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COMPARATIVE STUDY ON EXTERNAL AUDIT FUNCTIONS

(Note by the Board of Auditors)

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Board of Auditors of the OECD

NOTE ON THE STATUS AND ORGANISATION OF EXTERNAL AUDITING IN
PUBLIC INTERNATIONAL ORGANISATIONS
prepared at the request of the Budget Committee

Introduction

1. The external auditing of public international organisations is set up in accordance with basic principles laid down by INTOSAI (International Organisation of Supreme Audit Institutions) in its 1977 “Lima Declaration” and supplemented in 1980 by its “Kenya Recommendations”. Deeming that “International and supranational organisations, whose expenditures are covered by member country contributions, shall require an external, independent audit similar to that of individual countries” (Lima, Section 1), the heads of supreme audit institutions of the United Nations defined three general principles: independence, competence and effectiveness—independence vis-à-vis member countries and the organisation itself; competence: audits must be carried out by specialists in this particular type of auditing; and effectiveness: external auditors must be given the powers and the resources they need to do their job and do it well.

These recommendations were subsequently clarified and expanded upon on a number of occasions, *inter alia* in the auditing standards published by INTOSAI in 1992, in tables and publications of the Public Sector Committee of the International Federation of Accountants (IFAC), and in the special standards of certain organisations¹. This effort to systematise and codify drew heavily on practices that had been adopted by the intergovernmental organisations that were created beginning in the late 19th century. Today, the status of external auditing in many of the world’s intergovernmental organisations is, on the whole, consistent with these common principles, even if details of their implementation may vary, depending on an organisation’s size and the nature of its activities. The purpose of this note is to examine the extent to which the system in place at OECD, as instituted by Part VII of the Financial Regulations and further defined by Resolution C(62)61 of 22 May 1961, reflects these basic standards and, if there are shortcomings, to suggest changes in light of the solution applied in other selected comparable organisations.

I - Independence

2. The need for this principle stems from the sixth recommendation of the Kenya Declaration: “The external audit authority should be required to produce reports which should form the basis of a discharge procedure in which the organisation/operator’s financial performance is examined in detail by a budgetary authority.” To provide an effective and reliable basis for such a judgement, it is essential that the external auditor(s) be statutorily independent of the member countries, as well as of the managing authorities of the organisation being audited.

The principle is formulated in a variety of documents; it is also stated in the fourth Kenya Recommendation: the external audit authority “...should be totally independent of the auditing organisation or project operator, and of the sponsoring and recipient governments.”

¹ Such as the “Audit Policies and Standards” of the European Court of Auditors (1997).

3. At OECD, the principle clearly underlies the Auditors' status, but curiously it is not stated explicitly: it is mentioned neither directly nor indirectly in Part VII of the Financial Regulations; Resolution C(62)61 refers to it only indirectly via provisions for the duration of the mandate (which effectively make the Auditors irremovable, Article 2), the absence of financial dependence vis-à-vis the Organisation (Articles 3 and 4) and the Board's autonomy as regards its internal organisation and working methods (Article 5).

4. In other organisations, situations vary. In some, the independence of external auditing is stated quite explicitly; such is the case:

at NATO, whose charter stipulates that "The Board and its individual members...have an independent status... They shall neither seek nor receive instructions from other authorities than the Council." (Article 3);

at UNESCO: "The External Auditor shall be completely independent and solely responsible for the conduct of the audit." (Article 12.5);

at the European Union: "The Members of the Court of Auditors shall, in the general interest of the Community, be completely independent in the performance of their duties. In the performance of these duties, they shall neither seek nor take instructions from any government or from any other body. They shall refrain from any action incompatible with their duties" (Article 188b.4 of the Treaty of Rome).

In many other organisations², however, the auditors' independence is established only implicitly through provisions for their appointment, powers and working conditions.

5. If the Budget Committee decided to review the statutory provisions for the external auditing of OECD's accounts and financial management, it ought to consider expressly defining the principle of the Auditors' independence. A draft handbook prepared jointly by a group of external auditors³, which will soon be submitted to the INTOSAI Council for approval, stipulates the statutory provisions that are needed to firmly anchor the independence auditors require to do their jobs:

- They shall neither seek nor receive instructions from other authorities than the Governing Body.
- The office of Board members shall be incompatible with any office, duties, mandate or participation in any organ of the Organisation.
- They shall not have been employed by the Organisation during the three years preceding the start of their term.
- They shall not have been working for their countries' mission to the Organisation during the three years preceding the start of their term.
- They shall not be employed by the Organisation for three years following the completion of their term.

² CERN, EUROCONTROL, Council of Europe, EPO, OIE, CIHEAM, etc.

³ The informal group is made up of twenty-odd external auditors serving in some fifteen organisations headquartered in Europe (NATO, Council of Europe, EUROCONTROL, ESA, OECD, EPO, CERN, FAO, EFTA, OIE, CIHEAM, etc.) It has been meeting yearly since 1993 at the headquarters of one of the organisations.

