



International Oil Pollution  
Compensation Funds

<b>Agenda Item 5</b>	IOPC/NOV20/5/5	
<b>Date</b>	10 August 2020	
<b>Original</b>	English	
<b>1992 Fund Assembly</b>	92A25	●
<b>1992 Fund Executive Committee</b>	92EC74	
<b>Supplementary Fund Assembly</b>	SA17	●

## REPORT OF THE JOINT AUDIT BODY

### Note by the Audit Body

<b>Summary:</b>	<p>In accordance with its mandate, the joint Audit Body for the 1992 Fund and the Supplementary Fund shall report on its work to each regular session of the 1992 Fund Assembly and the Supplementary Fund Assembly. The joint Audit Body's report on its activities is at Annex I.</p> <p>In addition, every three years the functioning of the joint Audit Body and its mandate shall be reviewed by the 1992 Fund Assembly and the Supplementary Fund Assembly on the basis of an evaluation report from the Chair of the joint Audit Body. This report is at Annex II.</p>
<b>Action to be taken:</b>	<p><u>1992 Fund Assembly and Supplementary Fund Assembly</u></p> <p>(a) Take note of the report of the Audit Body set out in Annex I and the three-year review set out in Annex II and provide comments and instructions as may be warranted; and</p> <p>(b) consider the joint Audit Body's recommendation regarding the adoption of the 2019 Financial Statements (Annex I, paragraph 3.3.4).</p>

### 1 Introduction

- 1.1 Pursuant to the mandate of the joint Audit Body of the 1992 Fund and the Supplementary Fund, the joint Audit Body shall submit to the regular sessions of the governing bodies a report on its activities since the previous regular session. In addition, every three years the functioning of the joint Audit Body and its mandate shall be reviewed by the 1992 Fund Assembly and the Supplementary Fund Assembly on the basis of an evaluation report from the Chair of the joint Audit Body.
- 1.2 The report of the joint Audit Body and the review of the functioning of the joint Audit Body are set out in Annex I and Annex II, respectively.

### 2 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 report of the Audit Body set out in Annex I and the three-year review set out in Annex II and provide comments and instructions as may be warranted; and

- (b) consider the joint Audit Body's recommendation regarding the adoption of the 2019 Financial Statements (Annex I, paragraph 3.3.4).

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## ANNEX I

### JOINT AUDIT BODY REPORT COVERING THE PERIOD NOVEMBER 2019 TO OCTOBER 2020

#### **1     Introduction**

- 1.1 At its October 2017 session, the 1992 Fund Assembly elected six members and the 'external expert' to the joint Audit Body<sup><1></sup> for a period of three years as follows:

Mr Makoto Harunari (Japan)  
Mr José Luis Herrera Vaca (Mexico)  
Mr Michael Knight (External expert)  
Mr Eugène Ngango Ebandjo (Cameroon)  
Mrs Birgit Sølling Olsen (Denmark)  
Mr Jerry Rysanek (Canada) (Chair)  
Mr Vatsalya Saxena (India)

- 1.2 On 1 February 2019, the Director announced the sad passing of Mr Jerry Rysanek (circular IOPC/2019/Circ.2). At their April 2019 sessions, the governing bodies appointed Mr Makoto Harunari (Japan) as Chair. They also created the position of Vice-Chair, and Mrs Birgit Sølling Olsen (Denmark) was appointed to that position.
- 1.3 The Audit Body operates on the basis of an annual cycle usually consisting of three meetings. For the period covered by this report, meetings were held on 6 December 2019, 17 April 2020 and 12 June 2020 in accordance with the normal cycle. In addition, a further meeting will be held on 25 September 2020. The meetings of 17 April and 12 June 2020 were held virtually due to the COVID-19 outbreak, and the same will probably be the case for the additional meeting due to be held in September.

#### **2     Audit Body programme of activities**

- 2.1 At its inaugural meeting in December 2017, the sixth Audit Body planned the programme of activities for its three-year tenure and adopted its work programme which is attached at Appendix I to this report. The work programme includes all core and ongoing activities, is updated at each Audit Body meeting and is submitted to the governing bodies for information.
- 2.2 In carrying out its programme, the Audit Body has worked closely with the Director and Secretariat while being mindful of the balance required between the management responsibilities of the Secretariat and the oversight role of the Audit Body. In the conduct of its work, the Audit Body has also remained mindful of the need to ensure that the work of the Audit Body does not impose unnecessary demands on the resources of the Secretariat.
- 2.3 The programme of activities of the Audit Body focuses on six main areas in order to discharge its responsibilities under the Audit Body mandate<sup><2></sup>:
- (a) ascertaining the adequacy and effectiveness of the IOPC Funds' management and financial systems;
  - (b) reviewing the effectiveness of the IOPC Funds' risk management;
  - (c) reviewing the IOPC Funds' Financial Statements and reports;
  - (d) promoting the understanding and effectiveness of the audit function within the IOPC Funds;
  - (e) managing the process for the selection of the External Auditor; and
  - (f) undertaking any other tasks or activities as requested by the IOPC Funds' governing bodies.

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<1> For ease of readability, the joint Audit Body is hereafter referred to as the Audit Body.

<2> For the Audit Body mandate, see Appendix II.

### **3 How the Audit Body carried out its programme of activities**

This section reports on the work carried out by the Audit Body in relation to each of the six main areas presented above in paragraph 2.3 in the period since its last annual report to the governing bodies in October 2019.

