

COUNCIL  
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Agenda item 16(d)

C 114/16(d)  
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## ASSEMBLY MATTERS

### (d) APPOINTMENT OF THE EXTERNAL AUDITOR

#### Note by the Secretary-General

#### SUMMARY

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| <i>Executive summary:</i>   | This document sets out the current situation and next steps with respect to the appointment of the Organization's External Auditor in accordance with Financial Regulation 12.1, noting that the first term of the current External Auditor, the Auditor General of Ghana, concludes on 30 June 2016 |
| <i>Strategic direction:</i> | No related provisions  |
| <i>High-level action:</i>   | No related provisions  |
| <i>Planned output:</i>      | No related provisions  |
| <i>Action to be taken:</i>  | Paragraph 13   |
| <i>Related documents:</i>   | None   |

1 Article XII of the Organization's Financial Regulations and Financial Rules (FRFR) states, in regulation 12.1: "An External Auditor, who shall be Auditor-General (or officer holding the equivalent title) of a Member State, shall be appointed by the Assembly for a four-year period covering the two budget periods immediately following the Assembly's decision, renewable for a maximum of one further four-year period. In order to support the Assembly in making its decision, the Council should, in good time, provide an opportunity for all interested and eligible Auditors-General to submit to it an application to be considered by the Assembly setting out their proposed approach and the costs to the Organization. The Council should then submit this information for the Assembly's consideration, along with such comments as it considers to be appropriate".

2 Article XII, regulation 12.1 of the FRFR of the World Maritime University (WMU) and rule 12.1 of the FRFR of the International Maritime Law Institute (IMLI) both state that the External Auditor of the International Maritime Organization shall be the External Auditor of these institutions.

3 At its twenty-seventh regular session, the Assembly, by resolution A.1036(27), appointed the Auditor General of Ghana as External Auditor of the Organization for a period of four years, commencing on 1 July 2012. The term of appointment of the current External Auditor, therefore, ends on 30 June 2016. Consequently, the Assembly, at its forthcoming twenty-ninth session, should be invited to decide on the appointment of the External Auditor effective from 1 July 2016 to cover the two budget periods from 1 January 2016 to 31 December 2019.

4 The current External Auditor has advised that, consistent with the provisions of regulation 12.1, he has interest in serving the Organization for one further four-year term.

5 In order to ensure that the Council has all the necessary information to allow it to make the required submission to the Assembly, immediately following the conclusion of the Council's 114th session, the Secretary-General will issue a circular letter to all Member States advising them of the current situation as outlined in paragraph 3 above, of the current External Auditor's intention to seek a further four-year term, and inviting any Member States who wish to do so to nominate their Auditor-General (or officer holding an equivalent title) to be considered for appointment as External Auditor of IMO, WMU and IMLI for the four-year period 2016 to 2019.

6 Article XII of the FRFR on External Audit (including appointment, facilities and reporting), and regulations 12.1 to 12.10 are reproduced for convenience in annex 1. Additional terms of reference governing External Audit are to be found in the Appendix to the Organization's Financial Regulations and are reproduced in annex 2. Since similar conditions and terms of reference also apply to WMU and IMLI they are not reproduced here.

7 In the absence of express provision in the Organization's FRFR of particular information to be provided by a nominating Member State, annex 3 lists the minimum information, which should be submitted for consideration by the Assembly.

8 The above-mentioned circular letter will request any interested Member States to submit nominations and the required information to the Secretary-General in writing, not later than 31 August 2015, to allow time for the preparation of a relevant submission to the twenty-eighth extraordinary session of the Council and the twenty-ninth session of the Assembly and for Members to consider such nominations.

9 Member States may wish to refer to the Organization's audited financial statements, prepared under International Public Sector Accounting Standards, for the years ended 31 December 2013 and 31 December 2014 (reference documents C 112/4(b) and C 114/4(b), respectively), in order to obtain an appreciation of the financial operations of the Organization and thus of the nature of the audit, and to assist in the preparation of the nomination. These are available to interested Member States on request, or on [www.imodocs.imo.org](http://www.imodocs.imo.org).

10 Reference may also be made to documents C 112/11(a) and C 112/11(b) for operational and financial information, respectively, for WMU for 2013 and 2014. Similar information for IMLI may be referred to in documents C 112/12(a) and C 112/12(b). The full audited financial statements for both entities are available on request.

11 Currently, the total annual audit fees, including travel costs and living expenses of the audit team for IMO, WMU and IMLI combined, are approximately £90,000 per annum.

12 The Secretariat will in due course be pleased to provide any additional information that may be required by interested Member States to prepare and submit their nomination.

