

OECD Audit Architecture

In affirmation of the OECD's strengthened commitment to greater transparency and accountability, following the input of the Audit Committee, and as announced by the Secretary-General in his message to All Ambassadors on 12 March 2018, the elements comprising the "OECD Audit Architecture" have been compiled and made more visible via OECD internet, to all staff via OECD intranet and to all Members via Council extranet. This architecture is as follows:

1. The OECD Audit Architecture is enshrined in the Financial Regulations, the highest form of legal instrument under the Organisation's founding Treaties, last updated effective 1 November 2008, as approved by the Council [[C\(2008\)92/REV1](#)], and comprises:
 - Internal Audit (Regulation 30);
 - The Audit Committee, a sub-group of Council (Regulation 31), and
 - External Audit, the Supreme Audit Institution of a Member country appointed by the Council (Regulations 32 to 34).

The Audit Committee

2. The Audit Committee, a special body of the Council, reviews the independence and effectiveness of Internal, as well as External, Audit. It reviews the work programmes, and monitors management's implementation of the recommendations, of both functions:
 - Specifically regarding Internal Audit, it provides an opinion to the Council on the appointment (and termination of appointment) of the Internal Audit Director; and reviews the Internal Audit Annual Report to the Council, before finalisation.
 - The Audit Committee also recommends to the Council the terms of reference for, and the appointment of, the External Auditor; and, based on its examination of the External Audit Reports, in coordination with the Budget Committee, it recommends to the Council on the discharge of the Secretary-General from all liability in respect of his or her administration during the financial period (a process known as "Quitus").
 - Finally, the Audit Committee reviews the financial situation of the Organisation as well as its internal control and risk management systems.

Internal Audit

3. Internal Audit was established in OECD on 1 January 2003. It is headed by a Director and reports to the Secretary-General. It provides the Secretary-General with an independent and objective assurance and advisory activity designed to add value and improve OECD's operations. It helps the Organisation achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

4. Internal Audit adheres to the mandatory guidance of the Institute of Internal Auditors (IIA), which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (hereinafter “the Standards”). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit’s performance. The IIA Practice Advisories, Practice Guides, and Position Papers are also adhered to, as applicable, to guide operations. In addition, Internal Audit adheres to relevant OECD policies and procedures and its internal “*Guide to Planning, Executing and Reporting on Internal Audit Engagements*”.
5. Internal Audit maintains a quality assurance and improvement programme that covers all aspects of its activity. This programme includes an evaluation of the activity’s conformance to the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement. The Director of Internal Audit communicates to the Secretary-General and the Audit Committee on the Internal Audit activity’s quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years¹.
6. Concerning the monitoring and reporting of management’s implementation of recommendations resulting from Internal Audit work:
 - The final internal audit report is provided to the Secretary-General together with a suggested memorandum to the audit client. Attached to the memorandum is a table entitled “Action Plan” in which the internal audit recommendations are listed. The Secretary-General issues the internal audit report and attached Action Plan table to the audit client, with a request that the completed Action Plan be returned within ten working days;
 - The audit client returns the completed Action Plan to the Secretary-General with a copy to Internal Audit;
 - Internal Audit meets frequently with Management and the Secretary-General to discuss progress in implementation;
 - Six months following the issuance of the Internal Audit report, Internal Audit forwards to the Secretary-General a suggested memorandum to send to the audit client requesting an update on implementation of the action plan by completing the table, “Status of Implementation of Internal Audit Recommendations”. This table contains the original internal audit recommendations, the audit client’s Action Plan and space for the audit client

¹ This was last performed (for the third time) in 2015 by IIA Global Quality Services, following which the (third successive) overall top rating “generally conforms” was awarded. This means that Internal Audit has a charter, policies, and processes that are judged to be in conformance with the Standards.

to outline the follow up to the action plan which addresses each recommendation;

- The Audit Committee, consistent with its mandate, is informed of the status of implementation of Internal Audit recommendations at each Audit Committee meeting. This information is also included in the Audit Committee Chair's Report to the Council following each Committee meeting; and
 - Internal Audit also includes the status of implementation of recommendations in its Annual Report to the Council.
7. The mandate or "charter" of Internal Audit was updated as part of the 2008 reform of the Financial Regulations, and is contained in Financial Regulations 31 (Audit Committee) and 30 (Internal Audit), as follows:

8. *Financial Regulation 31 - Audit Committee*

§1. There shall be an Audit Committee of Council which shall monitor the independence and effectiveness of the internal and external audit functions and review the financial situation of the Organisation. It shall report to Council on a regular basis.