#### **3.1 Ascertaining the adequacy and effectiveness of the IOPC Funds' management and financial systems**

3.1.1 The Audit Body performed this core function largely through the review of the IOPC Funds' management and financial systems and the consideration of the work of the External Auditor. At its December 2019 meeting, the Audit Body met with the External Auditor to review the audit programme for the IOPC Funds' 2019 Financial Statements. At that same meeting, the External Auditor provided to the Audit Body the audit planning report. The External Auditor carried out the audit until March 2020 and provided the Audit Body with the final audit report in April 2020. The Audit Body also reviewed the Director's responses and updates to the External Auditor's recommendations following the audits of the 2019 Financial Statements and where appropriate those from prior years.

3.1.2 The Audit Body recognises that responsibility for the conduct of the external audit and the external audit opinion rests entirely with the External Auditor. Nonetheless, the mandate of the Audit Body calls for it to 'discuss with the External Auditor the nature and scope of each forthcoming audit and provide input to the development of the strategic audit plan'.

3.1.3 Accordingly, the structured approach, which underlies the conduct of the IOPC Funds' external audit, allows for a constructive and productive working relationship with the External Auditor. It enables the Audit Body to be aware of the planned scope and focus of the audit, including the assessment of high-risk areas, and the timetable for audit reports.

#### **3.2 Reviewing the effectiveness of the IOPC Funds' risk management**

##### *Risk management*

3.2.1 Risk management is a key responsibility of the Secretariat. The mandate of the Audit Body calls for it to review the effectiveness of the IOPC Funds' risk management procedures with particular focus on institutional, financial and operational risks. The Audit Body's work programme prescribes a number of activities which have a bearing on the Funds' risk management process as well as their management and operating systems.

3.2.2 On an ongoing basis, the Audit Body seeks to monitor the way in which the Secretariat addresses risk while discharging its responsibilities of managing the IOPC Funds' operations. While it is the Secretariat's responsibility to identify and manage risks, the Audit Body's oversight centres on ensuring that the Secretariat's risk management framework is adequate and that its approach to maintaining sound internal controls is effective.

3.2.3 The Audit Body has continued its work concerning the particular risks associated with insurers that are not members of the International Group of P&I Associations (non-IG insurers). At the October 2018 sessions of the governing bodies, the Audit Body presented an interim report on this subject (document IOPC/OCT18/5/5/1). At the October 2019 sessions of the governing bodies, the Audit Body provided a further update on the review it had undertaken of the issues arising from incidents involving the IOPC Funds and non-IG insurers when presenting document IOPC/OCT19/5/5/1 which was welcomed by the attending Member States and encouraged detailed comments. Since then, the Audit Body has held meetings with the Secretariat and has continued to discuss possible risk mitigation activities and the way forward. The Audit Body will provide its recommendations on this subject to the governing bodies at their forthcoming sessions in document IOPC/NOV20/5/5/1.

- 3.2.4 The Audit Body has also monitored developments regarding the Director's proposal to commission a risk-focused programme of internal audit activity. External consultants have been appointed following the preparation of an internal audit needs assessment; and the first such project, concerning IT Infrastructure Risks and Security, was completed in 2018. The second such project which consisted of reviewing the Risk Management Framework was completed in June 2020, and the Secretariat presented the new Framework at the June meeting of the Audit Body. The Audit Body considers the work undertaken by the Secretariat on key risk areas to be beneficial to the overall risk management process.
- 3.2.5 Regarding the effectiveness of the IOPC Funds' risk management, the Audit Body highly appreciates the efforts made by the Director and all staff members of the Secretariat in continuing their work. With the outbreak of the COVID-19 crisis, the IOPC Funds and the International Maritime Organization (IMO) have taken the precautionary approach to request most staff to continue to work from home. The Secretariat has been using IT infrastructure to communicate internally and has organised the Audit Body meeting remotely. Thanks to the Secretariat's efforts the Audit Body has been able to pursue its mandate.

#### *Investment Advisory Body*

- 3.2.6 While acknowledging the separate and distinct mandate of the Investment Advisory Body (IAB), the Audit Body has found it particularly useful, in the exercise of its own mandate, to have a good understanding of the views of the IAB on investment and financial risks and their approach to currency exposure and hedging policy. The Audit Body will be meeting the IAB on 25 September 2020. A summary of this meeting will be provided to the governing bodies at their forthcoming sessions.

### 3.3 Reviewing the IOPC Funds' Financial Statements and reports

- 3.3.1 The work on the introduction and implementation of the new Enterprise Resource Planning System (ERP) which is to go live in 2020 has necessitated that the Secretariat reconsider the audit cycle and propose that the Audit Body bring forward its review of the 2019 Financial Statements to April instead of June 2020. To enable this, the Secretariat also discussed with the External Auditor the possibility of changing the timetable for the audit of the 2019 Financial Statements and the feasibility of bringing the certification of the financial statements to April 2020. To accommodate the revised timeline for the audit of the 2019 Financial Statements, the External Auditor undertook the interim audit work during October/November 2019 instead of February/March 2020.
- 3.3.2 The final audit work was undertaken in March 2020 enabling the External Auditor to present the audit completion report and opinion on the 2019 Financial Statements to the Audit Body at its April 2020 meeting.
- 3.3.3 As in previous years, the Audit Body looked to the external audit for reasonable assurance that the Financial Statements were free from material misstatement, whether caused by fraud or error. In its review of the IOPC Funds' Financial Statements and Report, the Audit Body was attentive to completeness and consistency while also taking into account the findings and comments by the External Auditor.
- 3.3.4 **Recommendation to the governing bodies:** Pursuant to its review of the Financial Statements and consideration of all relevant reports and comments by the External Auditor and in light of the assurances provided by the results of the external audit, the Audit Body recommends that the relevant governing body approve the Financial Statements of the 1992 Fund and the Supplementary Fund for the year ending 31 December 2019.