**Action requested of the Council**

13 The Council is requested to note the information provided in this document and comment as appropriate.

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## **ANNEX 1**

### **IMO FINANCIAL REGULATIONS**

#### **Article XII**

#### **EXTERNAL AUDIT**

##### **Appointment**

REGULATION 12.1 An External Auditor, who shall be Auditor-General (or officer holding the equivalent title) of a Member State, shall be appointed by the Assembly for a four-year period covering the two budget periods immediately following the Assembly's decision, renewable for a maximum of one further four-year period. In order to support the Assembly in making its decision, the Council should, in good time, provide an opportunity for all interested and eligible Auditors-General to submit to it an application to be considered by the Assembly setting out their proposed approach and the costs to the Organization. The Council should then submit this information for the Assembly's consideration, along with such comments as it considers to be appropriate.

REGULATION 12.2 If the External Auditor ceases to hold that office in his own country, his tenure of office as External Auditor shall thereupon be terminated and he shall be succeeded as External Auditor by his successor as Auditor-General. The External Auditor may not otherwise be removed during his tenure of office except by the Assembly.

REGULATION 12.3 The audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special directions of the Council or the Assembly, in accordance with the additional terms of reference set out in the appendix to these Regulations.

REGULATION 12.4 The External Auditor may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

REGULATION 12.5 The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

REGULATION 12.6 The Council or the Assembly may request the External Auditor to perform certain specific examinations and issue separate reports on the results.

##### **Facilities**

REGULATION 12.7 The Secretary-General shall provide the External Auditor with the facilities he may require in the performance of the audit.

REGULATION 12.8 For the purpose of making a local or special examination or of effecting economies of audit cost, the External Auditor may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm who, in the opinion of the External Auditor, is technically qualified.

## **Reporting**

REGULATION 12.9 The External Auditor shall issue a report on the audit of the financial statements, which shall include such information as he deems necessary in regard to matters referred to in financial regulation 12.4 and in the additional terms of reference.

REGULATION 12.10 The External Auditor's reports shall be transmitted through the Council, together with the audited financial statements, to the Assembly in accordance with any directions given by the Assembly. The Council shall examine the financial statements and the audit reports and shall forward them to the Assembly with such comments as it deems advisable. The report on the financial statements shall be submitted to the Council not later than 31 May following the end of the financial period to which the financial statements relate.

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## ANNEX 2

### APPENDIX I TO THE FINANCIAL REGULATIONS

#### Additional terms of reference governing External Audit

1 The External Auditor shall perform such audit of the accounts of the Organization, including all trust funds and special accounts, as he deems necessary in order to satisfy himself:

- (a) that the financial statements are in accord with the books and records of the Organization;
- (b) that the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions and other applicable directives;
- (c) that the securities and monies on deposit and on hand have been verified by certificate received direct from the Organization's depositaries or by actual count;
- (d) that the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereon; and
- (e) that procedures satisfactory to the External Auditor have been applied to the recording of all assets, liabilities, surpluses and deficits.

2 The External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications and representations by the Secretary General and may proceed to such detailed examination and verification as he chooses of all financial records, including those relating to supplies and equipment.

3 The External Auditor and his staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the External Auditor, necessary for the performance of the audit. Information classified as privileged and which the Secretary General (or his designated senior official) agrees is required by the External Auditor for the purposes of the audit and information classified as confidential shall be made available on application. The External Auditor and his staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The External Auditor may draw the attention of the Council to any denial of information classified as privileged which, in his opinion, was required for the purpose of the audit.

4 The External Auditor shall have no power to disallow items in the accounts but shall draw to the attention of the Secretary General for appropriate action any transaction concerning which he entertains doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be immediately communicated to the Secretary General.

5 The External Auditor shall express and sign an opinion in the following terms: "I have examined the following/appended financial statements, numbered . . . to . . . and schedules of the International Maritime Organization for the year ended 31 December . . . My examination

included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. As a result of the examination I am of the opinion that . . . ". The opinion will then state, as appropriate, whether:

- (a) the financial statements present fairly the financial position as at the end of the period and the results of its operations for the year then ended;
- (b) the financial statements were prepared in accordance with the stated accounting principles;
- (c) the accounting principles were applied on a basis consistent with that of the preceding financial year;
- (d) transactions were in accordance with the Financial Regulations and legislative authority.