6. Drawing on these recommendations and the aforementioned examples, Article 3 of Resolution C(62)61 could be amended to read as follows:

- (a) The Auditors shall be independent. They shall neither seek nor receive instructions from any authority other than the Council.
- (b) The term of office of Board members shall not be compatible with any other term of office, function, work or participation of any other unit of the Organisation.
- (c) They shall not have been employed by the Organisation during the three years preceding the date of their nomination. They can only be employed by the Organisation after three years after the expiration of their term of office.

II - Competence

7. The need for this principle is self-evident. For auditors to possess proper professional qualifications is an essential prerequisite for the effectiveness, efficiency and economic soundness of external auditing; it is also one of the ways to ensure the independence of their function.

The prescribed means for implementing this requirement is to recruit external auditors from among the staff of national supreme audit institutions: courts of auditors, auditors-general's offices or, in some countries, the ministries or departments specifically assigned to audit public bodies. Stated in 1977 in the Lima Declaration⁴ and reiterated in 1980 in the third Kenya Recommendation⁵, this solution is also based on the external auditing standards of INTOSAI⁶.

8. At OECD, the principle is stated clearly in Article 1 of Resolution C(62)61: "The external audit of the accounts and financial transactions of the Organisation shall be carried out by a Board of four Auditors (hereinafter called the 'Auditors') composed of suitably qualified Government audit officials of four Members." In practice, this obligation is always complied with; from the outset, the Auditors put forward by the Member countries and appointed by the Council have generally been members of the Courts of Auditors or Auditors-General's offices⁷ of their respective countries. The sole exceptions, out of the eighteen Auditors to have served since 1982, were two directors of central administrations (one from a Ministry of the Treasury, the other from a Ministry of Public Audit), one Inspector-General of Finance and one diplomat.

⁴ "To ensure the independence of such an audit, the members of the external audit institution shall be appointed mainly from within the Supreme Audit Institutions."

⁵ "The authority(ies) performing the audit should be of acceptable professional audit competence, measured to the best standards established by the Supreme Audit Institutions."

⁶ Standard 86: The external audit body "needs to command the range of skills and experience necessary for effective discharge of the audit mandate."

⁷ Of the fourteen auditors with such a background, there were two heads of auditing corps, six directors-general, directors or section chairmen, and six highest-ranking advisers or auditors.

9. In the other organisations, the principle of competence is formulated in a variety of different ways.

In many of these organisations, which tend to be among the largest in terms of number of member countries, staff or total budget, the priority accorded to members of supreme audit institutions is stated clearly, and in some cases even more forcefully than at OECD. In particular, such is the case:

- at bodies in the United Nations family, which confer responsibility for external auditing of their accounts on the head of the supreme audit institution of one of their member countries⁸;
- at EUROCONTROL, where preference in the selection of external auditors is given to officials of national Courts of Auditors, national inspectorates or similar audit institutions;
- at the European Patent Office (EPO): “Board members shall have proven audit experience and shall preferably be selected from among the officials of national audit bodies of the contracting states”⁹;
- at NATO: “Members of the Board shall preferably be high ranking officials or former high ranking officials of the national audit bodies of member countries or in any case high ranking government officials or former high ranking government officials having a thorough knowledge of, and experience in, auditing and the examination of government financial operations.”¹⁰

10. Other organisations merely emphasise the need for particular professional competence, without giving precedence to staff of member country supreme audit institutions. For instance, the statutes of the Office International des Épizooties (OIE), which date back to 1924, stipulate only that “The Auditor shall hold all the titles and qualifications appropriate to his nationality required for carrying out his task”; the same holds true for the financial regulations of the European and Mediterranean Plant Protection Organization (EPPO). At the Council of Europe, members of the Board of Auditors are “selected for their qualifications in the control of public finance”¹¹.

Lastly, the statutes of some organisations give their Councils almost total freedom of choice. This is generally the case with regional organisations, such as the Centre Internationale de Hautes Études Agronomiques Méditerranéennes (CIHEAM), whose Board of Directors selects its auditors each year without being subject to any conditions whatsoever¹², or the Energy Charter, whose Financial Regulations empower the Secretary-General, and not the Conference (which must nonetheless approve the selection), to “designate one or more independent External Auditors” (Article 21), with no further stipulations.

11. As regards the OECD, the provisions of Resolution C(62)61 on the qualifications of external Auditors are consistent with the principles reiterated above, as well as with the solutions most commonly adopted by other organisations. There would appear to be no need to amend them.

⁸ “An external Auditor, who shall be the Auditor-General (or an officer holding the equivalent title) of a Member State, shall be appointed...by the General Conference.” (Article 12 of the UNESCO Financial Regulations).

⁹ Article 71.3 of the Financial Regulations, January 1995.

¹⁰ Article 2 of the charter of NATO’s International Board of Auditors.

¹¹ Article 80 of the Financial Regulations.

