



INTERNATIONAL  
OIL POLLUTION  
COMPENSATION  
FUNDS

<b>Agenda item: 6</b>	IOPC/OCT13/6/3	
Original: ENGLISH	16 August 2013	
1992 Fund Assembly	<b>92A18</b>	•
1992 Fund Executive Committee	<b>92EC59</b>	•
Supplementary Fund Assembly	<b>SA9</b>	•
1971 Fund Administrative Council	<b>71AC31</b>	•

## APPOINTMENT OF THE EXTERNAL AUDITOR

### Note by the Audit Body

<b>Summary:</b>	In view of the expiry of the term of office of the current External Auditor, and in accordance with the decisions of the governing bodies at their October 2010 sessions, the Audit Body has examined the modalities inherent in the selection and appointment of the External Auditor. The Audit Body hereby presents a proposed framework for the selection and appointment of the External Auditor for consideration by the governing bodies.
<b>Action to be taken:</b>	<u>The 1992 Fund Assembly, Supplementary Fund Assembly and 1971 Fund Administrative Council</u>  Consider and approve the Audit Body's recommendation and proposed framework and timetable for the conduct of a competitive tender for appointment of the External Auditor.

### 1 Introduction

- 1.1 The term of office of the current External Auditor covers the financial years 2011 to 2014 inclusive. Their responsibility ceases after the presentation of the audit of the 2014 Financial Statements to the Funds' governing bodies in October 2015. In order to effect a smooth transition of responsibilities, it will be necessary to appoint an External Auditor at the October 2014 sessions of the governing bodies to audit the Financial Statements for the years 2015 to 2018 inclusive, or for any such other period as may be decided by the governing bodies.
- 1.2 Under the terms of its mandate, the Audit Body has the responsibility for managing the process for the selection of the External Auditor on behalf of the governing bodies although much of the work involved is performed by the Secretariat on behalf of the Director who issues the formal invitations to Member States for nominations.

### 2 Considerations by the Audit Body

- 2.1 Following the tender and selection process carried out by the Audit Body in 2010, the governing bodies decided that the annual review and monitoring by the Audit Body would be the primary basis for determining if the external audit relationship with the Funds was effective (document [IOPC/OCT10/11/1](#), paragraphs 6.3.15 and 6.3.17).

- 2.2 At their session in October 2010, the governing bodies also decided that there would not be a process for automatic re-appointment 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.
- 2.3 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 re-appointment of an External Auditor. In view of this and, in the interest of a thorough examination of all possible avenues, the Audit Body enquired of the current External Auditor (Comptroller and Auditor General of the United Kingdom, National Audit Office (NAO)) whether he had any interest in a further appointment.
- 2.4 The Audit Body has learned that the NAO does not intend to seek re-appointment for a further term. This decision has not arisen from any professional issue in relation to its audit work. Rather, the NAO is mindful of the view amongst regulatory bodies that there should be periodic rotation of audit organisations. The NAO has audited the Financial Statements of the IOPC Funds since their inception. In light of the pending expiry of the term of office of the current External Auditor and in consideration of all relevant circumstances, the Audit Body proposes that the selection of the new External Auditor should proceed on the basis of a competitive tender. The Audit Body also recognises that, in order for the selection process to be effective, it must ensure there are sufficient measures to stimulate applications. The Audit Body identifies below a series of measures and structured arrangements for the governing bodies' consideration which it believes will assist in stimulating applications by Members States.

### **3 Proposed arrangements**

- 3.1 The Audit Body proposes that the process whereby nominations are sought be initiated at the October 2013 sessions of the governing bodies. Instruction will be sought from the governing bodies for the Director to invite 1992 Fund Member States to submit tender proposals from interested candidates.
- 3.2 If such instruction is received from the governing bodies, the Audit Body proposes that, in accordance with the Secretariat's normal procedures, a circular letter will be sent by the Director after the October 2013 sessions of the governing bodies to all 1992 Fund Member States inviting candidatures for the position of External Auditor.
- 3.3 In this respect, the governing bodies are reminded that the Financial Regulations of all three of the IOPC Funds require that the External Auditor shall be the Auditor-General (or officer holding the equivalent title) of a Member State and that the audit shall be conducted in accordance with the Financial Regulations of the respective Fund and stated accounting policies and in compliance with International Public Sector Accounting Standards (IPSAS), where appropriate and subject to any special instructions given by the governing bodies of the three Funds. The Audit Body, in conjunction with the Secretariat, has prepared a tender brief to assist interested candidates in understanding the external audit tender process. The tender brief, which will be available to Member States upon request, will also be available on the IOPC Funds' website as will the Director's circular letter.
- 3.4 The Audit Body has prepared a list of the factors for selection for the consideration of the governing bodies (attached at Annex I) and proposes that this list will also form part of the tender brief. A proposed timetable for the selection process and appointment of the External Auditor to cover the audit of the Financial Statements for 2015-2018 (or any such other period as may be decided by the governing bodies) is attached at Annex II.
- 3.5 In accordance with the proposed timetable, a two-step process is outlined which the Audit Body believes will assist in both encouraging Member States to nominate as well as providing assistance to nominees. The deadline for submission of nominations (not tenders) by Member States is 31 January 2014. However, during the period January-February 2014 interested external audit

candidates from 1992 Fund Member States are encouraged to arrange for familiarisation meetings between themselves and the Secretariat so as to permit them to gain a better understanding of the Funds' auditing environment and the requirements in the tender brief. The deadline for tender submissions to the Director of the IOPC Funds is 14 March 2014. This will permit the Audit Body sufficient time for consideration of submitted tenders prior to its April 2014 meeting.

