



INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1971

ASSEMBLY
19th session
Agenda item 9

71FUND/A.19/7
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AUDIT COMMITTEE

Note by the Chairman

1 Introduction

This document contains some further considerations by the Chairman concerning the advisability of establishing an Audit Committee.

2 Consideration at the Assembly's 2nd extraordinary session

2.1 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. The Chairman had also prepared a draft mandate for an Audit Committee which is reproduced in the Annex to this document.

2.2 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.

2.3 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.

2.4 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.

3 Further considerations by the Chairman

3.1 The Chairman's proposal to the 2nd extraordinary session of the Assembly was based on the following considerations. Since the *Haven* incident occurred in 1991, the accounting and financial activities of the 1971 Fund have changed in terms of the number of cases with which the Fund is involved and the level of contributions requested. The complexity of these cases and the desire to make prompt payments to claimants have led to new procedures for the handling of claims, for example through local claims offices being set up jointly by the 1971 Fund and the P & I Club involved in a case (although all claims have to be approved by the Director). It has also necessitated the use of a large number of experts in various fields. The demands placed on the Secretariat continue to increase, not least being the request at the International Conference in April 1996 for the 1992 Fund to prepare for the entry into force of the HNS Convention.

3.2 So far, the Assembly has not become involved in questions relating to the administrative aspects of the 1971 Fund's operations, except when asked to consider the investment policy or the strengthening of the Secretariat. The financial control of the 1971 Fund has been carried out by the External Auditor, to the complete satisfaction of all concerned. The Assembly is informed of the Organisation's finances by means of the Financial Statements and the Auditor's Report and Opinion (which, in accordance with the Financial Regulations, are transmitted via the Chairman), by the External Auditor's oral presentation during the Assembly session, and by the latter's consideration of the Director's report on the Fund's investments.

3.3 In both the private and public sectors, increased control of entities' accounting and financial operations is being achieved by means of the establishment of audit committees. In Europe, this movement was initiated in the United Kingdom by the Cadbury report which gave recommendations for private industry. This report was complemented for the public sector by a Code of Best Practice for Board Members of Public Bodies published by the United Kingdom Treasury in June 1994.

3.4 The above-mentioned Code of Best Practice recommends the establishment of audit committees in all public organisations in accordance with certain principles. Although the nature of the 1971 Fund and its activities do not warrant these principles being followed in their entirety, they nevertheless provide a basis on which to consider how the Assembly could achieve more effective financial control of the Organisation, increase the involvement of Member States in the monitoring of the Fund's operations and increase the transparency of its activities. Many of these principles were reflected in the draft mandate submitted to the Assembly at its 2nd extraordinary session.

4 Possible courses of action for the 1971 Fund

4.1 If the Assembly were to decide that it would be appropriate to strengthen its financial control of the Organisation, a number of options could be considered.

4.2 The Assembly might wish to consider instructing its Chairman to take a more active role in this field, not merely receiving the Financial Statements and External Auditor's Report and Opinion. He could, for example, hold discussions with the External Auditor on his work programme.

4.3 Alternatively, the Assembly might prefer to establish an Audit Committee as an independent body, but operating within a strict mandate.

4.4 It is recognised that some delegations might justifiably fear that the establishment of an Audit Committee would increase the workload on the 1971 Fund Secretariat, or alter the balance between the different organs of the Fund. However, the question of effective financial controls cannot be avoided.

4.5 The Chairman believes that it is important that there is a consensus in the Assembly on this issue. The Assembly might therefore wish to consider whether it would be appropriate to establish an Intersessional Working Group to discuss these questions further. The mandate of such a Working Group could be:

- (a) to review the present system of financial control in the 1971 Fund; and
- (b) to make proposals on how to improve the system of financial control.

5 Action to be taken by the Assembly

The Assembly is invited:

- (a) to take note of the information contained in this document; and
- (b) to consider whether to establish an Intersessional Working Group to consider further the question of financial control in the 1971 Fund.

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ANNEX

DRAFT

Mandate of the 1971 Fund's Audit Committee

- 1 The Audit Committee of the 1971 Fund is composed of [three – five] individual persons appointed by the Assembly.
 - 2 The mandate of the Audit Committee is:
 - (a) to review the 1971 Fund's financial statements and reports;
 - (b) to discuss with the External Auditor the nature and scope of each forthcoming audit;
 - (c) to consider all relevant reports by the External Auditor, including reports on the 1971 Fund's accounts; and
 - (d) to review the effectiveness of the 1971 Fund's internal control system.
 - 3 The Committee should normally meet twice a year. The meetings should be convened by the Director.
 - 4 The External Auditor may request that additional meetings of the Committee should be held.
 - 5 The Director and the Finance Officer should be present at the meetings.
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