



GC

International Atomic Energy Agency

GENERAL CONFERENCE

GC(39)/9

2 August 1995

GENERAL Distr.

Original: ENGLISH

Thirty-ninth regular session
Item 28 of the provisional agenda
(GC(39)/1)

APPOINTMENT OF THE EXTERNAL AUDITOR

1. The term of office of the Agency's current External Auditor - the Auditor General of Canada - will expire upon completion of the audit of the Agency's accounts for 1995. The Auditor General of Canada has indicated that he will not be seeking appointment for a further term of office.
2. It is therefore necessary for the General Conference to appoint an External Auditor to audit the Agency's accounts for the financial years 1996 and 1997.
3. On 16 June 1995, the Board of Governors recommended that the General Conference appoint the Comptroller and Auditor General of the United Kingdom - the only candidate^{*/} - to audit the Agency's accounts for those two financial years.
4. The Note by the Secretariat calling for nominations from Member States is reproduced as Attachment A to the present document and the material submitted to the Secretariat on behalf of the Auditor General of the United Kingdom is reproduced as Attachments B and C.

^{*/} The nominations of two other candidates were withdrawn before the Board's consideration of this matter.



INTERNATIONAL ATOMIC ENERGY AGENCY
AGENCE INTERNATIONALE DE L'ENERGIE ATOMIQUE
МЕЖДУНАРОДНОЕ АГЕНТСТВО ПО АТОМНОЙ ЭНЕРГИИ
ORGANISMO INTERNACIONAL DE ENERGIA ATOMICA

GC(39)/9
Attachment A

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IN REPLY PLEASE REFER TO:
PRIERE DE RAPPELER LA REFERENCE:

DIAL DIRECTLY TO EXTENSION:
COMPOSER DIRECTEMENT LE NUMERO DE POSTE:

Note by the Secretariat

The Secretariat has the honour to notify Member States that the present term of office of the Agency's External Auditor (the Auditor-General of Canada) expires with the completion of the audit of the accounts for the financial year 1995. It will therefore be necessary for the General Conference at its forthcoming (39th) regular session, in September 1995, to appoint an External Auditor to audit the accounts for the financial years 1996 and 1997. The appointment is traditionally made for a period of two years, but it may be renewed.

Member States are invited to nominate candidates whom they wish the General Conference to consider at its 39th regular session for appointment as the External Auditor of the Agency. The full text of Article XII of the Agency's Financial Regulations and the additional terms of reference governing audits of the Agency's accounts are enclosed herewith as an Annex.

The nominations should include the following:

- (a) a curriculum vitae of the nominee and details of the national and international activities of the Auditor-General's office, with an indication of the range of audit activities envisaged and of the audit specialities that could be of benefit to the Agency; and
- (b) a proposed audit fee (expressed in United States dollars) and an estimate of the total number of auditor-months which would be devoted to the audit of the accounts for 1996.

The proposed audit fee should cover the audit-related salaries, secretarial and other support costs, travel costs and living expenses of the External Auditor and his/her staff. Travel costs should cover travel between, on one hand, the Auditor-General's office and, on the other, the Agency's Headquarters in Vienna and - if deemed necessary for audit purposes - other Agency offices.

Nominations should reach the Agency's Director General as early as possible, and in any case not later than 28 April 1995, in order to allow sufficient time for the preparation of a proposal for consideration by the General Conference in September. The Agency's Division of Budget and Finance would be pleased to provide any further information or clarification that may be required.



7 February 1995

ARTICLE XII
EXTERNAL AUDIT

Annex

Appointment of External Auditor

Regulation 12.01

An External Auditor, who shall be Auditor-General (or an officer exercising an equivalent function) of a Member State, shall be appointed by the General Conference for a period determined by it.

Tenure of Office of External Auditor

Regulation 12.02

If the External Auditor ceases to hold office as Auditor-General (or equivalent function) in his/her own country, his/her tenure of office as External Auditor shall thereupon be terminated and he/she shall be succeeded as External Auditor by his/her successor as Auditor-General. The External Auditor may not otherwise be removed during his/her tenure of office, except by the General Conference.

