decide which approach listed in paragraph (a) to adopt.

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ANNEX

**SUMMARY OF RECOMMENDED PROCESS FOR THE
APPOINTMENT OF THE EXTERNAL AUDITOR**

MEETING DATES	AUDIT BODY ACTIVITY	REVIEW	TENDER
October 2018	'Signpost' to governing bodies that this issue will be submitted for decision in April 2019	-	-
April 2019	Document to governing bodies recommending <i>Option 2: Formal review of the incumbent</i> with tender process as fall-back option	-	-
June 2019	June Audit Body meeting:	Either: Satisfactory review of BDO performance and proposals	Or: Unsatisfactory review of BDO performance and proposals
October 2019	Document to governing bodies recommending BDO reappointment or tender process	BDO reappointed if results of review are satisfactory	Tender initiated with authority for Audit Body to develop list of candidates
April 2020	Document to governing bodies on the tender process	-	Update to governing bodies and short-list for interview for approval
June 2020	Extra June Audit Body meeting for interviews and evaluation of bids	-	Selection of new External Auditor recommended
October 2020	Document to governing bodies with recommendation	-	External Auditor appointed for 2020–2023