FOR APPROVAL
Voting Procedure – Simple Majority

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APPOINTMENT OF EXTERNAL AUDITORS
FOR THE YEARS 2016-2018

Council is invited to appoint the National Audit Office of Finland as external auditors for the financial years 2016-2018.
APPOINTMENT OF EXTERNAL AUDITORS FOR THE FINANCIAL YEAR 2015

1. Background

According to Article 7, paragraph 2 of the Financial Protocol, ESO Council appoints external auditors who serve for a period of three years and may be re-appointed.

ESO has been audited:

- until 1963 by the Central Auditing Department of the Netherland’s Finance Ministry;
- from 1964 to 1973 by the German Court of Auditors (Bundesrechnungshof);
- from 1974 to 1978 by the French Court of Auditors (Cour de Comptes Française);
- from 1979 to 1984 by the Belgian Court of Auditors (Cour de Comptes Belge);
- from 1985 to 1990 by the National Swedish Audit Bureau;
- from 1991 to 1996 by the Danish Court of Auditors (Rigsrevisionen);
- from 1997 to 2002 by the Swiss Federal Audit Office (CDF-EFK);
- from 2003 to 2008 by the Italian Ministry of Economy and Finance, Department of General Accounts;
- from 2009 to 2015 by the Portuguese Court of Auditors (Tribunal de Contas de Portugal).

The mandate of the Portuguese Court of Auditors expired after the audit of the accounts for the financial year 2015.

2. Appointment

It has been the customary practice of the Organisation that the external auditors are appointed in the order of accession of ESO Member States. Following this practice and considering that it is not possible for the UK National Court of Audit, who would be the next in line, to take on this role at this time, the next external auditors should be appointed from the National Audit Office of Finland.
3. **Council Action**

Council is invited to appoint the National Audit Office of Finland, which is prepared to accept the mandate to cover the audit for the financial years 2016-2018.

The external auditors shall be commissioned to audit the Financial Statements of ESO with a view to certifying those Financial Statements.

ESO Council may also, at any time, direct the external auditors to make an extraordinary audit of any account of the Organisation.

The external audits shall be performed in accordance with the principles set out in the Financial Rules and Regulations, and the Terms of Reference of the external auditors (ESO/Cou-1637 rev., see Annex to this document).
Annex - Extract from Cou-1637 rev

Term of Reference of the External Auditors

1. The Auditors shall examine the accounts of the Organisation including all deposit, reserve and special accounts in order to certify
   a. that the annual accounts are in accord with the books and records of the Organisation;
   b. that the financial transaction recorded in the accounts were in accordance with the budget, the regulations and other applicable directives;
   c. that the securities and monies on deposit and in hand have been verified by certificate received directly from the depositories, or by the actual audit.

2. Subject to the directions of the Council, the Auditors shall be the sole judges as to the acceptance in whole or in part of the certifications by the Director General or other staff of the Organisation; they may proceed to such detailed examination and verification as they choose of all financial records, including those relating to supplies and equipment.

3. The Auditors shall verify by spot checks the reliability of the internal control and may make such reports with respect thereto as they deem necessary, to the Council, to the Finance Committee or to the Director General.

4. The Auditors shall have free access at any time to all books of accounts and records which they deem necessary to carry out the audit. Confidential documents required for the purposes of the audit shall be made available on application to the Director General or any other authorised staff member.

5. The Auditors, in addition to certifying the accounts, shall make such observations as they deem necessary with respect to the methods of accounting and internal auditing, and, in general, the financial consequences of administrative practices.

6. Audit objections to any item in the accounts shall be immediately communicated to the Director General. In no case shall the Auditors include criticism in their report without first affording the Director General an opportunity to explain the various points under observation.

7. The Auditors shall prepare a report on the accounts certified in which they should mention inter alia:
   a. the extent and character of their examination;
   b. any deficiencies and defects in the accounts or in the accounting system revealed by the audit.

8. The Auditors shall certify the correctness of the financial statements in the following terms: “The financial statements of the Organisation for the financial year ended … have been examined in accordance with the directions given to us. We have obtained all the information and explanations that we have required and we certify, as a result of the audit, that in our opinion the financial statements give a true and fair view of the state of the affairs of the Organisation.” adding, should it be necessary: “subject to the observations in our report.”

9. The Auditors shall have no power to disallow financial transactions, but shall bring to the notice of the Director General any transaction, which in their opinion may be of doubtful financial wisdom, legality or property.

10. Travels made by the Auditors within their functions shall be paid by ESO according to ESOs Administrative Circular No. 9 “Travel at ESO”. In this context, the Auditors will be considered as International Staff Members of grade 14.
11. The external auditors shall make specific audits as requested by Council, for example aspects of the E-ELT.