6 The report of the External Auditor to the IMO Assembly on the financial operations of the year should mention:

- (a) the type and scope of his examination;
- (b) matters affecting the completeness or accuracy of the accounts, including where appropriate:
  - (i) information necessary to the correct interpretation of the accounts;
  - (ii) any amounts which ought to have been received but which have not been brought to account;
  - (iii) any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;
  - (iv) expenditures not properly substantiated;
  - (v) whether proper books of accounts have been kept. Where in the presentation of statements there are deviations of material nature from the generally accepted accounting principles applied on a consistent basis, these should be disclosed;
- (c) other matters which should be brought to the notice of the Assembly, such as:
  - (i) cases of fraud or presumptive fraud;
  - (ii) wasteful or improper expenditure of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);
  - (iii) expenditure likely to commit the Organization to further outlay on a large scale;



- (iv) any defect in the general system or detailed regulations governing the control of receipts and disbursements or of supplies and equipment;
  - (v) expenditure not in accordance with the intention of the Assembly after making allowance for duly authorized transfers within the budget;
  - (vi) expenditure in excess of appropriations as amended by duly authorized transfers within the budget;
  - (vii) expenditure not in conformity with the authority which governs it;
- (d) the accuracy or otherwise of the supplies and equipment records as determined by stocktaking and examination of the records.

In addition, the reports may contain reference to:

- (i) transactions accounted for in a previous year concerning which further information has been obtained or transactions in a later year concerning which it seems desirable that the Assembly should have early knowledge.

7 The External Auditor may make such observations with respect to his findings resulting from the audit and such comments on the Secretary-General's financial report as he deems appropriate to the Council or to the Assembly, or to the Secretary-General.

8 Whenever the External Auditor's scope of audit is restricted, or whenever he is unable to obtain sufficient evidence, he shall refer to the matter in his opinion and report, making clear in the report the reasons for his comments, and the effect on the financial position and the financial transactions as recorded.

9 In no case shall the External Auditor include criticism in his report without first affording the Secretary-General an adequate opportunity of explanation on the matter under observation.

10 The External Auditor is not required to mention any matter referred to in the foregoing which, in his opinion, is insignificant in all respects.

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## ANNEX 3

### APPOINTMENT OF THE EXTERNAL AUDITOR

#### MINIMUM INFORMATION TO BE SUBMITTED WITH NOMINATION

The nominations submitted by Member States should include, as a minimum, the following information:

##### General information

- .1 a profile of the Auditor-General (or officer holding the equivalent title) and of the organization headed by the Auditor-General, including the nature of its mandate;
- .2 the office or organization responsible for appointing and/or removing the Auditor-General; indicate the length of term of office;
- .3 the office or organization to which the Auditor-General reports and a description of the reporting process;
- .4 a description of the process by which the Auditor-General's budget and work programme are established;
- .5 a description in detail of the standards governing the Auditor-General's auditing work; and
- .6 the membership status of the Auditor-General's organization in the International Organization of Supreme Audit Institutions.

##### Qualifications of officers and staff

- .7 the overall number of professional staff employed by the Auditor-General's organization and their typical professional accounting and/or auditing qualifications by category;
- .8 confirmation that all staff included in the audit proposal has professional accounting and/or auditing qualifications; if not, details should be provided; and
- .9 the professional accounting and/or auditing bodies in which the staff included in the audit proposal are members.

##### Training and experience

- .10 the professional experience of the proposed team with regard to auditing United Nations organizations or specialized agencies and international or intergovernmental organizations, particularly those organizations which apply the International Public Sector Accounting Standards (IPSAS) or similar accounting standards; as well as the audit specialities that could be of benefit to the Organization;
- .11 the experience of the proposed staff in the audit of ERP systems;

### **Audit approach and strategy**

- .12 a brief description of the audit strategy, approach, procedures and standards that would be applied for each institution, having regard to the institutions' accounting principles and practices, their Financial Regulations and Financial Rules and the International Public Sector Accounting Standards;
- .13 a proposed work plan for each institution, together with a proposed staffing breakdown, an estimate of the total number of audit working weeks expected to be spent on the completion of the audit engagement for each year and also, the timing of the audits; in connection with the timing of the audits, the proposal should take into account that IMO's audit must begin on 28 February and the audits of WMU and IMLI must be completed prior to the commencement of IMO's audit to facilitate the consolidation of the audited WMU and IMLI accounts;
- .14 a description of the proposed structure and format of reports and management letters by which the results of the audit work will be communicated to management;
- .15 an indication of the nature, extent and timing of requests for information, including access to audit working papers of the outgoing auditor, in accordance with recognized international auditing standards, and an assurance of the nominee's co-operation, on completion of appointment, in responding to similar requests for information by an incoming auditor;
- .16 the collaboration, if any, envisaged with IMO's Internal Oversight office to optimize the use of limited audit resources; and
- .17 any other relevant information likely to assist the Assembly in the consideration of the nomination.

### **Audit fees**

- .18 the audit fee (in pounds sterling) for the completion of the audit of IMO, WMU and IMLI for each calendar year of the two-budget periods from 1 January 2016 to 31 December 2019. In estimating the cost of the audit, all travel costs and living expenses of the External Audit staff and other ancillary costs should be included in the audit fee proposed and details of the costing for each institution should be provided.