

General Conference

GC(49)/11

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Item 13 of the provisional agenda
(GC(49)/1)

Appointment of the External Auditor

1. The term of office of the Agency's current External Auditor – the Vice-President of the German Supreme Audit Institution (Bundesrechnungshof) – will expire upon the completion of the audit of the Agency's accounts for 2005. It will therefore be necessary for the General Conference to appoint an External Auditor to audit the Agency's accounts for the financial years 2006 and 2007.
2. By 2004/Note 50 of 22 December 2004, the Secretariat invited Member States to nominate, by 14 January 2005, candidates whom they wished the General Conference to consider at its 2005 regular session (Attachment 1). As of 14 January 2005, the Secretariat had received one nomination, that of the Vice-President of the German Supreme Audit Institution (Bundesrechnungshof).
3. On 15 June 2005, the Board of Governors agreed to recommend to the General Conference the appointment of the Vice-President of the German Supreme Audit Institution as the External Auditor to audit the Agency's accounts for the financial years 2006 and 2007.
4. The material submitted to the Secretariat on behalf of the Vice-President of the German Supreme Audit Institution, which was considered by the Board of Governors, is reproduced as Attachment 2.

Recommended Action

5. The General Conference may wish to endorse the recommendation of the Board as set out in paragraph 3 above.



IAEA

الوكالة الدولية للطاقة الذرية

国际原子能机构

International Atomic Energy Agency

Agence internationale de l'énergie atomique

Международное агентство по атомной энергии

Organismo Internacional de Energía Atómica

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2004/Note 50

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 (German Supreme Audit Institution (SAI) Bundesrechnungshof) expires with the completion of the audit of the accounts for the financial year 2005. It will be necessary for the General Conference at its forty-ninth regular session, in September 2005 to appoint a new External Auditor to audit the accounts for the financial years 2006 and 2007. Appointment is traditionally made for a period of two years, but may be extended.

Member States are invited to nominate candidates whom they wish the General Conference to consider at its forty-ninth 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.

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;
- b) a presentation of the approach to the audit and the number and level of staff to be involved in the audit; and
- c) a proposed audit fee (expressed in Euros) and an estimate of the total number of auditor-months which would be devoted to the audit of the accounts for 2006.

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 the Auditor-General's office and 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 14 January 2005, in order to allow sufficient time for further inquiries and subsequent forwarding of a proposal by the Board of Governors for consideration by the General Conference in September 2005. The Agency's Division of Budget and Finance would be pleased to provide any further information or clarification that may be required.

The image shows a circular logo on the left, which is the emblem of the International Atomic Energy Agency (IAEA). It features a central atomic symbol surrounded by a laurel wreath. To the right of the logo is a handwritten signature in black ink that reads "DB Waller".

David B Waller

22 December 2004

ARTICLE XII. EXTERNAL AUDIT**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.

**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.

International Atomic Energy Agency

(IAEA)

Offer of Services
as External Auditor

submitted by the
German Supreme Audit Institution
Bundesrechnungshof

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A Curriculum Vitae and Details of the National and International Activities

Norbert Hauser
Vice-President
German SAI
Bundesrechnungshof

Adenauerallee 81
D - 53113 Bonn
Germany

Date and place of birth: born 20 May 1946 in Olpe, Germany

Civil status: married

1952 - 1967 School education with university entrance qualification

1967 - 1969 Military Service with promotion to Officer

1969 - 1979 Law studies at the University of Bonn
followed by Junior Barrister education

1979 University degree in law

1979 – 1981 Federal Managing Director of the Medium-Sized
Businesses Association

1975 - 1999 Speaker of the Christian-Democratic Party in
matters of Finance - and Budget Policies
Member of the Municipal Council of the City of Bonn

1981 - 2002 Practice of a lawyer

1998 - 2002 Member of the German Federal Parliament
Amongst others:
Member of the Public Accounts Committee
Member of the Education and Research Committee
Member of the Investigation Committee on donations to
political parties

as from 2002 Vice-President of the German SAI
External Auditor of UNIDO

as from July 2004 External Auditor of the International Atomic Energy
Agency.

A Curriculum Vitae and Details of the National and International Activities

International Background:

Norbert Hauser's national activities cover the full range of external audit missions at federal departments and agencies and the relationship with Parliament. **International activities** include audit responsibilities regarding international organizations and permanent working contacts with supreme audit institutions of foreign countries, with a recent focus on technical support to Middle and Eastern European countries. Recently Norbert Hauser was **appointed External Auditor** of the United Nations Industrial Development Organization - **UNIDO**. This mandate ended on 30 June 2002.