Conduct of audit

Regulation 12.03

Subject to any special direction of the General Conference or the Board, each audit which the External Auditor is required to make shall be conducted in accordance with the Additional Terms of Reference set out in the Annex to these Regulations.

Responsibility of External Auditor

Regulation 12.04

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

Specific examinations

Regulation 12.05

The General Conference and the Board may request the External Auditor to perform certain specific examinations and to issue separate reports on the results.

Provision of facilities to External Auditor

Regulation 12.06

The Director General shall provide the External Auditor with the facilities required for the performance of the audit.

Use of local auditors

Regulation 12.07

Whenever it is necessary to make a local or special examination the External Auditor may arrange for the services of any national Auditor-General who is eligible to be appointed as External Auditor or of commercial public auditors of known repute.

Transmission of audit report

Regulation 12.08

The report of the External Auditor shall be transmitted to the Board for its observations and the Board shall transmit the report to the General Conference in accordance with Regulation 11.03. A representative of the External Auditor shall be present when his/her report is first under consideration by the Board or by a subsidiary body of the Board. In addition, the Director General shall arrange for such representation during subsequent consideration by the Board or during consideration by the General Conference, if so requested by a Member State, if the Director General considers it desirable or if the External Auditor considers it essential.

ANNEX

ADDITIONAL TERMS OF REFERENCE GOVERNING THE AUDIT OF THE INTERNATIONAL ATOMIC ENERGY AGENCY

1. The External Auditor shall perform an audit of the accounts of the Agency, including all Trust and Special Funds as he/she may deem necessary in order to satisfy himself/herself:

- (a) That the financial statements are in accord with the books and records of the Agency;
- (b) That the financial transactions reflected in the statements have been in accordance with the Financial Rules and Regulations, the budgetary provisions, and other applicable directives;
- (c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Agency's depositories or by actual count.

2. Subject to the provisions of the Financial Regulations, the External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications by or on behalf of the Director General and may proceed to such detailed examination and verification he/she chooses of all financial records, including those relating to supplies and equipment and materials of the Agency or for which the Agency is responsible.

3. The External Auditor may affirm by test the reliability of the internal audit, and may make such reports with respect thereto, as he/she may deem necessary, to the Board or to the Director General for transmission, where appropriate, to the General Conference.

4. The External Auditor and staff working under his/her direction shall subscribe to such oath as may be approved by the Board. Thereupon he/she shall have free access, at all convenient times, to all books of account and records which are, in his/her opinion, necessary for the performance of the audit. Information classified as confidential in the records of the Secretariat, and which is required by the External Auditor for the purposes of the audit, shall be made available on application to the Director General. In the event that the External Auditor is of the opinion that a duty rests on him/her to draw to the attention of the Board or of the General Conference any matter respecting which all or part of the documentation is classified as confidential, direct quotation shall be avoided.

5. The External Auditor, in addition to auditing the accounts, may make such observations as he/she may deem necessary with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and, in general, the financial consequences of administrative practices.

6. In no case, however, shall the External Auditor include criticism in his/her audit report without first affording the Director General an opportunity of explanation of the matter under observation. Audit objections to any items arising during the examination of the accounts shall be immediately communicated to the Director General or the Director, Division of Budget and Finance.

7. The External Auditor shall prepare a report on the accounts which shall include:

- (a) The extent and character of his/her examination and of any important changes in the extent and character of such examination, including whether he/she has obtained all the information and explanations he/she has required;
- (b) Matters affecting the completeness or accuracy of the accounts, such as:
 - (i) Information necessary to the correct interpretation of the audit;
 - (ii) Any amounts which ought to have been received but which have not been brought to account; and
 - (iii) Expenditures not properly substantiated.
- (c) Other matters which should be brought to the notice of the Board and, where appropriate, of the General Conference, such as:
 - (i) Cases of fraud or presumptive fraud;
 - (ii) Wasteful or improper expenditure of the Agency's money or other assets (notwithstanding that the accounting for the transactions may be correct);
 - (iii) Expenditures likely to commit the Agency to further outlay on a large scale;
 - (iv) Any defect in the general system or detailed regulations governing the control of receipts and expenditure or of supplies, equipment and materials of the Agency or for which the Agency is responsible;
 - (v) Expenditure not in accordance with the purpose of the appropriation concerned, after making allowance for duly authorized transfers between appropriation sections.
 - (vi) Expenditure in excess of appropriations, as amended by duly authorized transfers between appropriation sections; and
 - (vii) Expenditure not in conformity with the authority which governs it.
- (d) The accuracy or otherwise, as determined by stocktaking and examination of the quantitative records relating to supplies, equipment and materials of the Agency or for which the Agency is responsible; and
- (e) Transactions accounted for in a previous financial year, concerning which further information has been obtained, or transaction in a later financial year concerning which it seems desirable that the Board or the General Conference should have early knowledge.