### 3.4 Promoting the understanding and effectiveness of the audit function within the IOPC Funds

- 3.4.1 As part of its mandate, the Audit Body is to promote the understanding and effectiveness of the audit function within the IOPC Funds. The Audit Body addresses this core responsibility through a number of means.

- 3.4.2 The Audit Body meets three times per year and works to a structured agenda and detailed programme of activities. The Executive Assistant in the Office of the Director serves as Secretary to the Audit Body. The Audit Body carries out its work programme on the basis of an annual cycle of scheduled activities which support consistency and rigour in the Audit Body's approach and interactions. By means of its programme of activities and annual report to the governing bodies, the Audit Body has sought to make clear the nature of its interactions with various entities (i.e. the Secretariat, the External Auditor and the IAB).
- 3.4.3 The meetings of the Audit Body provide a forum to discuss a broad range of matters germane to the Audit Body's mandate and involve the participation of the Director, Deputy Director/Head of Finance and Administration and representatives of the External Auditor. Other members of the Secretariat are invited to attend discussions where agenda items being considered are related to their responsibilities. By means of these meetings, the Director also keeps the Audit Body fully apprised of the activities of the IOPC Funds, including developments on incidents and outcomes of intersessional meetings.
- 3.4.4 The periodic participation of one or more of the Chairs of the governing bodies at meetings of the Audit Body further serves to promote effective communication. The Chair of the Audit Body and the external expert attend the sessions of the governing bodies to report on the activities of the Audit Body. Other members of the Audit Body also attend the sessions of the governing bodies, either the extraordinary session normally held in April or the regular session normally held in October, and this allows the Audit Body to gain better insight into the work of the IOPC Funds and appreciation of the perspectives and positions of Member States on key issues and developments.

### 3.5 Managing the process for the selection of the External Auditor

- 3.5.1 The Audit Body's programme of activities calls for an annual statement to the governing bodies on the effectiveness of the external audit relationship. The Audit Body takes into account the following elements in considering the effectiveness of the relationship between the IOPC Funds and the External Auditor:
- (a) the effectiveness of the working relationship with the Audit Body and the IOPC Funds' Secretariat;
  - (b) the effectiveness of the audit process and assessment of key risks;
  - (c) the quality of review of the Financial Statements;
  - (d) the communication of key issues between parties; and
  - (e) the independence and value for money of the External Auditor.
- 3.5.2 The statement by the Audit Body regarding the effectiveness of the relationship between the IOPC Funds and the External Auditor is set out as Appendix III.
- 3.5.3 In addition, during 2019 the Audit Body has also been active regarding the appointment of the External Auditor whose current term of office ends following the audit of the Financial Statements for the 2019 accounting year. A document, outlining the various options, was submitted at the April 2019 sessions of the governing bodies (document IOPC/APR19/6/1) and the recommended way of formal review of the present External Auditor (BDO) was adopted. The Audit Body conducted its review of BDO at its June 2019 meeting and recommended that BDO be re-appointed as the External Auditor for a second four-year term (2020–2023) at the October 2019 sessions of the governing bodies and BDO was re-appointed. The new contract with the External Auditor is effective commencing with the 2020 accounting year. In addition to the review of BDO, the Audit Body considered the processes to be established for the appointment of the External Auditor in the future and proposed the relevant amendment to Financial Regulation 14 of the 1992 Fund and Supplementary Fund (document IOPC/OCT19/6/1).

### 3.6 Undertaking any other tasks or activities as requested by the IOPC Funds' governing bodies

The Audit Body mandate provides for the Audit Body to undertake any other task or activity as requested by the IOPC Funds' governing bodies; however, no such activity has been carried out during the year under review.

#### **4      Concluding remarks**

- 4.1      The Audit Body regards the effectiveness of the system of internal controls exercised by the Secretariat in respect of financial reporting, operational procedures and risk management to be critical to the long- term viability and veracity of the IOPC Funds. Furthermore, the work of the External Auditor helps to ensure that operations of the IOPC Funds are carried out in conformity with recognised standards and procedures.
- 4.2      The Audit Body remains satisfied that the Director shares this view and carries out the management of the IOPC Funds accordingly.
- 4.3      In conclusion, I would like to thank my Audit Body colleagues for their hard work over the last year and their understanding of the difficult circumstances regarding the chairing of the Audit Body. I would also like to thank all members of the Secretariat for their considerable assistance in helping us discharge our responsibilities and the Chairs of the governing bodies who attended our meetings or otherwise provided wise counsel to our deliberations.



Makoto Harunari  
Chair, Joint Audit Body  
7 July 2020

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## ANNEX II

### REVIEW OF THE FUNCTIONING OF THE JOINT AUDIT BODY

#### 1 Summary

- 1.1 In accordance with the Composition and Mandate of the Audit Body, the functioning of the Audit Body shall be reviewed by the 1992 Fund Assembly and the Supplementary Fund Assembly every three years on the basis of an evaluation report from the Chair of the Audit Body.
- 1.2 In complying with the request by the governing bodies, the Chair of the Audit Body presents the triennial review of the Audit Body on its functioning together with the relevant Appendices.