- 3.6 In the light of its consideration of the candidatures at its April 2014 meeting, the Audit Body proposes to draw up a short list for interview. Selected candidates would be invited for interview by the Audit Body in London in June 2014. It is the Audit Body's view that it is essential that the Director and the Deputy Director/Head of Finance and Administration be involved in the interview process as the demonstration of a constructive working relationship with the Secretariat is a pre-requisite for an effective audit process. It is proposed that the Chairmen of the 1992 Fund Assembly, the Supplementary Fund Assembly and the 1971 Fund Administrative Council also be invited to attend these interviews.
- 3.7 As a result of these interviews, the Audit Body would make a recommendation as to the selection of the External Auditor to the October 2014 sessions of the governing bodies, including a proposal as to the length of the term of office. At their October 2014 sessions, the governing bodies would appoint the new External Auditor to audit the Funds' Financial Statements for the years 2015-2018 inclusive or for any such other period as may be decided by the governing bodies.
- 3.8 The audit of the 2014 Financial Statements would be undertaken by the current External Auditor. The new External Auditor could use the period from appointment in October 2014 to October 2015 to familiarise themselves with the operations of the IOPC Funds.
- 3.9 The current External Auditor would present their report on the audit of the Financial Statements for 2014 to the governing bodies in October 2015. The strategy for the external audit of the Funds' Financial Statements for 2015 would be discussed with the newly-appointed External Auditor at the Audit Body's meeting to be held in December 2015.

#### **4 Recommendations**

The Audit Body proposes that:

- (i) a competitive tender process take place for the selection of the External Auditor to conduct the audits of the Financial Statements for 2015-2018 (or for any such other period as may be decided by the governing bodies); and
- (ii) the above arrangements (outlined in section 3) be approved by the governing bodies for the competitive tender to be followed in 2013-14.

#### **5 Action to be taken**

##### 1992 Fund Assembly, Supplementary Fund Assembly and 1971 Fund Administrative Council

The 1992 Fund Assembly, Supplementary Fund Assembly and 1971 Fund Administrative Council are invited:

- (a) to note the information contained in this document; and
- (b) to consider and approve the Audit Body's recommendation and proposed framework and timetable for the conduct of a competitive tender for appointment of the External Auditor.

## ANNEX I

### **FACTORS FOR EVALUATION OF CANDIDATES FOR THE POSITION OF EXTERNAL AUDITOR OF THE IOPC FUNDS**

#### Required factors:

- Audit organisation must be Auditor-General (or equivalent organisation) of a Member State
- Experience of auditing financial statements prepared under International Public Sector Accounting Standards
- Identification of the key issues relevant to the IOPC Funds
- Appreciation of the distinct roles of the Secretariat, the Audit Body, the Investment Advisory Body and the Funds' governing bodies, and hence of the appropriate relationships with each
- Understanding of the Funds' Financial and Internal Regulations, the budgetary process, the risk management process, the procurement process and the claims-handling process, and an ability to develop an audit approach which takes account of these existing processes and disciplines
- Relevant experience of auditing organisations comparable with the IOPC Funds
- Robustness and professional competence of the people who lead the team
- Reasonable continuity assured for key persons yet with some rotation acceptable at the more junior levels
- Transparency of the audit fee
- Appropriate transitional arrangements
- All Audit Body meetings and associated papers are in English so the audit organisation must be able to communicate effectively in this language

#### Desired factors:

- Economy in the use of the Secretariat's time given its available resources
- Clarity and conciseness of communications and ability to build trust and confidence
- Service and communication 'philosophy', preparedness, enthusiasm, follow-up
- Availability, and experience in use, of electronic audit techniques
- Commitment to continuous review and improvement and demonstration of past innovation
- Constructive attitude to problem solving – not just the technical complexities and requirements of the audit process and function

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## ANNEX II

### **PROPOSED TIMETABLE FOR APPOINTMENT OF THE EXTERNAL AUDITOR TO THE IOPC FUNDS FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2018 INCLUSIVE [OR ANY SUCH OTHER PERIOD AS MAY BE DECIDED BY THE GOVERNING BODIES]**

October 2013	Governing bodies instruct the Director to invite tender proposals from interested candidates for appointment as the Funds' External Auditor.
November 2013	Director invites nominations from all 1992 Fund Member States.
January-February 2014	Familiarisation meetings between the Secretariat and external audit candidates as required.
31 January 2014	Deadline for submission of nominations (not tenders) by Member States.
14 March 2014	Tender submission deadline.
April 2014	Shortlisting of candidates at meeting of the Audit Body. Selected candidates to be invited to attend for interview in June 2014.
June 2014	Interview of shortlisted candidates. Selection of External Auditor to be recommended to governing bodies for approval at October 2014 sessions.
October 2014	Governing bodies appoint External Auditor to audit Financial Statements for the years 2015-2018 (inclusive) [or for any such other period as may be decided by the governing bodies].
2015	Audit of 2014 Financial Statements by current External Auditor.
October 2015	Current External Auditor presents their report on the 2014 Financial Statements to the governing bodies. Responsibility of current External Auditor ceases on presentation of this report.
December 2015	External audit strategy for audit of 2015 Financial Statements is discussed at meeting of the Audit Body with the new External Auditor.
2016	Audit of 2015 Financial Statements by the new External Auditor.

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