8. The External Auditor, or such officers as he/she may designate, shall express and sign an opinion on the financial statements which shall:

- identify the financial statements examined; and
- describe the scope and extent of audit procedures; and

which shall address, as appropriate, whether:

- (a) The financial statements present fairly the financial position of the International Atomic Energy Agency as at the end of the financial year and the results of its operations in that year;
- (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.

9. The External Auditor shall have no power to disallow items in the accounts, but shall draw to the attention of the Director General for appropriate action any transaction concerning which he/she entertains doubt as to legality or propriety.



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Attachment B

**The United Kingdom Comptroller and
Auditor General**

presents to

**the International Atomic Energy
Agency**

A PROPOSAL FOR APPOINTMENT AS THE EXTERNAL AUDITOR

FOR THE FINANCIAL YEARS 1996 AND 1997

Proposal to the International Atomic Energy Agency by the United Kingdom Comptroller and Auditor General to act as External Auditor

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Summary and Introduction by the Comptroller and Auditor General

I am very pleased to provide information regarding my proposal to act as the External Auditor of the International Atomic Energy Agency (IAEA).

This proposal responds to the Secretariat's letter to all Member States (Annex A) and includes additional material to assist the General Conference of the IAEA in their consideration of the proposal. If appointed, my Office will provide a fully professional and highly cost-effective external audit service to IAEA.

In summary:

- I and my Office are totally independent of the United Kingdom Government and provide external audit services to a wide range of public sector bodies.
- We have extensive experience of auditing in the United Nations and other international public sector organisations.
- Our strong professional credentials and wide international experience offer the Agency the benefits of cost-effectiveness, efficiency of service and audit penetration.
- Our staff rotation policy ensures continued independence and objectivity.
- Our financial audit would be performed in accordance with the Agency's Financial Regulations and to internationally recognised standards.
- Under the Financial Regulations we would carry out management audits, devoting some 45 per cent of our audit resources to examining the economy and efficiency of IAEA's operations, and reporting the results in a fair, balanced and constructive way with constructive recommendations for improvement.
- We would staff the main audit work with a core of experienced senior staff to provide a continuous service and be on hand to advise IAEA in day to day matters. Additional support would be provided by our technical and computer audit specialists and other staff experienced in UN and international audits. Overall supervision of the audit would be carried out by an Associate Director who has responsibility for a wide range of international audits.

- Our staff are bound by internationally recognised auditing, professional and ethical standards, which include rigorous review procedures to ensure delivery of a high quality, efficient audit.
- We would charge a fixed annual fee of US\$265,000 for the provision of external audit services for each of the two financial years 1996 and 1997.

I commend this proposal to the International Atomic Energy Agency.



Sir John Bourn KCB

2/4 April 1995

The National Audit Office's Credentials

The NAO has extensive experience in auditing in the international public sector and plays a leading role in the international auditing and accounting profession.

The Audit Office

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's supreme audit institution. The Comptroller and Auditor General and the NAO are totally independent of the United Kingdom Government and are primarily concerned to ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. We audit the accounts of many public bodies as well as several international organisations.

The NAO employs some 850 people, mainly in its London headquarters, but also in regional and international locations. Three quarters of the staff are professionally qualified accountants or accountants under training. We also engage consultants and experts on short term contracts when specialist knowledge and skills are required.

Our work falls into three main areas:

- **Financial Audit** designed to obtain sufficient, relevant and reliable audit evidence in the most cost-effective way, and in accordance with internationally recognised standards, to support audit opinions on accounts.
- **Management Audit** investigations into the economy, efficiency and effectiveness of an organisation's use of resources.
- **Advising Clients** on best accounting practice and improvements that can be made to systems of management and control.

Our Links with the International Profession

The NAO has a wide involvement with the international, as well as the United Kingdom, accountancy profession. The Comptroller and Auditor General is:

- Chairman of the United Nations Panel of External Auditors, and one of his Directors heads the Panel's Technical Group;
- Chairman of the International Organisation of Supreme Audit Institutions' (INTOSAI) Working Group on the Audit of Privatisations;
- an observer to the Governing Board of EUROSAI (the European Organization of Supreme Audit Institutions) which is a regional grouping of INTOSAI;
- a member of the Public Sector Committee of the International Federation of Accountants;

- a member of the statutory and independent United Kingdom Financial Reporting Council and its Review Panel;
- a member of the Council of the Chartered Institute of Public Finance and Accountancy; and
- represented on the United Kingdom's Auditing Practices Board and various other accountancy committees.

The NAO also plays a leading international role by furthering exchanges of ideas and knowledge between audit institutions and other interested bodies from all over the world:

- in 1990 the Comptroller and Auditor General hosted the Conference of the Commonwealth Auditor Generals in London;
- we host many visits to the NAO from other Supreme Audit Institutions as well as participate in visits to these bodies;
- we second staff and have reciprocal exchanges with other audit offices. Such exchanges and secondments have recently been made or agreed with the European Court of Auditors, the French Cour des Comptes, the Italian Corte dei Conti, the United States General Accounting Office, the Canadian Office of the Auditor General, the Singaporean Auditor-General's Office and others;
- we organise and participate in audit training programmes for developing countries; and
- we are providing advice to a number of countries in Eastern Europe to aid the re-establishment of their audit offices.

Our International Auditing Experience

The NAO has wide experience of auditing international organisations:

- The NAO has provided audit services for a number of years to the World Health Organization as well as to other Specialized Agencies of the United Nations, including the International Labour Organization and the International Maritime Organization.
- The Comptroller and Auditor General is a member of the United Nations Board of Auditors.
- The NAO has various other international audits including several Commonwealth bodies.
- Our long association with the audit of development aid, with the aid programmes of both the United Kingdom and the United Nations, has given our staff valuable experience of working in multi-cultural and geographically dispersed organisations. This has assisted us over the years in broadening our approach, practice and perceptions.

Our Specific Qualifications for the IAEA Audit

Our staff have the professional capability, background and experience to provide a high quality external audit service to IAEA. We can offer:

- **A smooth transfer of External Audit responsibility with minimum disruption to IAEA staff**
 - In accordance with best United Nations audit practice, staff of the Canadian Office of the Auditor General have assured us of their fullest co-operation with the new appointee. With IAEA approval, we will seek the hand-over of all relevant current standing information audit files so as to ensure the immediate effectiveness of the new audit team.
 - Similarities in audit methodology and techniques between the Canadian Office of the Auditor General and the NAO will ensure IAEA staff familiarity with our audit approach. For example, in the continued use of the Canadian IDEA financial audit software package which has already been licensed for use by the NAO.
- **Experienced high quality staff**
 - all staff recruited into NAO are university graduates with good honours degrees. They are required to become members of the Institute of Chartered Accountants in England and Wales (ICAEW).
 - Members of staff to be assigned to IAEA audit have extensive experience of financial auditing in a wide range of bodies and have previous experience of international audits, including other specialised agencies of the United Nations.
 - Staff assignments are rotated to ensure a balance between continuity, independence and the application of fresh minds to the job.
 - Our staff can call as necessary on NAO in-house specialists, including statisticians, computer experts and economists.

Audit Proposals

Our audit approach and methods are set out at Annex C. Within this framework, our audit of IAEA will include the following specific aspects:

- **A policy of liaison and co-operation with Internal Audit and the Office of Management Services** on whom we will rely for ad hoc exercises and whose work we will take into account where possible in our own evaluations and assessments. In accordance with the Additional Terms of Reference governing audits of IAEA's accounts, we will provide an oversight of the internal audit function including assisting the unit in building upon its standards and methods of working.
- **We will maintain full coverage of both financial and value-for-money management audits.** In line with the External Auditor's responsibilities under the Financial Regulations and Additional Terms of Reference, we will report on the efficiency of the administration and management of the Agency, and bring to the notice of the Board and, where appropriate, the General Conference, wasteful or improper expenditure of the Agency's money or other assets. We will determine the relative proportions of our financial and value-for-money audit - which we presently estimate will be a 55/45 split - based on consultation with IAEA staff and our judgement of the requirements of the audit. Our aim would be to address those areas where there is potential for constructive observations which can contribute to improved management performance and value for money. Our initial enquiries have indicated the possible selection of the following topics over the two year audit period:
 - Review of the existing Project Performance Assessment System and the use, in general, of performance indicators in delivering IAEA's work programme in a zero real growth budget environment.
 - Investigation of potential audit risks within the Information Technology area, including the impact of the 1 January 1996 re-organisation of the Nuclear Energy and Safety Department on the provision of IT services by that Department.
 - Assessment of the impact of the harmonisation of budgetary and financial accounting from 1 January 1997, including any control weaknesses in charging costs, in particular, to multi-year projects.
 - Follow-up on the current joint review by the Office of Management Services and External Audit into travel arrangements and costs.
 - Review into any potential internal control weaknesses arising from proposed handover at 1 January 1996 of the operation of the Trieste based International Centre for Theoretical Physics to UNESCO.
 - Review of the effectiveness of internal control within existing procurement procedures.

Audit Fee

We would charge an annual audit fee of US\$265,000 for each of the financial years 1996 and 1997.

Our fee is based on the full recovery of costs incurred on the audit. There is no subsidy and this reinforces our independence and objectivity.

The fee would cover the audit-related salaries, secretarial and other support costs, all travel costs and living expenses of the External Auditor and his staff.

The fee would be fixed and would be increased only in exceptional circumstances, such as any significant extra audit requested by the General Conference or the Board under Regulation 12.05. In these circumstances, we will discuss the situation with IAEA staff in advance of any variation in the fee.

Further details about the audit budget are given in Annex D.

Annex A

The Note by the Secretariat of 7 February 1995
reproduced at Attachment A

Standards

Accounting and Auditing Standards

The NAO would perform the audit to standards consistent with best professional practice. NAO's auditing standards are fully consistent with the requirements of IAEA's Financial Regulations and Additional Terms of Reference Governing the External Audit. We take full account of the:

- Common Auditing Standards of the Panel of External Auditors of the United Nations;
- International Organisation of Supreme Auditing Institutions' Auditing Standards;
- International Federation of Accountants Auditing Standards;
- Generally accepted auditing standards promulgated by the United States of America Auditing Standards Board and by the United Kingdom Auditing Practices Board of the Consultative Committee of Accountancy Bodies;
- International Accounting Standards; and
- the United Kingdom Financial Reporting Standards and the United States of America Generally Accepted Accounting Principles.

Professional and Ethical Standards

NAO staff are bound by internationally recognised professional and ethical standards:

- **Propriety and Integrity** - we maintain a high standard of professional and personal conduct in our work and relationships with audited bodies.
- **Independence** - we remain independent of the audited body and maintain an independent attitude.
- **Objectivity** - we carry out work impartially and objectively.
- **Constructiveness** - we adopt a constructive and positive approach to work and relationships.
- **Proficiency** - we maintain and develop professional competence and expertise.
- **Reasonable Care** - we take all reasonable care in planning and carrying out audit work, in gathering and evaluating evidence, and in reporting findings.
- **Confidentiality** - we respect the confidentiality of information obtained in the course of our work.

- **Economy, Efficiency and Effectiveness of Operations** - we strive constantly to improve the economy, efficiency and effectiveness with which we use our own resources in carrying out our work.

Audit Methodology

The prime objective of our financial audit is to obtain sufficient, relevant and reliable evidence to support the audit opinion on financial statements.

Audit Approach

NAO's well developed and cost-effective financial audit approach focuses on the concepts of materiality and risk and on the needs of the main users:

- **Materiality** is an audit concept which recognises that financial statements can rarely be absolutely correct. A matter is regarded as **material** if its inclusion, omission, mis-statement or non-disclosure is likely to distort the overall view given by the financial statements. Our work therefore concentrates on all key areas of activity and the external auditor's report on the financial statements is confined to substantial issues. Less important matters will be dealt with in discussion and correspondence with the Secretariat.
- We carry out a **risk** evaluation, which includes an assessment of the strengths and weaknesses of controls within the Agency's financial systems, to determine the likelihood of material error occurring. The results of the assessment help us to determine the level of audit evidence needed to support the audit opinion; concentrate our efforts towards high risk areas; and improve the cost-effectiveness of audit testing.
- Our overall aim is to provide governing bodies, the **main users** of financial statements, with a clear assurance that the accounts and underlying financial transactions are free from material error and comply with the Financial Regulations.

The audits are carried out in defined stages covering planning, fieldwork, and completion. The work is managed and reviewed initially by an Audit Manager and finally by a member of the Directorate. In addition, the work is periodically subjected to internal quality control review procedures. This provides additional assurance that the audit opinions reflect conformity with auditing standards and the Agency's Additional Terms of Reference Governing External Audit.

Audit Planning

We attach great importance to sound audit planning and regularly review our approach with the aim of improving the effectiveness and efficiency of the audit.

Planning will involve:

- taking account of developments in the Agency, such as the introduction of new computerised systems and changes in procedures;

- assessing the internal control environment and evaluating the main financial systems;
- determining an appropriate level of testing for each of the account areas and developing audit test programmes, for instance, on income, cash, expenditure, payroll, outstanding obligations, assets etc;
- evaluating the extent to which we can place reliance on Internal Audit. We would liaise regularly with Internal Audit to avoid unnecessary overlap in audit coverage;
- identifying computer audit requirements, including statistically based sampling methods used to select items for testing. Statistical sampling gives us a high level of confidence that our test results are representative;
- determining the extent and depth of examination at Regional Offices and other locations; and
- recognising and minimising the hidden cost of audit - the time client staff have to spend in providing information and explanations to auditors - allowing the Agency's financial staff to concentrate on getting the accounts right.

Audit Fieldwork

We shall obtain direct audit evidence at the Vienna headquarters and, where necessary, other IAEA Offices to provide clear assurance to the Board and the General Conference that the financial statements and underlying transactions comply with the Financial Regulations and are free of material error.

- Evidence is obtained to satisfy specific audit objectives on completeness; occurrence and existence; ownership; measurement or valuation; regularity and disclosure.
- We obtain the necessary audit evidence from direct examination of computerised and manual records; interviews with staff; review of procedures and controls; and reperformance of calculations.
- We will ensure that financial statements comply with all relevant accounting standards and the Agency's Financial Regulations and accounting policies.
- We attach importance to testing the regularity of expenditure, ensuring that it complies with the intentions of the General Conference, as set out in the approved Programme Budget.
- We shall review analytically the figures in the accounts, comparing them with previous results, trends, and expected levels of activity; and establish the reasons for any significant variations.
- We shall carry out any additional audit work that may be necessary in the light of the initial test results.

Technical Support

The NAO recognises the need for a team approach to audit. Teams often need specialist support for short periods. In our experience this need is best met through a central core of specialists.

The technical support available from London includes:

- advice and guidance through technical bulletins and booklets on current developments, as well as one-to-one briefings by experts;
- a regularly updated and comprehensive Audit Manual providing detailed guidance on our financial audit standards, approach, planning and procedures, together with guidance on conducting value-for-money examinations; and
- workshops and seminars for staff in different audit fields facing common problems.

Technical staff join audit teams for short spells and provide immediate assistance on:

- audit approach;
- computer and information technology reviews and the use of computer assisted audit techniques;
- statistical techniques such as taking samples of transactions for audit testing purposes; and
- interpreting and presenting technical information in an understandable way.