#### 2 Introduction

- 2.1 The Audit Body Chair is required to report on the work of the Audit Body annually at the regular sessions of the governing bodies and, in addition, as follows:

Every three years the functioning of the Audit Body and its mandate shall be reviewed by the 1992 Fund Assembly and the Supplementary Fund Assembly on the basis of an evaluation report from the Chair of the Audit Body<sup><1></sup>

- 2.2 The triennial review is traditionally reported alongside the Audit Body's annual report to the regular sessions of the governing bodies. The last triennial report was, however, presented earlier on an exceptional basis in April 2017, due to a request by the governing bodies. This triennial review is reported together with the annual report. The sources of information for this triennial review are as follows:

- the Audit Body's mandate (reproduced at Appendix II of this document);
- the annual reports<sup><2></sup> by the sixth Audit Body (AB6<sup><3></sup>) on their activities;
- the result of a self-assessment review by Audit Body members and other stakeholders regarding the Audit Body performance;
- a review of best practices for audit committees under the latest regulatory guidance on corporate governance.

#### 3 Mandate and work programme

- 3.1 The programme of activities of the Audit Body focuses on six main areas:

- ascertaining the adequacy and effectiveness of the Funds' management and financial systems;
- reviewing the effectiveness of the Funds' risk management;
- reviewing the Funds' Financial Statements and reports;
- promoting the understanding and effectiveness of the audit function within the IOPC Funds;
- managing the process for the selection of the External Auditor; and
- undertaking tasks and activities as requested by the governing bodies.

- 3.2 The sixth Audit Body planned the programme of activities and adopted the work programme at its inaugural meeting. This work programme prescribes each task under the mandate, the time frame and the member of the Audit Body in charge. The work programme is updated by the Audit Body at each meeting.

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<1> Composition & mandate of the joint Audit Body (Appendix II).

<2> See documents IOPC/OCT18/5/5, IOPC/OCT19/5/5 and the report contained in Annex I of this document.

<3> AB6, elected in October 2017 for a three-year term to October 2020.



- 3.3 The main tasks accomplished by the sixth Audit Body for the past three years are as follows.
- 3.3.1 Under the mandate of risk management, the Audit Body initially undertook a review of issues arising from incidents involving so-called non-IG insurers at its meeting on 13 April 2018. Subsequently, the Audit Body referred to this subject at the April 2018 sessions of the governing bodies (document IOPC/APR18/9/1). At the October 2018 sessions of the governing bodies, the Audit Body presented an interim report on this subject (document IOPC/OCT18/5/5/1). The Audit Body further reported its consideration to the October 2019 sessions of governing bodies (document IOPC/OCT19/5/5/1) and received many comments from the attending Member States. The Audit Body will provide its recommendations on this subject to the governing bodies at their forthcoming sessions in document IOPC/NOV20/5/5/1.
- 3.3.2 Under the mandate of reviewing the Funds' Financial Statements and reports, the Audit Body reviewed the organisations' Financial Statements (2017, 2018 and 2019) and reported on them at each of the regular sessions of the governing bodies.
- 3.3.3 Under the mandate of managing the process for the selection of the External Auditor, the Audit Body alerted the governing bodies at their April 2019 sessions to the various approaches that could be taken for the appointment of the External Auditor and the related issues, to ensure that there would be sufficient time for an orderly transition of responsibility in the External Auditor's work if necessary.
- 3.3.4 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. At the April 2019 sessions of the governing bodies, the Audit Body provided three options for selecting the next External Auditor and recommended option 2 (formal review of the incumbent). The governing bodies agreed to option 2 (the formal review of the incumbent) but requested the Audit Body to make a recommendation to the governing bodies at the October 2019 sessions as to whether the current External Auditor should be reappointed for a further term or whether a full tender process should be taken.
- 3.3.5 As requested by the governing bodies, the Audit Body conducted the formal review and interview sessions with BDO at its meeting held on 21 June 2019. At the October 2019 sessions of the governing bodies, the Audit Body recommended that BDO be reappointed as the External Auditor for a second four-year term (2020–2023) commencing with the 2020 financial year and BDO was reappointed.
- 3.3.6 Upon the request by the governing bodies, at the October 2019 sessions, the Audit Body also considered the selection process of the External Auditor for future periods. The Audit Body expressed its view that the selection of the next External Auditor after eight years (tender for the first four years and formal review for the following four years) should be by a tendering process; but that the incumbent should not be excluded from this process and may, under certain circumstances, be eligible for a further term. Financial Regulation 14 was amended accordingly by the governing bodies (document IOPC/OCT19/6/1).

#### **4 Self-assessment and best practice**

- 4.1 In order to conduct a triennial review, the sixth Audit Body followed the process adopted by the fifth Audit Body. Namely the sixth Audit Body conducted a structured self-assessment of performance with comments to be provided by each Audit Body member and summarised for evaluation by the Audit Body Chair. The Chairs of the 1992 Fund Assembly and the Supplementary Fund Assembly, and the Director on behalf of the Secretariat, are also invited to provide comments. For the self-assessment, the following framework of criteria is used:
- (i) Quality of Understanding: of the core activities and risks, of the Funds' risk management framework, how governance is carried out and the key financial issues etc.
  - (ii) Relationships: quality of interaction with the external auditors, the Secretariat, the governing bodies and effectiveness of Audit Body Chair etc.

- (iii) Process: ensuring focus on the right issues, Terms of Reference, agenda setting and content, information provided to members, the right attendees and invitees, rigour of debate and access to experts etc.
- (iv) Best practices: studying and adapting best practices of audit committees.