§2. The Audit Committee shall be composed of nine members designated by Council. Six members shall be nominated from permanent delegations of Member countries, including *ex officio* the Chair of the Budget Committee, and three members shall be experts proposed by the Supreme Audit Institutions of Member countries, one of whom shall be proposed by the Supreme Audit Institution of the host country. Council will note the relevant technical and professional qualifications of the experts proposed by the Supreme Audit Institutions when confirming them as members of the Audit Committee.

§3. The term of office of all members from Member country delegations, other than the Chair of the Budget Committee, shall be renewable yearly by Council. The experts shall be appointed for three-year maximum staggered terms, using the rotation schedule established by Council.

§4. The Audit Committee shall adopt recommendations on a consensual basis. In the case of any dissent among Committee members, the conclusions of the Chair, together with the dissenting opinion, shall be presented in the subsequent Committee report.

§5. The Council appoints the Chair of the Audit Committee who shall be the Head of a Member country delegation other than the Chair of the Budget Committee.

§6. No member of the Audit Committee shall be from the same institution as the External Auditor. The three expert members shall be reimbursed for their travel and accommodation costs, and if deemed necessary, may be remunerated.

§7. The Audit Committee's functions shall be as follows:

- review and comment on the annual work programme of the internal and external audit functions, including updates thereto;

- review the management responses to, and implementation of, the recommendations by the internal and the external audit function; and
- review the financial situation of the Organisation as well as its internal control system and its risk management system;
- provide an opinion to Council regarding the appointment by the Secretary-General, as well as regarding the termination of appointment of the Director of Internal Audit;
- recommend to Council the terms of reference for the External Auditor, including the performance audits to be carried out by the External Auditor, and, following a process of call for tender, recommend to Council the appointment of the External Auditor;
- in coordination with the Budget Committee, transmit its recommendations to Council on the discharge of the Secretary-General from all liability in respect of his or her administration during the financial period.

§8. The Audit Committee shall meet with the external and internal audit functions, and, as appropriate, other officials of the Organisation.

§9. A staff member of Internal Audit nominated by its Director shall perform the functions of secretary to the Audit Committee (agenda, meeting summaries, and other administrative duties).

9. *Financial Regulation 30 – Internal Audit*

§1. There shall be a Director of Internal Audit who shall report directly to the Secretary-General. The Secretary-General appoints and terminates the appointment of the Director of Internal Audit, with the consent of Council and in light of the opinion of the Audit Committee. The Director of Internal Audit shall serve for a maximum single term of five years.

§2. By adhering to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, Internal Audit shall provide the Secretary-General with an independent and objective assurance and advisory activity designed to add value and improve the Organisation's operations. It shall help the Organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

§3. The annual programme of work of Internal Audit, including performance audits, shall be determined by the Secretary-General and the Director of Internal Audit.

§4. The Director of Internal Audit shall report audit findings to the attention of the managers of the Organisation, who need such information to rectify deficiencies and to ascertain the extent to which recommendations have been implemented.

§5. An annual report to Council shall be prepared by the Director of Internal Audit.

§6. Under the authority of the Secretary-General, Internal Audit shall have operational independence in the conduct of its duties. It shall have the authority to initiate, carry out and report to the Secretary-General on any matter which it considers necessary to fulfill its mandate and objectives and shall have access to the Organisation's activities, records, property and personnel. It shall have direct and free access to the Audit Committee.

10. In addition to these Financial Regulations, the detail of the nature and scope of Internal Audit assurance and advisory work evolves in “living” texts, approved by the Secretary-General and on which the Audit Committee is invited to comment before finalisation, notably:
 - Internal Audit Strategy², which includes an outline of the responsibilities of the Internal Audit function
 - Internal Audit Work Plan 2019-2020.
11. In order to preserve its independence, Internal Audit does not assume direct operational responsibility or authority over any of the activities audited. Accordingly, it does not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgement.
12. All officials are requested to assist the internal audit activity in fulfilling its roles and responsibilities.
13. The Director confirms the organisational independence of the Internal Audit activity via his/her Annual Report to the Council.