As from 1 July 2004 Mr Hauser took over the mandate as **External Auditor of the International Atomic Energy Agency**. His team is just finalizing the Audit of the accounts for the financial period 1 January to 31 December 2004. He will deliver his first report as External Auditor of the Agency on 31 March 2005.

Norbert Hauser is founder and chairman of the **German-Spanish-Society**.

The purpose of this presentation is to offer the Services of the German Supreme Audit Institution as External Auditor of the International Atomic Energy Agency (IAEA)

This paper is designed to illustrate why the German Supreme Audit Institution (German SAI), considers itself a suitable candidate for the office of the IAEA External Auditor. It outlines the Bundesrechnungshof's role as Germany's Supreme Audit Institution, its broad range of national and international audit experience, its highly professional staff resources, and its proposed strategy for fulfilling the IAEA's audit mandate.

Historical Background and Current Role of the Bundesrechnungshof

Government audit in Germany can look back to a track record of over 280 years. When Prussian King Frederic William I established the Prussian General Chamber of Accounts in 1714, this was the starting point for the development of independent government auditing in Germany. Today, the German SAI has the status of a supreme federal authority, i.e., it is equal in rank to a federal government department. It is an independent institution of government audit, subject only to the law. It is not part of the federal government and is not subject to any instructions from either the Executive Branch or the Legislature.

Our staff totals some 1500. We have 9 audit divisions, 53 audit units and 9 regional audit offices. Administrative functions are carried out by a presidential division (comparable to a General Secretary). Our auditors all hold a university or other higher education degree. In some cases, the respective degrees have been awarded on the basis of training within the public administration. The professional qualifications found within our human resource pool range from public administration and law via various engineering specialties to economics, management and computer science. The staff assigned to the audit of international organizations all have excellent knowledge and skills in accounting issues. Most of them have participated in the audit of UN Organizations (our assignment as External Auditor of the United Nations Industrial Development Organization – UNIDO – in Vienna ended on 30 June 2002). All auditors have a record of several years of practical working experience in at least one government department or agency. This highly proficient workforce provides the German SAI with a sound basis for auditing international organizations.

Finally, the audit team consisting of 15 experts in various fields has gained plenty of experience during the first audit mission to IAEA in autumn 2004. This is strongly supported by intensive training in all areas relevant for the audit of IAEA.

National Audit Mandate

The German SAI's audit mandate covers

- federal financial management,
- federal trading funds,
- public bodies incorporated under federal law,
- social security institutions incorporated under federal law or state law, and
- the management of federal government shareholdings in private sector enterprises.

Reporting

The German SAI submits annual reports on its audit findings to both chambers of the federal legislature and to the federal government. In addition to annual reporting, we may at any time report on matters of particular significance.

Advisory Role

We also conduct audits of administrative decisions that have not yet had a financial impact. That is a very far reaching regulation and enables us to step into certain issues with a performance audit at a very early stage. Thus we are used to checking government expenditure **before** the money is actually spent. We use the audit findings as a basis for advising government departments and agencies, and also Parliament, on decisions to be taken, notably in connection with budgeting. This advisory function has become increasingly important over the past decade.

Audit Criteria

Performance Audit

In Germany, the emphasis of government auditing has shifted over time. Formerly, the work of government Auditors focused on ex post financial audit work. The additional audit criterion of **performance** was imposed by statute decades ago, so that performance audit is now a key focus in our work.

Auditors do not only look into the figures of an account or into individual revenue or expenditure items but also into the underlying **operations** and **programmes**. This operational audit of the Federal Government's overall financial management increases **timeliness** and **topicality**. It addresses entirely new audit fields. It includes examinations into the **structure, operations** and **human resources management** of departments and agencies. Audit work also focuses on **programme evaluations, effectiveness audits, efficiency audits** and **risk analyses**. We use the audit findings generated as a basis for advising Parliament and the Government. In many reports, the German SAI presents the lessons learned from earlier audit missions to provide an insight into current issues and problems of financial management.

Financial Audit

Performance audit is supplemented by the audit of **regularity and compliance**, where government operations are checked against supporting documents, applicable statutory provisions, rules and regulations. Essential part of Financial Audit is the certification of the Federation's accounts.

