



INTERNATIONAL  
OIL POLLUTION  
COMPENSATION  
FUNDS

<b>Agenda item: 6</b>	IOPC/OCT14/6/3	
Original: ENGLISH	8 September 2014	
1992 Fund Assembly	<b>92A19</b>	•
1992 Fund Executive Committee	<b>92EC62</b>	•
Supplementary Fund Assembly	<b>SA10</b>	•
1971 Fund Administrative Council	<b>71AC33</b>	•

## APPOINTMENT OF THE EXTERNAL AUDITOR

### Note by the Audit Body

<b>Summary:</b>	<p>The term of office of the current External Auditor (Comptroller and Auditor General of the United Kingdom, National Audit Office (NAO)) covers the financial years 2011 to 2014 inclusive. The NAO's 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.</p> <p>In accordance with the instructions received from the governing bodies at their October 2013 sessions, on 15 November 2013 a circular was sent by the Director to all 1992 Fund Member States inviting the submission of nominations by Member States to the IOPC Funds' Secretariat by 31 January 2014 and the submission of resulting tenders no later than Friday 14 March 2014. This exercise did not result in any valid tenders for the position and the Audit Body submitted a document to the governing bodies at their May 2014 sessions setting out proposals for the way forward (document <a href="#">IOPC/MAY14/5/1</a>).</p> <p>This document sets out the Audit Body's recommendations in the light of the discussions of the governing bodies at their May 2014 sessions.</p>
<b>Action to be taken:</b>	<p><u>1992 Fund Assembly, Supplementary Fund Assembly and 1971 Fund Administrative Council</u></p> <p>Consider and approve the recommendations made by the Audit Body in section 6, noting that a proposed amendment to Financial Regulation 14.1 of the 1992 Fund, the Supplementary Fund and the 1971 Fund respectively to allow for the appointment of commercial firms is contained in document IOPC/OCT14/6/3/1 submitted by the Secretariat.</p>

### 1 **Introduction**

The term of office of the current External Auditor (Comptroller and Auditor General of the United Kingdom, National Audit Office (NAO)) covers the financial years 2011 to 2014 inclusive. The NAO's 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 2015 financial year and beyond.

## **2 Considerations by the governing bodies at their October 2013 sessions**

- 2.1 At their October 2013 sessions, the governing bodies noted that the term of office of the current External Auditor, the Comptroller and Auditor General of the United Kingdom, would expire following the presentation in October 2015 of the audit of the IOPC Funds' Financial Statements for the year ending 31 December 2014. They further noted that, to effect a smooth transition of responsibilities, it would 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 might be decided by the governing bodies.
- 2.2 The governing bodies also noted that, under the terms of its mandate, the Audit Body had the responsibility for managing the process for the selection of the External Auditor on behalf of the governing bodies, with the assistance of the Secretariat.
- 2.3 The governing bodies noted that, given that the current External Auditor was not intending to seek re-appointment, there would be a vacancy to be filled and that the Audit Body was recommending that it be filled by way of competitive tender for the selection of the External Auditor to conduct the audit of the Financial Statements for 2015 to 2018 (or any such other period as might be decided by the governing bodies).
- 2.4 The governing bodies noted the Audit Body's proposed arrangements for the tender, which would take into account past practice and decisions taken by the Funds' governing bodies, and the detailed timetable as set out in section 3 of document [IOPC/OCT13/6/3](#). Their attention was drawn to the fact that the Audit Body was mindful of the need to stimulate interest and obtain nominations from as many Member States as possible regarding this important appointment and so the proposed arrangements had been set out in some detail.
- 2.5 The governing bodies also noted that a tender brief to assist interested candidates in understanding the external audit tender process would be available to Member States upon request, as well as on the IOPC Funds' website.

## **3 Developments since the October 2013 sessions of the governing bodies**

- 3.1 Following the decisions by the governing bodies in October 2013, the Audit Body's recommendations for the conduct of a competitive tender for the appointment of the External Auditor were implemented. However, as reported at the May 2014 sessions of the governing bodies, this process did not result in any valid tenders being received by the Secretariat.
- 3.2 At its April 2014 meeting, the Audit Body noted that, in the current situation, the 1992 Fund, the Supplementary Fund and the 1971 Fund would find themselves without an External Auditor to audit the Financial Statements from the financial year 2015. However, at the April 2014 meeting of the Audit Body, the current External Auditor confirmed his willingness to continue for one further year, ie to audit the Financial Statements for the year 2015, if that was the wish of the governing bodies. In view of the timescales involved in any tender process, the Audit Body decided to recommend that the NAO be re-appointed for the 2015 financial year.
- 3.3 The Audit Body recalled that Financial Regulation 14.1 of all three of the IOPC Funds required that the External Auditor shall be the Auditor-General (or officer holding the equivalent title) of a Member State. It was, however, of the view that it would be unlikely to be productive to undertake a further tender process using this as a constraint given there had been two unsuccessful attempts to generate interest in the position of External Auditor.
- 3.4 Accordingly, the Audit Body was of the view that Financial Regulation 14.1 of all three Funds should be amended to allow for the appointment of a commercial audit firm with requisite experience in addition to that of the Auditor-General (or officer holding the equivalent title) of a 1992 Fund Member State.

- 3.5 The Audit Body was also of the view that commercial firms with the requisite capabilities could also be nominated by Member States to tender for the appointment of External Auditor to audit the Financial Statements commencing with the 2016 financial year.
- 3.6 The Audit Body also proposed that it identify six to ten commercial firms with international representation who would also be invited to tender for the appointment and a list of such firms would be presented to the governing bodies at their October 2014 sessions. In this regard, a list of the top ten global accounting firms, each of which is represented in at least 100 countries worldwide, was reviewed by the Audit Body at its meeting in June 2014. Following this meeting, it was decided to extend invitations to a selection of these firms if the amendment to the Financial Regulations were to be approved by the governing bodies. The firms are: Deloitte, PwC, KPMG, Grant Thornton, BDO and Moore Stephens.
- 3.7 In debating the Audit Body's document during the May 2014 sessions, a number of delegations indicated various reasons why national audit organisations of Member States had not participated in the earlier tender process. In addition, several delegations supported the proposal to amend Financial Regulation 14.1 in order to allow commercial firms to participate although there was some concern over potential cost implications.
- 3.8 The view was also expressed that it might still be possible to get national auditors to participate and, if this were to be the case, whether priority would be given to such bodies. The Audit Body considered these comments and concerns and is of the view that, if tenders were received from both national auditors and commercial firms, they should be considered on their merits and in accordance with the selection criteria previously identified and originally set out in document [IOPC/OCT13/6/3](#) and subsequently amended to reflect the participation of commercial firms and to emphasise the importance of cost as a consideration. Nominated firms must also be from a 1992 Fund Member State. The updated criteria are set out at Annex I.

#### **4 Proposed arrangements for the external audit tender**

- 4.1 The Audit Body proposes a repeat of the tender process approved by the governing bodies in October 2013 using the list of the factors for selection as referred to above and included at Annex I. A proposed timetable for the selection process and appointment of the External Auditor to cover the audit of the Financial Statements for 2016-2019 (or any such other period as may be decided by the governing bodies) is attached at Annex II.
- 4.2 In accordance with the proposed timetable, the Audit Body proposes that nominations by 1992 Fund Member States and respective tenders should be submitted to the Director of the IOPC Funds in sufficient time for consideration by the Audit Body at its April 2015 meeting.
- 4.3 In the light of its consideration of the candidatures, 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 during June 2015. 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 (if still in existence) also be invited to attend these interviews.
- 4.4 As a result of these interviews, the Audit Body would make a recommendation as to the selection of the External Auditor to the October 2015 sessions of the governing bodies, including a proposal as to the length of the term of office. At their October 2015 sessions, the governing bodies would appoint the new External Auditor to audit the Funds' Financial Statements for the years 2016-2019 inclusive or for any such other period as may be decided by the governing bodies.

- 4.5 The audit of the 2015 Financial Statements would be undertaken by the current External Auditor. The new External Auditor could use the period from appointment in October 2015 to October 2016 to familiarise themselves with the operations of the IOPC Funds.
- 4.6 The current External Auditor would present his report on the audit of the Financial Statements for 2015 to the governing bodies in October 2016. The strategy for the external audit of the Funds' Financial Statements for 2016 would be discussed with the newly-appointed External Auditor at the Audit Body's meeting to be held in December 2016 (see Annex II, action in December 2016).