¹² It should be pointed out, however, that in practice CIHEAM has always taken its auditors from either the Courts of Auditors or the ranks of national auditors of its four founding member countries (France, Greece, Italy and Spain).

III - Effectiveness

12. This principle stems naturally from the two previous ones. While cited only in general terms in the Lima Declaration, it is stated more specifically in the Kenya Recommendations. There, two aspects are given particular emphasis: external auditors must be given the powers required for their missions, as regards both the areas of their investigations¹³ and the ability to access all necessary information¹⁴; and they must have the resources they deem necessary¹⁵.

A - Powers

Areas of intervention

13. Reports by external auditors “form the basis of a discharge procedure in which the organisation/operator’s financial performance is examined in detail by a budgetary authority” (sixth Kenya Recommendation). It is therefore important that the auditors’ investigations can focus not only on the regularity of transactions and financial statements, but also on the quality of financial management and of its results.

This particular aspect of the auditors’ mission is set forth in INTOSAI’s audit standards¹⁶; it has been the subject of a number of different models developed by professional associations such as, in the United States, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, in the United Kingdom, the Cadbury Commission and, in Canada, the Canadian Criteria of Control Committee (CoCo)¹⁷.

At OECD, it can be considered that the powers conferred on the Board by Part VII of the Financial Regulations and Resolution C(62)61 meet these dual requirements. Even so, while specific provisions are made for checking compliance with the rules¹⁸, the assessment of management effectiveness, as gauged by the evaluation of performance against objectives, is mentioned only in the very general and fairly vague terms of auditing “the soundness of the financial administration” (Article 32 of the

¹³ “The mandate for the external audit authority should be clearly and legally supported. It should cover the legality and regularity of all financial transactions entered into by the organisation or the project operator; and should extend to the audit evaluation of the soundness of the financial management.”

¹⁴ “The external audit authority and its staff should have access to all records and documents which they consider necessary for the performance of their functions.”

¹⁵ “The external audit authority should be entitled to prepare its own budget independently, and to determine and implement independently its recruitment policy within the budgetary limits.”

¹⁶ Article 40: “Performance audit is concerned with the audit of economy, efficiency and effectiveness...”

¹⁷ The application of performance auditing methods to public bodies was also the subject of a number of publications by the OECD Public Management Service (and in particular *Performance Auditing and the Modernisation of Government*, 1996).

¹⁸ Article 33, paragraph a) of the Financial Regulations: “It shall, in particular, check the accuracy of the books, statement of assets and liabilities and accounts...”. Article 6 of Resolution C(62)61: “...and shall perform such audits as they deem necessary to certify that: (a) the...statement of assets and liabilities and accounts...are correct; (b) the financial transactions recorded in these statements have been effected in accordance with the relevant rules, the budgetary provisions and other directives which may be applicable...; (c) the securities and monies on deposit and on hand have been verified by certificates...”.

Financial Regulations)¹⁹ and certification that “the financial administration of the Organisation has been carried out on a sound and economical basis.” [Article 6 d) of Resolution C(62)61].

This lack of clarity, along with the restriction, under the 1962 Resolution, of the significantly broader mandate set forth in the Financial Regulations, stem especially from the final Article in the Resolution; while this empowers the Auditors to “make such observations as they deem necessary”, the scope of this power is limited to “the efficiency of financial procedures, the accounting system and the internal financial control.” [Article 8 a)].

In practice, these differences between Part VII of the Financial Regulations and the Resolution enacted to apply it have never prevented the Board from extending its investigations as it deemed necessary in order to form an opinion on the quality of the Organisation’s financial management. Nonetheless, on a number of occasions they have prompted some reticence on the part of heads of departments or programmes, and this has required some clarification.

14. In most other organisations, an opinion on the quality of management and performance is part and parcel of the external auditors’ mission. While in some cases couched in general terms, (assessment “...of the soundness of the financial management”²⁰; “...generally accepted common auditing standards ...”²¹), it is frequently defined more explicitly:

“The External Auditors...may make observations, if necessary, with respect to the effectiveness of the financial systems...and the financial management and administration of the Secretariat.” [Energy Charter, Article 33(2)];

“The Board may also comment on any matters which it considers significant and, in particular, on the efficiency of the financial procedures” (NATO, Article 30 of the Financial Regulations).

“The duties of the Board of Auditors shall be to satisfy itself that the financial management is sound and economical” (Council of Europe, Article 81 of the Financial Regulations). A similar provision can be found in the regulations of EUROCONTROL.

In some organisations, however, external auditors are asked only to check the regularity of accounts and transactions: European Laboratory for Particle Physics (CERN), European and Mediterranean Plant Protection Organization (EPPO), Office International des Épizooties (OIE), etc..

15. A revision of the texts governing external auditing at OECD could provide an opportunity to clarify the external Auditors’ mandate and improve co-ordination of the Financial Regulations with the Council’s Resolution concerning the Board.

Drawing upon the aforementioned draft “guideline”, Article 33 a) of the Financial Regulations could be expanded as follows:

¹⁹ A formulation that, curiously, is not repeated verbatim in Article 1 of Resolution C(62)61, where it is replaced by auditing of “financial transactions”.

²⁰ European Communities, Article 83.2 of the Financial Regulations; *Centre International de Hautes Études Agronomiques Méditerranéennes*, Article 35.

²¹ UNESCO Financial Regulations, Article 12.3.

a) The primary function of a Board of Auditors is, by the controls it performs, to satisfy the Council and, by the intermediary of their permanent representatives, Member country governments, that the methods employed within the financial means available to carry out their duties are effective and economic.

b) To do this, the Board shall conduct such audits as it thinks necessary, in accordance with its terms of reference, the present Regulations and any Rules approved by the Budget Committee. It shall, in particular, check...

In Resolution C(62)61, the wording of Article 1 should be aligned on that of Article 32 of the Financial Regulations:

The accounts and the soundness of the financial administration of the Organisation shall be audited...

In Article 6 of that same Resolution, the current wording could be replaced by the following:

d) that the financial administration of the Organisation has been carried out on a sound and economical basis. They shall, in particular and with the means at their disposal, satisfy themselves of the economical use of human, financial and other resources, including the study of the information system, the extent of results and checks, as well as results obtained compared to specific objectives undertaken.

Access to information

16. The mandate of the external audit body “should provide for full and free access by the Supreme Audit Institutions to all premises and records relevant to audited entities and their operations and should provide adequate powers for the Supreme Audit Institutions to obtain relevant information from persons or entities possessing it.” This requirement, as formulated in the INTOSAI auditing standards (No. 70), is applicable in the same terms to the mandates of external auditors of international organisations, as stipulated in the eighth Kenya Recommendation²².

17. At OECD, this right of access is defined as follows under Article 7 of Resolution C(62)61: “The Secretary-General shall give the Auditors such assistance and furnish them with such facilities as they may need for the proper discharge of their duties. They shall, in particular, have free access to the books of

²² See Comment No. 12 above.

account, records and documents of the Organisation which are in their opinion necessary for the execution of the audit.”

18. A number of other organisations stipulate the right of external auditors in terms very similar to those of OECD: UNESCO, Council of Europe, CERN, NATO, etc. At NATO, provision is also made for recourse to the Council if any obstacles are encountered: “the Board shall...bring to notice any case where it has not received all the information and explanations that it has required” (Article 29-2 of the Financial Regulations). At the European Communities, the power of the Court of Auditors not only to receive all information it deems useful, but also to make enquiries of any official and even to be present during certain operations carried out by the Commission, is mentioned explicitly (Article 85). At EUROCONTROL, the Financial Regulations stipulate that financial actions by the Committee of Management and the Director-General, as well as the audits carried out by the financial controller, shall be made available to the audit mission.

In contrast to these explicit enumerations, the external auditing statutes of a number of bodies²³ do not mention right of access to information. This right stems implicitly from the mandate given to the Auditors, and in particular from the power invested in them to “carry out all checks, both on documents and in situ, that it considers necessary in order to...” certify the faithful representation of accounts, the exactness of transactions and the quality of management.

19. The only amendment to be made to Article 7 of Resolution C(62)61, as reproduced above, is an adjustment to reflect evolving financial management tools and methods:

The Secretary-General shall give the Auditors such assistance and furnish them with such facilities as they may need for the proper discharge of their duties. They shall, in particular, have free access to all records, supporting documents, data banks, information systems which are in their opinion necessary for the execution of the audit. They can interview any staff member responsible for operations in connection with expenditure or income.

ADVISORY ROLE

20. As in some national administrations, the external audit bodies of international organisations sometimes play the role of technical advisor in financial management vis-à-vis the member countries or the Secretariat. This function is carried out primarily in two areas: implementation of the auditors’ recommendations and the drafting or revision of financial rules and regulations.

²³ Essentially, these are organisations with relatively low staffing levels and budgets: Centre Internationale de Hautes Études Agronomiques Méditerranéennes (CIHEAM), European and Mediterranean Plant Protection Organization (EPPO), Energy Charter, International Office of Epizootics (OIE), and so on.

21. That the auditors would supply the first type of advice goes without saying, and it need not be expressly provided for in the auditors' statutes. The extent to which this is taken depends on the auditors' availability and their relations with the authorities responsible for the organisation in question. It is also tied in with the organisation's dimensions; developed to a greater extent in small and medium-sized bodies²⁴, the practice is more limited in organisations with substantial resources and especially internal audit departments, which in many cases are assigned to monitor implementation of the external auditors' comments. At OECD, such co-operation is still in its infancy for lack of available staff. As it has already stated, the Board is prepared to provide more active assistance to both the Member countries and Secretariat managers, should they deem it necessary.

22. The provision of assistance in formulating or reworking the fundamental rules of financial management should also go without saying. Although suggested by INTOSAI²⁵, it is written into the Financial Regulations of only one of the twelve organisations mentioned in the Annex²⁶. Nevertheless, in most organisations the Secretariat generally consults the external auditor(s) when drafting amendments to the Financial Regulations.

At OECD, this was the practice in 1987-88 when the regulations were amended, in response to the Board's recommendations, to introduce an additional period and to simplify procedures for carry-forwards and transfers of appropriations. In contrast, the Auditors were not asked for their opinion on subsequent amendments. This abstention is regrettable; the Board could have made a useful contribution to the formulation of new provisions, thereby averting the need to make critical comments after the fact.

23. The addition to the Resolution laying down the Board's mandate of a provision inspired by the solution adopted at NATO would be an effective step; moreover, it would reflect the natural function of keeper of the financial charter which is frequently assigned to independent audit institutions.

It could read as follows:

The Auditors shall be consulted regarding any amendments to financial regulations before being submitted to the Council. Their advice shall be sought on all proposed revisions to the financial rules and regulations prior to approval by the Budget Committee.

²⁴ At the Centre Internationale de Hautes Études Agronomiques Méditerranéennes (CIHEAM/ICAMA), for example, the four external auditors, the financial managers of the five establishments and often one of the directors meet annually as a group to harmonise financial regulations. These meetings follow an agenda prepared jointly by the Secretary-General and the Board's Chairman, and they are preceded by the preparation of studies on the chosen subjects. More than mere exchanges of information, the meetings produce joint efforts leading to specific proposals to the Secretary-General and, if the Secretary-General so chooses, the Council. This arrangement has been in place for fifteen years, and it has proven very useful in assisting both the Secretariat and the external auditors, and in averting misunderstandings.

²⁵ "A degree of co-operation between the supreme audit institution and the executive is desirable in some areas"; financial regulations and accounting standards are cited as examples (Standard No. 66). Among the standard model clauses for the status of external auditors in the aforementioned draft guidebook is the following provision: "Any amendments to budgetary and financial rules and regulations shall be done in consultation with the Board of Auditors".

²⁶ Article 33.2 of the Financial Regulations of NATO: "Before amending these Regulations, the Council shall normally seek the advice of the NATO Civil and Military Budget Committees, deliberating jointly and in consultation with the International Board of Auditors for NATO".

B - *Resources*

24. The powers conferred upon external auditors would be meaningless if the auditors lacked the resources necessary to do their job. The resources in question should be considered from a variety of standpoints: the deadlines imposed on the auditors, the amount of time they can spend on their work, and the assistance that is made available to them. The attached table compares the situation at OECD, in these three respects, with conditions at a variety of other organisations.

DEADLINES AFFORDED EXTERNAL AUDITORS

25. The table shows a fairly wide range in the deadlines assigned to external auditors to make their checks and conduct their investigations: from three months (in one organisation) to four or five (in two organisations each), six (in five) and nine months (in two organisations). These deadlines must, however, be assessed against the volume of transactions to be checked and the potential (in auditor-days and days worked by experts or assistants) available to the external audit body.

26. At OECD, the deadline set by Article 9 of Resolution C(62)61 is nine months. In 1998, at the request of the Budget Committee, the Board explored the feasibility of a change. It felt that a reduction of one to two months was theoretically possible, but that it would run up against two obstacles: for the Board to move up the submission of its report to the end of July would be of no practical use to delegations because of the summer holiday period; moreover, this timetable would require the Board to hold both its sessions in the first half of the year, which, because of their other professional commitments, would not be possible for all of the auditors, and the interval between sessions would not be long enough given the amount of time needed to obtain replies to inquiries and for discussions with representatives of the units being audited.

On the other hand, some information could be given to the Member countries, if they so desired, before the Board adopted its final conclusions. In this case, it would be necessary for the Budget Committee to give the Auditors three weeks' advance notice of the topics they would like to see treated, so that the Board could deliberate and conduct prior discussions with the administration.

HOURS OF WORK

27. The potential of the external audit body is constituted by the number of hours the auditors devote to their mandate. In some cases, this is supplemented by the time spent by others working with them, such as experts or staff.

With regard to the auditors, an initial distinction must be made between organisations having a single auditor and those whose auditors form a Board. The first solution, which is simple and economical, is customary at organisations having budgets of less than FF 300 million (45 million euro)²⁷, unless the

²⁷ On the surface, this is also the case in some very large organisations, such as those of the United Nations system: UN, UNESCO, FAO, WHO, whose statutes refer to only a single or a small number of external auditors. In actual fact, these auditors are heads of supreme national audit institutions (heads of Courts of Auditors or

organisation's activity is split up between a number of seats or establishments²⁸. The second solution not only offers greater resources, but also the guarantee of joint deliberations. It is the rule in large organisations, where the number of auditors varies from two (EUROCONTROL) to fifteen (European Court of Auditors); excluding NATO, the most common number is either three (WEU, CERN, EPO, Council of Europe) or four (OECD, ESA, CIHEAM, EFTA). The situation at OECD is therefore about average.