Timely Audit

The German SAI's **timely audit approach** seeks to develop audit findings helping to enhance future action rather than merely criticizing past deficiencies.

Our Track Record as External Auditor of International Organizations

Wealth of Experience Gained in the Audit of the United Nations

The German SAI's President served as one of the three members of the United Nations Board of Auditors from 1989 to 1992. 17 Auditors assisted him in performing the relevant missions. The audit mandate covered the examinations of the annual accounts and financial management of the **United Nations** and some UN organizations, e.g. the **United Nations Development Programme (UNDP)**, the **United Nations Fund for Population Activities (UNFPA)**, the **International Trade Center (ITC)**, and the **United Nations Relief and Works Agency (UNRWA)**. The audit missions involved the collection of evidence at field offices and at UN development projects located worldwide.

From 1994 to 2002 the German SAI also audited the UN specialized agency **UNIDO**. As from 1 July 2004 the German SAI's Vice-President took over the mandate as **External Auditor of the International Atomic Energy Agency**. His team is just finalizing the Audit of the accounts of the financial period 1 January to 31 December 2004. He will deliver his first report as External Auditor of the Agency on 31 March 2005 for consideration by the PBC of the Board of Governors on 2 May.

Other International Audit Missions

German auditors have been involved in the audit of a wide array of international projects. In recent years, the German SAI has participated e.g., in the audits of the **European Organization for Nuclear Research (CERN)**, the **European Space Agency (ESA)**, the **Franco-German Research Center St. Louis (ISL)**, the **European Organization for the Safety of Air Navigation (EUROCONTROL)**, the **European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)**, the **Western European Union (WEU)**, the **Organization for Joint Armament Cooperation (OCCAR)**, the **European Center for Medium-Term**

Weather Forecasting (ECMWF), the European Patent Office, the Organization for Economic Cooperation and Development (OECD), and the Franco-German and Polish-German youth foundations. Moreover, our staff is seconded to the **International Board of Auditors for NATO** and to the **European Communities Court of Auditors.**

Membership in INTOSAI/EUROSAI

The German SAI is a member of the **International Organization of Supreme Audit Institutions (INTOSAI)**, to which the supreme audit institutions of most UN member countries are affiliated. We hosted INTOSAI's 13th World Congress held in Berlin in 1989, with participants from more than 130 nations and international organizations. The German SAI's President served as **Chairman of INTOSAI's Governing Board** from 1989 to 1992.

In addition, the German SAI is a member of INTOSAI's European regional working group, the **European Organization of Supreme Audit Institutions (EUROSAI)**. Our office will host the VIth EUROSAI Congress in Bonn in 2005 and our President will subsequently serve as EUROSAI's chairman.

International Cooperation

By tradition, we provide support to developing government audit systems in other countries, i.e. by means of multinational co-operation projects.

Meeting IAEA's Audit Requirements

In its audit of IAEA, the German SAI will make available the experience and expertise gained through its national and international audit work. This includes technical issues as well as performance audits in all areas of the Agency's operations. We strongly support the approach of results-based management and we would like to further accompany the Agency's process of streamlining its Technical Cooperation activities. Finally, we have got vast experience in the audit of all financial issues like cash management or the implementation of the EURO.

Our Audit Approach

We will conduct the audit in accordance with best audit practice.

We plan, prepare, conduct and report on the audit exercises in compliance with internationally accepted standards. Our Auditors are guided in their audit work by a cooperative attitude towards IAEA's management and internal auditors.

Areas of special experience in UN Organizations

The assignment in the Board of Auditors we held from 1989 to 1992 was a good way to familiarize with the special nature of UN Organizations. In our audit of UNIDO we addressed - besides financial audit – all performance issues arising in that UN organization over the period of eight years. This covered the effectiveness of Internal Control Systems as well as financial issues such as cash management and investments, procurement procedures, EDP and personnel management issues, UNIDO's field operations at headquarters and in 6 field missions to UNIDO projects in Asia, South America and Africa.

In the audit of IAEA the German SAI has started examinations in all major areas of the Agency's activities. According to its plans it will extend these audits to eventually cover all issues of relevance and materiality over the years.