4.2 Furthermore, as with the triennial review of the fifth Audit Body, the review of the best practice in the sixth Audit Body has been conducted on the basis of 'Codes of Corporate Governance'.

4.3 The external expert has carried out these two kinds of reviews.

## **5 Summary of self-assessment**

5.1 Generally, the sixth Audit Body has a good understanding of the systems of internal control and of risk management. There has also been a focus on the need for a more in-depth review of key risks including new risks which may emerge as a result of the COVID-19 pandemic. The induction process for newly appointed members was well received, and it is recognised that the understanding of Audit Body members is mixed due to the varied nature of experience and this can, on occasion, restrict the ability of Audit Body members to contribute.

5.2 The relationship between the Audit Body, the Secretariat and the External Auditor was assessed as excellent, being open and constructive. Inviting the Chairs of the 1992 Fund Assembly and Supplementary Fund Assembly to Audit Body meetings is also seen as a means of improving communication with the governing bodies. Conversely, budgetary constraints impact the ability of Audit Body members to contribute to meetings of the governing bodies. The creation of the Vice-Chair role is viewed as helpful. Finally, the current situation whereby there is an imbalance in the triennial rotation of members (four then two) means there is a significant loss of experience every six years (assuming members serve two terms), alternating with a reduced fresh perspective. If the opportunity arose to restore the previous rotation of members (three then three), it should be taken.

### **5.3 Comments on the result of the self-assessment by the Chair of the sixth Audit Body**

5.3.1 Before commenting on the results of the self-assessment, the Chair of the sixth Audit Body would like to express his own observations of the present sixth Audit Body.

5.3.2 Overall, the Audit Body members have a good understanding of the Funds' activities due to the breadth of their experience, which enables them to take a broader view of risks facing the organisations and to contribute as required by the governing bodies. Each member of the current sixth Audit Body has a broad range of experience, expertise in fields such as maritime administration, the maritime industry, international organisation and international law. Thanks to its present composition, the sixth Audit Body has been able to have very lively and meaningful discussions at its meetings. Moreover, the sixth Audit Body has always been positive about inviting external parties to their meetings in order to solve issues. The outcome of these activities has been very valuable when proposing the measures relating to the issues arising from incidents involving non-IG insurers. The Chair does not consider that the sixth Audit Body has been unable to discharge any element of its mandate with the existing balance of skills and with the contribution and support of the external expert whose role remains critical to the successful functioning of the Audit Body.

5.3.3 The Chair of the Audit Body expresses sincere gratitude to the members of the sixth Audit Body and other stakeholders who have cooperated with the self-assessment and given comments and opinions faithfully. The Chair especially appreciates the feedback given by the respondents. The Chair hopes that the operation of the Audit Body will improve based on this feedback and with the help of the governing bodies of IOPC Funds.

## **6 Review of the best practice in the sixth Audit Body on the basis of the ‘Codes of Corporate Governance’**

One of the functions of the external expert of the IOPC Funds’ Audit Body has been to monitor developments in the world of corporate governance and to advise on the best practice in so far as it affects the mandate of the Audit Body and its operation. A review has been undertaken by the external expert as there have further revisions to codes of Corporate Governance since the previous review in 2015. The Corporate Governance Code was revised in 2012, 2014, 2016 and 2018<sup><4></sup>.

## **7 Results of the review**

This review indicates that consideration of best practice should remain a focus of attention as such practice does evolve, notwithstanding that the basic principles have remained consistent for a number of years. With regard to the review, it does not appear that the way in which the governing bodies have established the Audit Body and specified its work, nor the way in which responsibilities are discharged, has resulted in any significant divergence from best practice<sup><4></sup>.

## **8 Summary**

The Audit Body is pleased to submit this triennial report to assist the governing bodies in their review of the functioning and effectiveness of the current arrangements respecting the Audit Body. It is considered that the current terms of reference of the Audit Body provide sufficient scope to discharge its responsibilities. Furthermore, the Audit Body endeavours to operate in line with best practice including self-assessment, process improvements and detailed reporting of its work on a regular basis. The Audit Body also hopes that these reports provide a clear record of its performance and effectiveness.

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## APPENDIX I

### Audit Body (AB) Work Programme Schedule 2017 to 2020

1	Audit Body input to the External Audit Cycle		
1.1	Audit Body review of External Auditor Planning Report/input to audit strategy	Annually December AB meeting	Core
1.2	Audit Body review/comment on External Auditor's interim report	Annually December or April AB meeting	Core
1.3	Audit Body review/comment on External Auditor's long-form report and recommendations	Annually April AB meeting	Core
1.4	Monitor Director's response to External Auditor's recommendations	Annually Review in April and June AB meetings	Core
2	Audit Body activities in respect of the adequacy and effectiveness of the organisations' management and financial systems		
2.1	Review risk management process, operating procedures systems and internal controls	Ongoing	Core
2.2	Review of Key Risk Register	Annually April AB meeting	Core
2.3	Audit Body input to Secretariat review of business process, risk identification and mitigation strategies	AB meetings throughout the year	Occasional
2.4	Non-IG insurers	Ongoing  1) The AB presented an interim report to the governing bodies in October 2018 2) The AB reported its consideration to the governing bodies in October 2019 3) The AB plans to present its recommendations to the governing bodies in November 2020	Occasional
2.5	Audit Body to review planned programme of internal audit activity and associated reports when work is completed	AB meetings throughout the year as necessary	Core
3	Audit Body review of IOPC Funds' Financial Statements and reports		
3.1	Review of Financial Statements presentation/accounting policy	Annually December AB meeting	Core
3.2	Review Financial Statements	Annually April AB meeting	Core
3.3	Monitor International Public Sector Accounting Standards (IPSAS) implementation	Ongoing	Core