## **5 External audit of the 1971 Fund**

- 5.1 The Audit Body recalls that, at its May 2014 session, the 1971 Fund Administrative Council noted that if Resolution N<sup>o</sup>18 were adopted by the 1971 Fund Administrative Council at its October 2014 session, the 1971 Fund would be dissolved and its legal personality would cease to exist with effect from the expiry of the last day of the financial year 2014 (31 December 2014) (see documents [IOPC/MAY14/10/1](#), section 7.1 and IOPC/OCT14/8/2).
- 5.2 The remit of the current External Auditor covers the financial years 2011 to 2014 inclusive and the NAO's responsibility ceases after the presentation of the audit of the 2014 Financial Statements to the Funds' governing bodies in October 2015.
- 5.3 Were the 1971 Fund to be dissolved and its legal personality cease to exist with effect from the expiry of the last day of the financial year 2014 (31 December 2014), the External Auditor to be elected in October 2015 would not have to audit the Financial Statements of the 1971 Fund as this Fund would no longer exist. The audit of the final Financial Statements for the 1971 Fund, ie those relating to 2014, would have been undertaken by the current External Auditor.

## **6 Recommendations**

The Audit Body therefore recommends that the governing bodies approve the following recommendations which were considered during the May 2014 sessions of the Funds' governing bodies in advance of decisions being taken on them at the October 2014 sessions (see document [IOPC/MAY14/10/1](#), paragraph 5.1.11):

- (i) that the Comptroller and Auditor-General of the United Kingdom (National Audit Office) be appointed to serve as External Auditor of the IOPC Funds for an additional year, ie to audit the Financial Statements for the year 2015 and present the Report on the Financial Statements to the governing bodies in October 2016;
- (ii) that the Auditor-General (or officer holding the equivalent title) of 1992 Fund Member States could be nominated by 1992 Fund Member States to tender for the appointment of External Auditor to audit the Financial Statements commencing with the 2016 financial year;
- (iii) that, in addition, commercial firms with the requisite capabilities could also be nominated by 1992 Fund Member States to tender for the appointment of External Auditor to audit the Financial Statements commencing with the 2016 financial year;
- (iv) furthermore, that the commercial firms with international representation identified by the Audit Body could also be invited to tender for the appointment of External Auditor to audit the Financial Statements commencing with the 2016 financial year;
- (v) that the governing bodies approve an amendment to Financial Regulation 14.1 of the 1992 Fund, the Supplementary Fund and the 1971 Fund to allow for the appointment of commercial firms as set out in section 4 above (see document IOPC/OCT14/6/3/1); and

- (vi) that, in accordance with its Composition and Mandate, the Audit Body be instructed to conduct a competitive tender process for the selection of the External Auditor to conduct the audits of the Financial Statements for 2016-2019 (or for any such other period as may be decided by the governing bodies).

**7 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 to consider and approve the recommendations made by the Audit Body in section 6 above, noting that a proposed amendment to Financial Regulation 14.1 of the 1992 Fund, the Supplementary Fund and the 1971 Fund to allow for the appointment of commercial firms is contained in document IOPC/OCT14/6/3/1 submitted by the Secretariat.

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## 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 or a commercial audit firm with the requisite capabilities, nominated by a 1992 Fund Member State or identified by the Audit Body
- 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 and value for money
- 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 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 2016 TO 31 DECEMBER 2019 INCLUSIVE (OR ANY SUCH OTHER PERIOD AS MAY BE DECIDED BY THE GOVERNING BODIES)**

October 2014	Governing bodies instruct the Director to invite tender proposals from interested candidates for appointment as the IOPC Funds' External Auditor.
November 2014	Director invites nominations from all 1992 Fund Member States and commercial firms with the requisite capabilities identified by the Audit Body.
January-February 2015	Familiarisation meetings between the Secretariat and external audit candidates as required.
30 January 2015	Deadline for submission of nominations by Member States and formal notification of intent from commercial firms with the requisite capabilities identified by the Audit Body (not tenders).
13 March 2015	Tender submission deadline for both Member States and commercial firms.
April 2015	Shortlisting of candidates at meeting of the Audit Body. Selected candidates to be invited to attend for interview in June 2015.
June 2015	Interview of shortlisted candidates. Selection of External Auditor to be recommended to governing bodies for approval at October 2015 sessions.
October 2015	Governing bodies appoint External Auditor to audit Financial Statements for the years 2016-2019 (inclusive) (or for any such other period as may be decided by the governing bodies).
2016	Audit of 2015 Financial Statements by current External Auditor.
October 2016	Current External Auditor presents their report on the 2015 Financial Statements to the governing bodies. Responsibility of current External Auditor ceases on presentation of this report.
December 2016	External audit strategy for audit of 2016 Financial Statements is discussed at meeting of the Audit Body with the new External Auditor.
2017	Audit of 2016 Financial Statements by the new External Auditor.

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