Our Audit strategy for the IAEA

Staff

We will provide an internationally experienced team of auditors, mainly drawn from among the German SAI's staff, who have participated in previous UN audits. The team will be led by a Director of External Audit and an Audit Manager and consists of 13 Senior Auditors, all of them having university degrees in various fields. The team is able to work in German, English and French. The audit team represents the vast specialized knowledge available within the German SAI in all audit fields in the public sector. Some auditors have worked in private sector audit companies. We are able to meet IAEA's requirements for a comprehensive financial audit as well as its technical requirements by having assigned staff to the audit with excellent experience in national financial auditing and all kinds of performance audits.

Financial Audit

The financial audit mainly aims at assessing whether financial statements fairly present the financial position at the end of a financial period, and whether the financial statements have been prepared in accordance with the relevant accounting guidelines and policies, applied on the basis consistent with that of the preceding financial period.

The financial audit will be based on analytical audit procedures. This includes detailed scrutiny of the financial statements, an examination of the Agency's Internal Control System and sample testing of transactions and vouchers.

Our financial audit is supported by commercial audit software called "WinIDEA". We use this software to generate the Financial Statements from the General Ledger. In autumn 2004 we have tested whether the Agency's AFIMS leads to the same financial results as our own calculation.

As AFIMS proved to be correct, we can now apply the Agency's financial system for our year-end audit. This saves time and resources for both sides. The necessary training of German SAI's staff in AFIMS and FINTRACK has already taken place.

Performance Audit

The first step in conducting a performance audit is to gain an idea of the audit subject by carrying out a task analysis. Areas of high financial impact and high risk for the Organization are identified. As a result of discussions with responsible officials and the collection of audit evidence on the premises of functional and programme management units, additional audit subjects may emerge.

Performance audits cover the whole range of IAEA's activities. We will measure these against the criteria economy, efficiency and effectiveness. To make our own audits as efficient as possible, we will consider asking for support of Auditors General of developing countries, when special examinations in the Fields of operations are necessary.

The overall ratio between Performance and Financial Audit will be about half and half. Accordingly, half of our team has financial and the other half technical backgrounds.

Internal Audit and Oversight

We have already established close working relations with the Office of Internal Oversight (OIOS). In order to avoid duplication we make use of the information provided by that office and exchange our findings and reports. As to the financial audit of certain funds, the External Auditor may consider relying on the audit work carried out by Internal Audit.

Audit Standards

We will carry out the audit of the IAEA in accordance with internationally accepted audit standards, especially those of the Panel of External Auditors of the United Nations, which were tailored to the special circumstances of UN Organizations. Those are based on the INTOSAI standards, with reference to the standards of the International Federation of Accountants (IFAC).

For financial audit work we will apply the United Nations System Accounting Standards (UNSAS) as adopted by the Panel of External Auditors of the United Nations.

Reporting

At the end of a financial period, we will submit a report to the Board in accordance with Financial Regulation 12.08 and the additional terms of reference governing external audit of the IAEA.

Before we report to IAEA's legislative body we will, of course, inform management of any relevant data found, thus providing advice on how to enhance IAEA's daily work and giving Management the opportunity to comment.

E**Proposed Audit Fee and Estimates of Auditor Work Months
for the Financial Period 2006-2007****Our offer for 2004 and 2005**

For 2004 and 2005 we had offered the following service:

	No. of months Per year	No. of Senior Auditors	No. of Auditors	Fee 2004 (US\$)
Projected	22	3	3	264,000
Delivered during 2nd half of 2004	15	13	0	264,000

The fee of US\$ 264,000 per year was based on a cost calculation we made in our local currency, the Euro (€). The US\$ amount was the result of the multiplication of our costs of € 243,655 with the exchange rate as at 14 February 2003 (US\$ 1.076 for € 1). In the meantime we had to be very economic, because the fee in US\$ was representing a Euro amount of € 196,035 only, leaving the German SAI with a loss of € 47,620 per year (exchange rate 4 January 2005 – 1 US\$ = 0.74 €).

The German SAI trust that you will understand that we have to base our offer for 2006 and 2007 on the real costs in Euro and therefore charge the Agency with the amount originally calculated. On the other hand, we will continue our work with an increased number of work months (30 instead of 22).

The Bundesrechnungshof's offer for 2006 and 2007

We offer the Agency the service of the German SAI for 2006 and 2007 on the basis of zero growth at the following terms per year:

	No. of months Per year	No. of Senior Auditors	No. of Auditors	Fee 2006 (Euro)
Service per year	30	13	0	244,000