4	Audit Body activities to promote understanding and effectiveness of audit function within the IOPC Funds		
4.1	Provide a forum to discuss matters in relation to management/financial systems, risk management and external audit	AB meetings throughout the year	Core
4.2	Annual report to the governing bodies on mandated activities	Annually October	Core
4.3	Audit Body meeting with Investment Advisory Body (IAB)	Semi-annually or annually as appropriate in Dec/June AB meetings	Core
4.4	Study/promote best practices of audit body committees	Ongoing	Core
4.5	Promote effective communications between Audit Body, Secretariat, governing bodies, Investment Advisory Body, etc.	Ongoing	Core
4.6	Functioning of the Audit Body three-year review	1) AB self-assessment process and report presented to governing bodies in April 2017, inclusive of AB's response to External Auditor's recommendations 2) Governing bodies decided to maintain current AB mandate and composition 3) Sixth AB to develop format for next review (in 2020)	Core/ Rotational
5	Audit Body management of the process for the selection of the External Auditor		
5.1	Annual statement to governing bodies	Annually as part of the annual AB's Chair report	Core
5.2	Selection process preparedness and recommendation to governing bodies	Completed in October 2019 regarding the reappointment of External Auditor for 2020 and process for subsequent periods	Rotational
6	Audit Body to undertake any other tasks requested by the Funds' governing bodies		
6.1	Non-IG insurers	Ongoing	Occasional

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## APPENDIX II

### COMPOSITION AND MANDATE OF THE JOINT AUDIT BODY OF THE 1992 FUND AND THE SUPPLEMENTARY FUND

(REVISED IN APRIL 2019)

#### COMPOSITION

1. The members of the Audit Body shall perform their functions independently and in the interest of the Organisations as a whole and shall not receive any instructions from anyone, including their Governments.
2. The Audit Body shall be composed of seven members elected by the 1992 Fund Assembly: six named individuals nominated by 1992 Fund Member States and one named individual not related to the Organisations ('external expert') with expertise and experience in financial and audit matters, nominated by the Chair of the 1992 Fund Assembly. Nominations, accompanied by the curriculum vitae of the candidate, should be submitted to the Director in response to a call for nominations made by the Director. The Chair of the 1992 Fund Assembly will, in consultation with the Chair of the Supplementary Fund Assembly, propose the names of two of the elected members of the Audit Body for consideration and approval by the governing bodies as Chair and Vice-Chair of the Audit Body.
3. Members of the Audit Body shall hold office for three years, once renewable. Should nominations for election to the Audit Body not be sufficient to fill vacancies at an election, existing members of the Audit Body having served two terms will be eligible for a once-only re-election, provided they are re-nominated by one or more 1992 Fund Member States. The external expert shall hold office for three years, twice renewable.
4. Travel and subsistence expenses of the members of the Audit Body shall be paid by the Organisations. The Assembly of the 1992 Fund will, from time to time, decide on the quantum of the honorarium paid to the six elected members and the fee paid to the external expert. The timing and method of payment will be agreed between the Audit Body and the Director.

#### MANDATE

5. The Audit Body shall:
  - (a) review the adequacy and effectiveness of the Organisations' management and financial systems, financial reporting, internal controls, operational procedures, risk management and related matters;
  - (b) promote the understanding and effectiveness of the audit function within the Organisations, and provide a forum to discuss matters referred to in (a) above and matters raised by the external audit;
  - (c) discuss with the External Auditor the nature and scope of each forthcoming audit and provide input to the development of the strategic audit plan;
  - (d) review the Organisations' Financial Statements and reports;
  - (e) consider all relevant reports by the External Auditor, including reports on the Organisations' Financial Statements, and make appropriate recommendations to the Funds' governing bodies;
  - (f) manage the process for the selection of the External Auditor; and
  - (g) undertake any other tasks or activities as requested by the Funds' governing bodies.

6. The Chair of the Audit Body shall report on its work to each regular session of the 1992 Fund Assembly and the Supplementary Fund Assembly.
7. Every three years the functioning of the Audit Body and its mandate shall be reviewed by the 1992 Fund Assembly and the Supplementary Fund Assembly on the basis of an evaluation report from the Chair of the Audit Body.

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### **APPENDIX III**

#### **Statement of the Audit Body regarding the effectiveness of the relationship between the IOPC Funds and the External Auditor**

Pursuant to the directive of the IOPC Funds' governing bodies at their October 2010 sessions, the Audit Body is attentive to the effectiveness by which the External Auditor discharges its responsibilities to the IOPC Funds.

In this regard, and for the period under review, the Audit Body considers the structure, approach, scope and coverage of the audit process to be both relevant and comprehensive.

The Audit Body finds the examination of the Financial Statements carried out by the External Auditor to be thorough and systematic. The results of the audit process are communicated in a clear and timely manner. The work of the External Auditor, and the results of the audit process, help to ensure compliance with the accounting policies, regulations, standards and procedures of the IOPC Funds.

The Audit Body finds the work of the External Auditor in the examination of operational procedures and processes to be helpful in ensuring the adequacy of internal controls.

The Audit Body considers that the External Auditor carries out its functions with an independent and objective approach while maintaining an effective and professional relationship with the Director and Secretariat. Equally, the working relationship between the External Auditor and the Audit Body is constructive and suitably focused.