Audit Completion

The final stage of the audit will involve:

- Liaison with IAEA on the final presentation of the financial statements, including any necessary adjustments to account figures resulting from the audit.
- Submission of the accounts to the Comptroller and Auditor General for signature of the audit opinion and related Report.
- Identification of matters which need to be taken into account in planning the audit of the next year's financial statements.

We will write to the Secretariat, drawing attention to any weaknesses in systems and controls identified during the course of the audit; and make constructive recommendations where appropriate. These management letters are confined to matters which are not sufficiently important to be included in the External Auditor's report.

Management and Review

We have well established review procedures which ensure that appropriate audit work is undertaken efficiently and in accordance with auditing standards.

- all planning decisions and fieldwork are reviewed by management and Directorate;
- all significant matters are dealt with promptly and will be raised with IAEA as necessary; and
- progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget.

Quality Control Review

Our audit procedures are designed to achieve a cost-effective audit to a high professional standard. Independent internal quality control reviews by a team of experienced audit staff, unconnected with the audit, provide additional assurance from time to time that standards and efficiency are being maintained. The cost of these reviews is borne by the NAO and full client confidentiality respected.

Reporting

The report of the External Auditor on IAEA accounts will flow in part from significant matters arising from our financial audit, and also from the requirements laid down in the Additional Terms of Reference Governing External Audit.

The report of the External Auditor will also include the results of our value-for-money audits of specific areas of IAEA's operations, carried out under the Financial Regulations. This part of the report will provide information on the efficiency and effectiveness of operations examined and include constructive recommendations for improvement.

We will devote some 45 per cent of audit resources to this work which would be an important and integral aspect of our responsibilities.

The NAO is a leading exponent of value-for-money audit and in carrying out our work we follow clearly defined standards to ensure that:

- investigations are constructive and realistic;
- reports are supported by solid evidence and make practical recommendations;
- our practice complies with the Guideline on Value-for-Money Investigations adopted by the Panel of External Auditors of the United Nations.

In accordance with the Financial Regulations, the Director General and Board will be given the opportunity to provide comments and observations on our findings before transmission of our report to the General Conference. The procedure for clearing our reports is a well established feature of our work in the United Kingdom and in the international environment. We operate a

"no surprises" policy. In our view, this will enable the General Conference to discuss the issues raised in our report in the confident knowledge that they are based on sound, reliable and fairly presented facts. In addition, the process gives IAEA the earliest possible opportunity to act on practical recommendations by the External Auditor.

Under Financial Regulation 12.05, the General Conference and the Board may request the External Auditor to perform certain specific examinations and issue separate reports on the results. We will be ready to undertake studies on subjects put to us.

Resource Budget

The annual fee of US\$265,000 for the audit of each of the accounts for the financial years 1996 and 1997 is based on a total resource requirement equal to approximately 13 auditor-months for each financial year.

As well as IAEA's annual account, the resource budget also covers the annual audits of the following funds for which IAEA has management responsibility:

Vienna International Centre Commissary
Restaurant Seibersdorf
Staff Welfare Fund
Housing Projects Fund
Health Insurance Premium Reserve Fund

In accordance with Regulation 12.06, we would expect free office accommodation and telephone/facsimile facilities to be provided at IAEA premises as required for the performance of the audit.

Curriculum Vitae of the Comptroller and Auditor General and Profiles of the Audit Team

The Comptroller and Auditor General, Sir John Bourn, took up his post in 1988. He was educated at the London School of Economics, where he took a first class honours degree in Economics and a PhD. Since 1956 he has mainly worked in the Ministry of Defence. He has also worked in the Treasury, in the Northern Ireland Office and at the Civil Service College.

In 1985 Sir John became Deputy Under Secretary of State for Defence Procurement in the Ministry of Defence, responsible for the formulation and coordination of Ministry of Defence procurement policy, including contractual, industrial, sales and international aspects; and for relations with industry and other government departments.

Sir John has been a visiting Professor at the London School of Economics since 1983.

Senior staff in London with responsibility for the audit will be:

John Higgins, Assistant Auditor General who, as part of his many responsibilities, will advise the Comptroller and Auditor General and his Deputy on IAEA audits.

