

# INTERNATIONAL SEABED AUTHORITY

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## Assembly



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INTERNATIONAL SEABED AUTHORITY  
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### APPOINTMENT OF AN AUDITOR

#### Report of the Secretary-General

#### I. INTRODUCTION

1. At the resumed fourth session of the International Seabed Authority, from 17 to 28 August 1998, the Assembly requested the Secretary-General to make a proposal for the appointment of an independent auditor, pursuant to article 175 of the United Nations Convention of the Law of the Sea, for consideration by the Finance Committee and the Assembly (ISBA/4/A/17). The Assembly requested that such proposal should include the appointment of government auditors, or a private audit firm, in each case on a cost-effective basis.

#### II. REVIEW OF OPTIONS FOR THE APPOINTMENT OF AN AUDITOR

##### A. Locally based international accountancy firms

2. The Secretary-General invited five leading international accountancy firms, based in Jamaica, to submit proposals for the conduct of a financial and systems audit of the Authority. Four firms submitted proposals. Each firm proposed to conduct the audit on a quarterly basis to ensure that correct financial and internal procedures were being implemented in line with the guidelines and policies of the Authority. This would enable early identification and correction of any errors and would also allow for the issuance of an interim audit report on a quarterly basis, in addition to the annual audit report.

3. Three of the locally based international accountancy firms which submitted proposals have previously audited agencies of the United Nations common system. A summary of the quotations submitted, including the details of the fees and relevant experience of the respective firms, is contained in annex I to the present report.

##### B. United Nations external auditors

4. The United Nations external auditors, appointed from among the States Members of the United Nations, are familiar with the United Nations system of audit. However, they do not have the flexibility to conduct interim financial

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or systems audits during the financial year. Moreover, the audit by United Nations external auditors is conducted up to three months after the end of the financial year and after the accounts have been closed.

5. For 1998, the Secretary-General had requested the United Nations external auditors to audit the records, books and accounts of the Authority. The audit was conducted over a three-week period in May 1999. The provisional cost to the Authority was \$23,250, which covered salaries, travel and subsistence allowance for two auditors.

6. The Secretary-General has been advised, by a letter from the Executive Secretary of the Board of Auditors of the United Nations, that for the biennium 2000-2001 the estimated costs of audit by the United Nations external auditors would be \$46,500. The text of the letter is contained in annex II to the present report.

### C. Government Auditors

7. The Secretary-General investigated the possibility of appointing a government auditor from a member of the Authority. As with the United Nations external auditors, government auditors would not have the flexibility to conduct interim audits of the Authority. Not all government auditors may be familiar with the financial rules and regulations of the United Nations common system. In the case of a government auditor, further discussion would be necessary with regard to the scope and duration of the audit, as well as the terms and conditions of appointment. The costs involved could vary substantially depending upon which government auditor was selected.

### III. RECOMMENDATION OF THE SECRETARY-GENERAL

8. The Secretary-General is of the view that the costs involved in using a government auditor of a member of the Authority are difficult to predict and could exceed the amount currently provided for in the proposed budget of the Authority for 2000. While the United Nations external auditors are familiar with the audit system, the costs are also substantially higher than the costs of a locally based international accountancy firm. Moreover, the United Nations external auditors cannot provide timely review of the Authority's financial procedures on a quarterly basis. For these reasons, the Secretary-General recommends the appointment of a locally based international accountancy firm from among those listed in annex I to the present report. In this regard, it may be noted that the International Tribunal for the Law of the Sea has appointed Messrs Arthur Anderson as its auditor. The appointment of an international accountancy firm would be consistent with the provisions of article 175 of the United Nations Convention on the Law of the Sea, which requires that the records, books and accounts of the Authority shall be audited annually by an independent auditor appointed by the Assembly.

Annex I

SUMMARY OF QUOTATIONS SUBMITTED TO THE AUTHORITY BY LOCALLY BASED  
INTERNATIONAL ACCOUNTANCY FIRMS

<b>Audit company</b>	<b>Established since</b>	<b>Number of employees (Jamaica)</b>	<b>International organizations audited</b>	<b>Fees (per annum) (United States dollars)</b>
Arthur Anderson	1972	50	Christoffel Blinden Mission, IDB UNICEF, USAID	12 500
KPMG Peat Marwick	1958	170	IADB, UWI-IDB, UWI-UNFPA	12 000
Ernst & Young	1993	130	International donor agencies	14 400
Deloitte & Touche	1949	31	FAO, International Bauxite Association, USAID	15 000 - 17 000

Annex II

LETTER DATED 10 AUGUST 1999 FROM THE EXECUTIVE SECRETARY OF THE  
BOARD OF AUDITORS OF THE UNITED NATIONS ADDRESSED TO THE  
SECRETARY-GENERAL OF THE INTERNATIONAL SEABED AUTHORITY

Please be advised that subject to its appointment as external auditor of the International Seabed Authority, the Board of Auditors has estimated that its audit costs for the biennium 2000-2001 will amount to \$46,500. This amount is required to cover the salaries, travel and subsistence allowance of staff provided by the members of the Board of Auditors to undertake the audit of the above activity. The amount will be increased only by the inflation factor which will be approved by the General Assembly following its consideration of the proposed programme budget for 2000-2001, towards the end of December 1999.

I will inform you in due course of the resulting amount. In the meantime, you may consider the amount of \$46,500 as the base for biennium 2000-2001.

(Signed) Hazelien Featherstone  
Executive Secretary

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