Overall, it is the view of the Audit Body that the work of the External Auditor has been effective and is of tangible value to the operations of the IOPC Funds.

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## **APPENDIX IV**

### **CORPORATE GOVERNANCE**

#### **EVOLVING BEST PRACTICE RELATING TO AUDIT BODIES — as at May 2020**

1. One of the functions of the external expert member of the IOPC Funds' Audit Body has been to monitor developments in the world of corporate governance and to advise on current best practice in so far as it affects the mandate of the Audit Body and its operation.
2. A review has been undertaken now as there have been further revisions to codes of Corporate Governance since the previous review in 2017.

#### **Background**

1. Audit Committees originated as part of the Anglo-Saxon model of corporate governance but have since evolved to form part of the governance structure of public sector, international and intergovernmental organisations. While the fundamental principles underpinning such organisations have been consistent, the detailed scope and operation of such bodies have adapted to changing circumstances and expanded particularly in response to the financial crisis of 2008 onwards and also in response to a number of governance scandals in the corporate world. Further changes are in prospect resulting from current reviews in progress.
2. Because of the size of United Kingdom's (UK's) financial services sector, the associated regulatory framework has encompassed the work of audit committees and, consequently, been subject to the most recent revision due to the circumstances described above. Hence, the system of corporate governance pertaining in the UK has been used as the benchmark for this exercise.
3. The Corporate Governance Code was revised in 2012, 2014, 2016, and 2018. Recent updates have coincided with new European Union regulations on audit and audit bodies of 'Public Interest Entities'. In order to consider the IOPC Funds situation, a checklist of current best practice/required activity has been used, together with comment as to the IOPC Funds position. The checklist set out in this Appendix, excludes or adapts those criteria that are applicable to corporate entities. A public sector Best Practice Guide has also been reviewed.

#### **Results**

1. The evaluation of the IOPC Funds' Audit Body has had regard to the special nature of the organisations and its structure compared with corporate entities and those public sector organisations likely to have audit committees.
2. This review indicates that consideration of best practice should remain a focus of attention as such practice does evolve, notwithstanding that the basic principles have remained consistent for a number of years. With regard to the review, it does not appear that the way in which the governing bodies have established the Audit Body and specified its work, nor the way in which responsibilities are discharged, has resulted in any significant divergence from best practice.

## CURRENT BEST PRACTICE and IOPC FUNDS AUDIT BODY

### BEST PRACTICE IOPC FUNDS' POSITION

#### Establishment and Terms of Reference

##### *Membership*

Does the Audit Body (AB) have at least three independent members? Are appointments made independently?	<i>The Audit Body currently has five (originally six) members elected by the governing bodies and an external expert member appointed on the recommendation of the 1992 Fund Assembly Chair.</i>
Are appointments made for a three-year period (up to twice renewable)?	<i>Appointments are for a three-year term, once renewable for elected members, and twice renewable for the external expert, who has recent and relevant financial experience.</i>
Has at least one member got recent and relevant financial experience, including membership of a recognised professional accountancy body?	<i>The sixth Audit Body (AB6) also has two elected members with financial experience. All elected members have knowledge of the Funds or the environment in which they operate.</i>

##### *Terms of Reference*

<p>Do written terms of reference include the following:</p> <ol style="list-style-type: none"><li>1. Monitor the integrity of the Financial Statements, reviewing any significant financial reporting judgements?</li><li>2. Review internal financial controls and the Funds' internal control and risk management systems?</li><li>3. Monitor and review the effectiveness of the internal audit function?</li><li>4. Make recommendations to the governing bodies in relation to the appointment, remuneration and terms of engagement of the External Auditor?</li><li>5. Review and monitor the External Auditor's independence, objectivity and the effectiveness of the audit process?</li><li>6. Develop a policy on the engagement of the External Auditor to supply non-audit services?</li><li>7. Report to the governing bodies on how it has discharged its responsibilities?</li></ol>	<i>The mandate of the Audit Body matches the listed criteria with the exception there is no formal policy regarding the use of the external auditor for non-audit services. This issue is considered annually via consideration of their independence.</i>
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## Meetings

Does the Chair, in consultation with the Secretariat, decide the frequency and timing of Audit Body meetings?	
<ol style="list-style-type: none"> <li>1. Does the Audit Body decide who shall be in attendance at meetings?</li> <li>2. Is sufficient time allowed for full discussion?</li> <li>3. Is there sufficient time between Audit Body and Assembly meetings for matters to be reported as appropriate?</li> <li>4. Does the Audit Body meet, at least annually, with the External Auditor without the presence of the Secretariat, to discuss matters relating to its remit and any issues arising from the audit?</li> <li>5. Does the Chair (and other members) keep in touch with key people involved in governance?</li> </ol>	<i>Yes, to all.</i>

## Resources

Does the Audit Body have sufficient resources to undertake its duties?	<i>Yes.</i>
Does the Audit Body have access to the Secretariat on Audit Body matters?	<i>Yes.</i>
Does the Audit Body receive information and papers in a timely manner such that proper consideration can be given to the issues?	<i>Yes, with the proviso that, on occasion, papers cannot, for practical reasons, be distributed well in advance of the meeting.</i>
Is the Audit Body able to take independent advice if it reasonably believes it necessary to do so?	<i>There is no formal provision enabling the Audit Body to seek independent advice, however, there is a direct communication channel between the Audit Body and the governing bodies which can be used should the circumstances dictate.</i>