Jim Rickleton, is the Associate Director who will have direct responsibility for IAEA. He is a member of the Chartered Institute of Public Finance and Accountancy and is also qualified as a Certified Information Systems Auditor and has had considerable exposure to both financial and value-for-money audit. Between 1988-92 he was the Audit Manager for the audit of the five UK Research Councils. Prior to this he spent three years on the NAO Financial Audit Technical Group providing advice and training on all aspects of financial audit including advising on the audits of the Food and Agricultural Organization and the World Food Programme. In 1992 he was appointed Private Secretary to Sir John Bourn, Comptroller and Auditor General, whom he continued to serve until March 1995. In January 1995 he was appointed as the UK's Liaison Officer for the European Court of Auditors.

Staff responsible for managing and supervising the audit will be:

Dudley Lashmar, Audit Manager, a member of the Institute of Chartered Accountants in England and Wales, with over 20 years post-qualification experience in both public and private sector auditing. Between 1991-94 he was the Audit Manager in charge of the external audit of the United Kingdom Atomic Energy Authority. His present duties include the audits of the International Maritime Organization, the Pan American Health Organization and the Commonwealth Secretariat.

Ann Setna, Principal Auditor, a linguist (German and French) and member of the Chartered Institute of Public Finance and Accountancy. Her current audit work is for the United Nations Development Programme, the Organisation for Economic Cooperation and Development (OECD) and the Commonwealth Secretariat.

In addition, specialist expertise, particularly in the computer field, is provided from our London office. Other staff assisting on the audit would be graduate pre and post qualified accountants.

We would expect most members of the team to remain for a sufficiently long period to establish, and make full use of, the body of knowledge about IAEA. Any replacement staff members will be of equally high calibre. This would provide the balance of continuity and experience, coupled with fresh insight, that we think essential for carrying out a high quality and cost-effective audit.

Relevant NAO Publications

We have produced a series of best practice guides on various issues. Our publications to date with relevance to international organisations include:

- A Framework for Value-for-Money Audits
- Selection and Use of Management Consultants
- Promoting Value for Money from Grants

We have collaborated with other bodies to produce:

- A guide on the audit of manpower in the United Nations environment
- A Public Audit Manual for use in developing countries
- A training programme for the staff of other Supreme Audit Institutions seeking to enhance their audit methodology
- ACCIS Information Systems Security Guidelines for the United Nations Organizations

We have produced a number of reports to the United Kingdom Parliament on issues of relevance to IAEA:

Reports on Energy and Research

- Costs of Decommissioning Nuclear Facilities
- Renewable Energy Research, Development and Administration
- Rutherford Appleton Laboratory
- Management of Intellectual Property
- Use of Simulators in Training
- Overseas Technical Cooperation

Reports on information technology

- Management of Computer Security in Government Departments
- Administrative Telecommunications
- Office Automation
- Data Protection Controls and Safeguards

Reports on human resources

- Manpower Planning
- Training of Non-Industrial Personnel
- Recruitment of Clerical Staff
- Staff Appraisal
- Human Resource Management
- Management of Sickness Absence

Reports on property and equipment management

- Buildings and the Environment
- Building Maintenance

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Attachment C



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Direct Line 0171-798 7195
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Reference
Date 15 May 1995

Urgent by FAX to: 00 43 1 20 93 129

Dear Mr Espino

Mr Higgins has asked that I respond on his behalf to your fax of today requesting further information on our bid for appointment as the External Auditor to International Atomic Energy Agency (the Agency).

Accordingly, I hereby inform you that the cost for the Agency's mandatory financial audit would be 7.5 auditor-months per year at an annual cost of US\$ 153,000.

This is a fixed fee which would be increased only in exceptional circumstances, such as any significant extra audit requested by the General Conference or the Board under Regulation 12.05.

The fee would also cover the cost of auditing the five separate funds listed in Annex D to our original proposal.

Please do not hesitate to contact me if you require any further information on our proposal for appointment as the External Auditor.

Yours sincerely,

DUDLEY LASHMAR
Audit Manager