28. In order to reflect the available potential, the number of auditors must be supplemented by the number of hours the auditors devote to their mandate. It is the exception, rather than the rule, for auditing to be done on a full-time basis, as at the European Court of Auditors or NATO's International Board of Auditors. The hours of work resulting from the number and duration of sessions (see attached table) show significant differences. The smallest figures are due to the relatively modest levels of the budgets in question, except as regards ESA and the EUROCONTROL Agency. In the case of these two establishments, the low numbers stem from organisational peculiarities: at ESA, the permanent presence of four assistant auditors, and, at EUROCONTROL, the assistance, for limited missions, of an auditing firm and an expert made available to the auditors by their national institutions.

29. Here, as with the number of auditors, OECD is not placed unfavourably. Each Auditor devotes about thirty days per year to his mandate, including at least twenty days on the premises; in addition, the Auditor submitted for appointment by France, whose mandate is not limited²⁹, is on duty more or less continuously between sessions of the Board. This peculiarity³⁰ gives the Board a stable "memory" and lends its activities a certain continuity. A drawback of this arrangement, however, is that it departs, as concerns the host country, from the rule of alternation³¹; to date—because of its practical advantages—this departure has never been challenged.

Staff

30. With regard to experts, the differences between organisations are more pronounced. Distinctions have to be made between three categories.

1) **External audit bodies having full-time experts.** This category includes large organisations in the United Nations family (UN, FAO, UNESCO, WHO, etc.), whose standing external audit staffs comprise between two and twelve high-level auditors seconded from the supreme audit institutions designated as external auditors; NATO, whose International Board recruits, manages and employs eighteen professional auditors, including five principal auditors; the European Court of Auditors, whose fifteen members are assisted by a large and structured staff of auditors and assistants; ESA, whose four auditors

Auditors-General), and they delegate their duties to one or more teams of auditors selected from within their respective institutions.

²⁸ As in such bilateral bodies as the Institut Franco-Allemand de Saint Louis, the Office Franco-Québécois de la Jeunesse and the Office Franco-Allemand de la Jeunesse, which each have one external auditor from each of the two member countries, who act jointly.

²⁹ Whereas the three other Auditors are appointed to four-year terms.

³⁰ It exists in none of the twenty-odd other organisations about which the Board has information.

³¹ An unwritten law, but one corresponding to the practice of many organisations, and to the practice constantly followed by the OECD Council.

are each assisted by an auditor seconded by the supreme audit institutions to which they belong and working full-time at the Agency's headquarters.

2) **External audit bodies that may call upon experts on a part-time basis.** The experts in question are either members of a supreme audit institution who are made available to the Board, generally at no cost, or consultants (auditors or audit firms). In either case, the experts are chosen by the auditors themselves; their mission is strictly delineated and of limited duration. The external auditors of the EPO, CERN, the EUROCONTROL Agency, CIHEAM and EFTA receive the first type of support³². EFTA, EUROCONTROL, EPO and ESA may also avail themselves of the second type; this is also the case for the World Meteorological Organization (WMO).

3) **External audit bodies that receive no assistance.** In most cases, this situation is warranted by the volume of transactions to be audited [most organisations in this category have budgets of less than FF 100 million (15 million euro): OIE, Energy Charter, Office Franco-Allemand de la Jeunesse, Office Franco-Québécois de la Jeunesse, EPPO, Inter-Parliamentary Union, etc.].

31. Theoretically, OECD's external auditing falls into the third category; in practice, however, it belongs to the second.

Neither Part VII of the Financial Regulations nor Resolution C(62)61 provides for any assistance whatsoever. The aid referred to in Article 7 of the Resolution is purely logistical; the modest corresponding line item³³ comprises no appropriations that could be used to recruit experts, consultants or outside staff. For an organisation the size of OECD, this situation was not viable; therefore, in 1963 the Board arranged for the French Ministry of Finance to make a Treasury official available to it one day per week. In 1985, this official was replaced by an assistant auditor from the French Court of Auditors, under the same informal arrangements and for the same potential time of roughly fifty days of work per year.

This solution has benefits and drawbacks. It filled an undisputed gap in OECD's external audit statutes by enabling the Auditors to make checks of regularity that are more extensive and thorough than if they had been left entirely to their own devices. In addition, these additional resources were added with the greatest possible flexibility³⁴ and thrift³⁵. The limits of these benefits are to be found, however, in the relatively small number of hours of work the assistant can provide, and in the irregular pace of his work. Until 1990, these drawbacks were mitigated by the fact that the Organisation's management methods, which had remained very traditional, required only little prior training and adjustment on an auditor's part. Changing circumstances, and the Board's own shift towards auditing based less on regularity and more on an examination of methods, structures and outcomes, have made the current situation less satisfactory.

³² For periods averaging between ten and twenty man-days of work.

³³ Averaging FF 240 thousand over the four years from 1995 to 1998. Adding to these outlays are the provision of a secretary—full-time until 1984, half-time from 1985, and virtually full-time again since 1997, insofar as the financial controller makes very few demands on the time of this staff member, who is theoretically available to work for him.

³⁴ The assistant is made available at the Board's initiative; the Secretary-General and the Representative of France are simply informed.

³⁵ Like the auditors themselves, the assistant works free of charge; he is merely reimbursed for his expenses with a flat-rate allowance calculated on the basis of a half per diem per day of work.

32. The Auditors have therefore been prompted to supplement this basic assistance by calling upon “experts” made available to them by one of the supreme audit institutions to which they belong. As in the case of part-time assistants, this procedure is uncomplicated³⁶ and inexpensive³⁷. In contrast to that of the staff, the experts’ mission is narrowly circumscribed and focuses not on the regularity of operations but on the effectiveness and efficiency of the resources allocated to achieve the objectives laid down in the programme³⁸. This aid represents a fairly modest potential, however, of some ten days of work per year.

To date, the support provided by these experts and assistants has enabled the Board to accomplish its task in a relatively satisfactory manner, providing the Member countries with minimal guarantees that transactions have been carried out properly and resources put to good use, while furnishing information as to the effectiveness of management methods and offering suggestions for improvement.

Even so, these suggestions are merely makeshift solutions, with no legal foundations and based only on the initiative and undertakings of the Auditors, as well as on the voluntary efforts of the staff recruited and the good will of the institutions to which they belong.

The comparisons presented above and the INTOSAI recommendations³⁹ show that the statutes laid down in 1962 ought to be amended in this respect. At the very least, this could officialise the situation arising from the initiatives the Board has taken since 1963 for the assistant, and since 1987 for the expert.

33. The Auditors feel that this regularisation alone would not suffice. The simultaneous transformation of management principles⁴⁰ and tools⁴¹ that has been underway for the past four years, the absence of an internal audit department whose work the Board could guide⁴², the potential impact on the

³⁶ The auditors themselves choose the experts, directly negotiate their availability and set their mission and conditions of employment.

³⁷ Experts are not paid. To cover their expenses, they receive a flat allowance equal to one per diem per day of work on the premises.

³⁸ Since 1989, the mission assigned to the experts (and the origins of those experts) have been as follows: Joint Pensions Administrative Section (1989, French Cour des Comptes), Publications Service (1990, Belgian Court of Auditors), Club du Sahel (1992, Office of the Comptroller and Auditor-General of Ireland), remuneration of permanent staff (1994 and 1995, National Audit Office of the United Kingdom), financial management of the Staff Provident Fund (1995, - id -), expenditure on consultants (1996, Norwegian Riksrevisjonen), internal financial and budgetary control system (1997, French Cour des Comptes), planning methods and methods for assessing outcomes (1998, Norwegian Riksrevisjonen), Public Affairs and Communications Directorate (1999, French Cour des comptes).

³⁹ In this regard, the aforementioned guidebook, currently under preparation (see No. 4 above), offers the following recommendations: “Staff. Within the budget provisions, the Board of Auditors shall select staff to assist it in its tasks. Audit staff shall hold the designations and qualifications required within his nation to carry out the task of external auditing and examining of government operations. They shall be engaged on the basis of competence.” “Consultants. The Board of Auditors may, within the budget provisions, use consultants to execute audit tasks. The choice and supervision of consultants, the tasks to be done and the follow-up to their work is the sole prerogative of the Board of Auditors.”

⁴⁰ Decentralisation of budgetary responsibilities, relaxing of regularity constraints, development of procedures for flat-rate disbursement of expenditure, etc.

⁴¹ Computerisation of accounting, gradual introduction of mechanisms for analysing costs and assessing results, gradual integration of planning and budgeting, changes in staff management methods, etc.

⁴² As provided for in the regulations of certain organisations (Council of Europe: “The Board may instruct the Financial Controller to carry out any preparatory work necessary to the performance of its duties.”, Article 83).

effectiveness and regularity of operations of the recurrent disruptions in setting the budget these past three years, and the deep personnel cuts over the same period, increase the need for external auditing to such an extent that current resources can no longer cope.

They therefore recommend that Resolution C(62)61 be amended so as to increase these resources.

For instance, a new article, worded as follows, could be inserted between current Articles 5 and

6.

ARTICLE 6

The Board shall be provided with a permanent Secretariat whose expenses shall be borne by the Organisation; the official serving in this capacity shall be chosen, with the consent of the Chairman of the Board, from among the staff of the Organisation.

The Board may call upon assistants or experts of its choosing, whose names shall be conveyed to the Secretary-General. These persons shall receive directives solely from the Board, which shall orient their work as it sees fit. They may be paid if the Council so decides; they shall be entitled to reimbursement of their travel and mission expenses in accordance with the rules applicable to members of the Board.

In order to cover all external auditing expenses, the Secretary-General shall make an annual budget appropriation, the amount of which shall be set after consultation with the Board.

If the above suggestion were adopted, the current Article 7 would need to be amended as follows:

Article 7 (which would become 8)

The Secretary-General shall give the Auditors and their assistants such assistance ...

Conclusions

34. The Board's proposed conclusions from this comparative study carried out at the request of the Member countries are as follows.

1. Although observed in practice, the Board's independence and the incompatibilities stemming therefrom should be expressed more explicitly in the official rules and regulations.

2. The fact that external auditors are selected from among members of the supreme audit institutions of the Member countries offers satisfactory guarantees of competence.

3. It should be stipulated in no uncertain terms that the powers conferred upon the Board shall include the power to audit the economic soundness, effectiveness and efficiency of financial management.

4. The Auditors' right of access to all information, all data and all processing systems, as well as their right to make enquiries of any official, ought also to be made more explicit.

5. The Board ought to be asked for its opinion on any proposed amendment to the Financial Regulations or Financial Rules, prior to submission to the Council and the Budget Committee.

6. There is no cause to alter the deadline afforded the Auditors for submitting their report. Provided that they comply with the rules of collegiality and prior discussion with the units being audited, they may take part, prior to this deadline, in briefings with representatives of the Member countries.

7. The secretary who is in fact at the Board's disposal on a full-time basis should appear in the table of budgetary uses; the corresponding expenses should be charged to appropriations for the Board's operations.

8. This line of the budget should make it possible for the initial appropriation—or a supplementary allocation during the course of the year—to fund the remuneration of such experts and staff as the Board proposes, up to respective limits of twenty and one hundred days of work per year.

9. The internal audit department, whose creation was recommended in 1996, could be assigned to laying the groundwork for, or to supplementing, the Board's investigations.

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This note, addressed to the Council, was established at the request of the Budget Committee; it is intended to be examined in the first instance by the Committee. It was adopted by the Board of Auditors of the OECD at its meeting on 22 April 1999.

Karl WOLLRAB Ignacio AGUILAR-ALVAREZ Francisco PIRES dos SANTOS Jacques BERTHE
Auditors
of the Organisation for Economic Co-operation and Development

Comparative Table of External Auditing Resources

| <i>Organisation</i> | | <i>External Auditors</i> | | <i>Assistance provided for the auditors</i> | | | |
|---|--|--------------------------|---------------------------|---|-----------------------------------|---|---|
| <i>Name</i> | <i>Perma- nent staff⁽¹⁾</i> | <i>Number</i> | <i>Sessions</i> | <i>Full-time staff</i> | <i>Part-time staff</i> | <i>Possibility of using outside consultants</i> | <i>Use of experts provided by SAI</i> |
| OECD | 1820 | 4 | 2 x 15 days | no | 1 (50 days) ⁽²⁾ | no | yes (2 weeks) |
| NATO | 1119 | 6 | Full-time Board | 18 full-time auditors | no | | no |
| EUROPEAN SPACE AGENCY (ESA) | 2078 | 4 | 8 x 2 days | 4 full-time auditors | no | yes | no |
| COUNCIL OF EUROPE | 1300 | 3 | 4 x 8 days | no | 1 (30 days) | yes | yes |
| European Laboratory for Particle Physics (CERN) | 3653 | 3 | 4 x 10 days 1 x 5 days | no | no | no | yes (2 to 3 weeks) |
| EUROPEAN PATENT OFFICE (EPO) | 3795 | 3 | 4 x 20 days | no | 6 (... days) | yes | no |
| EUROCONTROL | 1490 | 2 | 3 or 4 x 8 days | no | no | yes | yes (2 to 4 weeks) |
| WORLD METEORO- LOGICAL ORGANIZATION (WMO) | 337 | 5 | 2 x 10 days | no | no | yes | yes (1 to 2 weeks) |
| WESTERN EUROPEAN UNION (WEU) | (#150) | 3 | 3 x 5 days | no | yes ⁽²⁾ 1 (50 days) | no | no |

| | | | | | | | |
|--|--------|---|-------------|----|----|----|--------------|
| INTERNAT. OFFICE OF EPIZOOTICS (OIE) | 29 | 1 | 1 x 10 days | no | no | no | no |
| HAUTES ETUDES AGRONOM. MEDITERRAN. (CIHEAM/ ICAMA) | 174 | 4 | 2 x 8 days | no | no | no | yes (1 week) |
| ENERGY CHARTER | (#100) | 1 | 1 x 10 days | no | no | no | no |
| OFFICES FRANCO-ALL. & FR-QUEBECOIS JEUNESSE | ... | 2 | 2 x 5 days | no | no | no | no |
| EUROPEAN AND MEDITERRA- NEAN PLANT PROTECTION ORGANIZATION (EPPO) | 9 | 1 | 1 x 8 days | no | no | no | no |

⁽¹⁾ Budget establishment 1998, except for NATO (actual 1994 establishment for the international secretariat alone), ESA, CERN, EUROCONTROL, EFTA (1994 budget establishment)

⁽²⁾ Provided at no cost by the host country