## ***Skills and training***

Are there formal assessment criteria for the appointment of Audit Body members and do Audit Body members receive appropriate induction training on appointment?	<i>The current election procedures do not specify skills required, but the issue has been addressed via the Audit Body submission of skills required (see document IOPC/OCT13/6/2). Induction training was provided for AB6 members and will take place for AB7.</i>
Is knowledge of the organisation regularly refreshed and training provided on financial reporting?	<i>There are no formal training programmes, however, there is periodic attendance at governing body meetings by Audit Body members on a rotational basis, which maintains knowledge of the organisation and the currency of its work. Audit Body meetings include detailed briefings by the Director on the work of the Funds. In addition, the external expert provides detailed briefings to colleagues on financial reporting matters.</i>

## **Relationship with the governing bodies**

Does the Audit Body review its terms of reference and its own effectiveness annually and recommend any necessary changes?	<i>The Audit Body does not formally consider its mandate annually but reports in detail under each heading. A self-assessment is performed as part of the triennial functioning review.</i>
Does the Audit Body report to the governing bodies how it has discharged its responsibilities including:	
(a) Significant issues relating to the Financial Statements	<i>Yes. In detail.</i>
(b) The assessment of the effectiveness of the External Audit process	
(c) All other important matters or those referred to the Audit Body?	

## Roles and responsibilities

### Financial reporting

Does the Audit Body review the significant financial reporting issues and judgements made in the preparation of the Financial Statements?	<i>Yes, via review of External Auditor's report to the AB and a financial commentary presented by the external expert.</i>
Taking into account the External Auditor's view, does the Audit Body consider the appropriateness of the Funds' accounting policies and associated judgements?	<i>Yes, primarily via the work of the external expert.</i>
Does the Audit Body review the clarity and completeness of disclosures in the Financial Statements?	<i>Yes, as above.</i>
Does the Audit Body review other information (e.g. Director's statements) presented with the Financial Statements?	<i>Yes.</i>

### Whistleblowing

Does the Audit Body review arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters?	<i>The Secretariat does have whistleblowing policies and procedures; however, these have not been reviewed by AB6.</i>
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### Internal controls and risk management systems

Does the Audit Body review the Funds' internal financial controls and the risk management systems?	<i>Yes, internal controls via the External Auditor's report to the Audit Body and the Director's assessment; risk management via the Funds risk management process.</i>
Does the Audit Body receive reports from the Secretariat on the effectiveness of the controls they have established and the results of testing by internal and External Auditors?	<i>Yes.</i>
Does the Audit Body review the statements in the annual report relating to internal control and risk management?	<i>Yes.</i>
Does the Audit Body consider whether effective anti-fraud policies and procedures are in place and operating effectively?	<i>This is not formally considered by the Audit Body as part of its work programme other than through the work of the External Auditor who has, to date, specifically addressed this issue as a 'presumed risk' given the size of the organisations.</i>

### ***Internal audit function***

Does the Audit Body monitor and review the effectiveness of the internal audit function?	<i>Internal audit activity is provided by external consultants who perform a focused programme of work designed by the Director and reviewed by the Audit Body. The reports are reviewed by the Audit Body.</i>
Where there is no internal audit function, does the Audit Body consider annually whether such a need exists and report to the governing bodies?	

### **Roles and responsibilities — External Audit**

#### ***Appointment and tendering***

Does the Audit Body have primary responsibility for making a recommendation on the appointment and re-appointment of External Auditors?	Yes.
Has the Audit Body conducted the selection process?	Yes.
Does the Audit Body assess annually the audit process, independence and effectiveness, and does the Audit Body explain how this was done?	Yes.

#### ***Terms and remuneration***

Does the Audit Body approve the terms of engagement and remuneration to be paid to the External Auditor?	<i>Yes, regarding the terms of engagement. The fee is negotiated by the Secretariat and reviewed by the Audit Body as part of the audit tender or review process.</i>
Has the Audit Body satisfied itself that the fee is adequate in terms of carrying out an effective audit?	<i>For the recent performance review, the fee formed part of the evaluation.</i>

### ***Independence and partner rotation***

Does the Audit Body assess annually the independence and objectivity of the External Auditor?	<i>Yes, aided by a report from the External Auditor addressing the issue.</i>
Does the Audit Body obtain from the audit firm information about their policies and procedures for maintaining independence and monitoring compliance with requirements regarding the rotation of partners and staff?	<i>Yes, for the former External Auditor. The Audit Body will ensure this practice is continued by BDO.</i>
Has the Audit Body developed and recommended to the governing bodies a policy for the provision of non-audit services by the External Auditor?	<i>No. This issue has not arisen.</i>

### ***Annual audit cycle***

Does the Audit Body ensure that appropriate plans are in place at the start of each annual audit cycle?	<i>Yes.</i>
Does the Audit Body consider whether the External Auditor's overall work plan, including levels of materiality and proposed resources appear consistent with the scope of the engagement?	<i>Yes.</i>
Does the Audit Body review the findings of the External Auditor's work with them?	<i>Yes.</i>
Does the Audit Body review the audit representation letter before the Director signs it?	<i>Yes.</i>
Does the Audit Body review the External Auditor's report to the governing bodies?	<i>Yes.</i>
Does the Audit Body assess the effectiveness of the audit process at the end of the audit cycle, meaning:	<i>Yes, to all.</i>
(a) Audit Body review as to whether the audit plan has been carried out;	
(b) Consider the robustness of the External Auditor's dialogue with the Audit Body;	
(c) Obtain feedback on the performance of the finance function;	
(d) Determine whether the External Auditor has a good understanding of the organisation?	