External Audit

14. External Auditor, in turn, audits the Organisation's annual financial statements and the soundness of the financial administration of the Organisation. External Auditor's primary function is to assist Members in determining whether management has established systems and processes that ensure that the Organisation's financial, human, and physical resources are safeguarded and protected; that the OECD's operations are conducted economically and efficiently; and that they are effective in carrying out its mission.
15. To that end, External Auditor is required to audit the OECD's annual financial statements, in accordance with *International Standards on Auditing* established by the International Federation of Accountants, and to express a “true and fair view” opinion thereon. In addition, the External Auditor is tasked with performance audits, which include assessment of effectiveness, economy and efficiency of the OECD's activities.
16. Financial Regulations relevant to External Audit are as follows:

² In its 2015 EQA conclusions, IIA Global Quality Services commended OECD Internal Audit for its development of a Strategy based on the IIA “Capability Model For the Public Sector”.

17. Financial Regulation 32 – Mandate and Functions of the External Auditor

§1. The annual financial statements and the soundness of the financial administration of the Organisation and of the Staff Provident Fund shall be audited by an External Auditor, which shall be the Supreme Audit Institution of an OECD Member Country. The External Auditor shall be appointed by Council following a process of call for tender, under the conditions and subject to the terms of reference established by Council, at the recommendation of the Audit Committee.

§2. The appointment of the External Auditor shall be for a four year period with the option of one extension of two years non-renewable.

§3. The primary function of the External Auditor, by means of its audits, is to assist the Member countries, through Council, in determining whether the management has established systems and practices that provide reasonable assurance that the Organization's financial, human, and physical resources are safeguarded and protected; that operations are conducted economically and efficiently; and that the operations of the Organization are effective in carrying out its mission.

To that end, the External Auditor shall be required to audit the OECD annual financial statements, and those of the Staff Provident Fund, in accordance with *International Standards on Auditing* established by the International Federation of Accountants, and to express a “true and fair view” opinion thereon.

§4. The External Auditor shall carry out such examinations and enquiries as it considers necessary to enable it to report to Council on the Organisation's annual financial statements.

§5. In addition, the External Auditor shall be tasked with performance audits. These performance audits include assessment of effectiveness, economy and efficiency of OECD activities.

18. Financial Regulation 33 – Submission of the Annual Financial Statements to the External Auditor

The Secretary-General shall submit the annual financial statements of the OECD and of the OECD Staff Provident Fund to the External Auditor no later than the 31 March after the close of the financial period.

19. Financial Regulation 34 - Report of the External Auditor on the Annual Financial Statements

§1. The External Auditor shall report to Council on the annual financial statements of the OECD and of the OECD Staff Provident Fund no later than the 31 May of the year following the close of the financial period in question. No later than the 31 July, the External Auditor shall prepare a second report on the budget results of the Programme of Work and Budget, and on the

outcome of the performance audits. These two reports shall constitute the joint report certifying the accounts and setting out the comments warranted by their audit.

§2. On the basis of this report and upon recommendation by the Audit Committee, reached in coordination with the Budget Committee, Council shall discharge the Secretary-General from all liability in respect of his or her administration for the financial period. Upon this discharge, the net results will be allocated.

Useful links

- OECD Financial Regulations [C(2008)92/REV1]
- 2018 Internal Audit Annual Report to Council [C(2019)11]
- The Institute of Internal Auditors (The IIA): www.theiia.org
- Institut français de l'audit et du contrôle internes (IFACI): www.ifaci.com
- Union Francophone de l'Audit interne (UFAl) : www.ufai.org
- European Confederation of Institutes of Internal Auditing (ECIIA): www.eciia.org
- The International Organization of Supreme Audit Institutions (INTOSAI): www.intosai.org
- International Federation of Accountants (IFAC): <http://fr.ifac.org>
- The Committee of Sponsoring Organizations of the Treadway Commission (COSO): www.coso.org

The OECD Audit Architecture is summarised in the following chart:



