



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

**FINANCIAL REGULATIONS
OF THE ORGANISATION**

[C(2008)92/REV1]

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FINANCIAL REGULATIONS OF THE ORGANISATION

Regulation 1 - General Principles and Authority

§1. These Financial Regulations shall govern the budget and financial management of the Organisation for Economic Co-operation and Development (OECD) and shall, unless otherwise specified by Council, apply to all resources, funds and programmes administered by the OECD. Moreover, these Regulations respond to the financial control objectives as stated in the Organisation's Internal Control Framework. These Regulations and subsequent changes shall be approved by Council.

§2. The Secretary-General shall ensure efficient and effective management of the Organisation, in accordance with these Regulations. To this end, the Secretary-General shall put in place controls, systems and processes designed to provide reasonable assurance that transactions are made in accordance with these Regulations, assets are safeguarded, and all of the Organisation's resources are well managed. The Secretary-General may delegate to other officials of the Organisation such authority as he or she considers necessary to this end.

§3. The Secretary-General shall establish Financial Instructions specifying the implementation of these Financial Regulations and ensure that they reflect the Organisation's objectives, work programme and other elements of its environment. More detailed procedures, manuals and other supporting materials provide further guidance and will be updated as necessary.

Regulation 2 - The Programme of Work and Budget Cycle

§1. The financial period of the Organisation shall run for a year, in accordance with Article 20 of the OECD Convention. The financial period shall extend from 1 January to 31 December.

§2. The Programme of Work for Part I of the Budget shall cover two financial periods (hereinafter referred to as a "biennium"). Programmes of Work for Part II of the Budget (hereinafter also referred to as "Part II Programmes") shall also cover at least two financial periods, unless Council decides otherwise.

§3. The Secretary-General proposes, and the Council approves, the Programme of Work of the Organisation over a biennium, as well as the Budget for the first year of that biennium, and the provisional Budget for the second year.

Regulation 3 - Presentation of the Programme of Work and the Budget

§1 The Programme of Work sets out the Strategic Objectives, Output Groups, Output Areas and Output Results for the Organisation.

§2. The Budget refers to the sum of the appropriations financed from assessed contributions and other income. Voluntary contributions and grants are not considered as part of the Budget of the Organisation. They are resources additional to the Budget. Best estimates of the voluntary contributions and grants required to produce the Programme of Work are provided in the framework of Programme of Work and Budget proposals.

§3. The Budget shall be divided into two Parts and be complemented by such Annex Budgets as may be decided by Council.

a) Part I of the Budget shall comprise appropriations for the implementation of the Part I Programme of Work. Annex Budgets under Part I include, *inter alia*, those relating to Pensions, Publications and Investment appropriations.

b) Part II of the Budget shall comprise appropriations for the implementation of Programmes of Work not covered in Part I as well as contributions to administrative expenditure in Part I in connection to these Programmes.

§4. For the Part I Budget, approval by Council shall be at the Output Group level and, for Part II Budgets, at the level of individual Programmes.

§5. The principal source of financing of the Part I Budget shall be the assessed contributions of all Members. The Part I Budget may also receive other income, including publications income, interest income and contributions from Part II Programmes to cover overhead costs. The Part I Programme of Work may also be financed by voluntary contributions and grants.

§6. The Budget of each individual Part II Programme shall be financed by assessed contributions from participating Members and other Programme participants, if any (hereinafter collectively referred to as "Participants"), and/or by other income. Participants wishing to withdraw from Part II Programmes shall give the Organisation formal notice to this effect at least twelve months in advance and shall continue to be responsible for the payment of their contribution for that period. Part II Programmes may also be financed by voluntary contributions and grants.

§7. When establishing a new programme, Council shall decide, in light of its content, participation or financing arrangements, under which Part of the Budget it shall fall.

Regulation 4 - Preparation of the Programme of Work and the Budget

§1. The Secretary-General shall issue the draft Programme of Work and Budget proposals for Part I for the next biennium by 31 October of the year preceding the start of the biennium to which they pertain, for review by the Budget Committee. The recommendations of the Budget Committee to Council shall be transmitted by 1 December.

§2. Draft Programme of Work and Budget proposals for Part II Programmes shall be submitted to their respective governing bodies by 31 October of the year preceding the start of their next Programme of Work and Budget cycle. Where the approval process requires Budget Committee review, these proposals shall be transmitted to the Budget Committee no later than 15 November. As applicable, the recommendations of the Budget Committee to Council shall be transmitted by 1 December. Where the approval process does not require Budget Committee review, these proposals shall be transmitted directly to Council no later than 1 December.

§3. The draft Programme of Work and Budget proposals and annual updates thereto shall provide such information, annexes and explanatory statements as may be required, including reporting on efficiency measures.

Regulation 5 – Approval of the Programme of Work and the Budget

§1. The Council shall approve the biennial Programme of Work, the Budget for the first financial period and the provisional Budget for the second financial period of the biennium before the first day of the first financial period. The provisional Budget for the second financial period of the biennium shall be adopted as the second financial period's Budget with effect from 1 January of that period, unless, prior to that time, Council decides otherwise.

§2. For Part II Programmes on an annual Programme of Work and Budget cycle, the Council shall approve Programmes of Work and Budgets before the first day of the financial period concerned. For Part II Programmes on a Programme of Work and Budget cycle covering more than a biennium, the Council shall approve their Programmes of Work, the Budget of the first financial period and provisional Budgets for subsequent financial periods in the cycle before the first day of the first financial period. These provisional

Budgets shall be adopted annually in the manner described in paragraph 1 above for the adoption of the Budget for the second financial period of a biennium.

§3. In approving the Budget, Council accords the necessary ***expenditure authorisation*** to the Secretary-General and makes the necessary appropriations for the functioning of the Organisation and the carrying out of its Programme of Work. Approval of the Budget by Council shall empower the Secretary-General to receive the contributions and other income included in the Budget.

§4. If it has not been possible to approve the Budget before the first day of a financial period:

- a) Council may authorise the Secretary-General to commit expenditure and to make payments in respect of each quarterly period for each Part I Output Group and for each Part II Programme, not exceeding one-fourth of the corresponding appropriations included in the Budget for the preceding financial period, and to collect the corresponding contributions and other income;
- b) ***commitments*** for capital expenditure shall not be authorised except where Council considers them to be necessary;
- c) the Secretary-General shall be authorised to make commitments necessary for the preservation of the assets of the Organisation and to make payments in discharge of legal obligations until the Budget is approved.

Regulation 6 – Modifications to the Programme of Work

Any modification to the approved Programme of Work, whether alone or together with, or as a consequence of, modifications to the associated resources shall be made in accordance with procedures established by Council.¹

Regulation 7 – Revisions of the Budget

§1. Any proposal to adjust the Part I provisional budget for the subsequent financial period should be issued by the Secretary-General by 31 October of the current financial period. Similar proposals for one or more Part II programmes should be submitted to their respective governing bodies by the same date. The consideration of these adjustments shall follow the same procedure and calendar as applicable to the approval of the Programme of Work and Budget.

§2. Should circumstances so require, the Secretary-General may submit proposals to Council to increase the level of Budget appropriations to be covered by assessed contributions or other income. The actual level of all such income and expenditure shall be reported in the annual financial statements and regular ***Budget Result*** reporting.

§3. In case of urgent expenditure for which the necessary appropriations were not included in the Budget, Council may authorise the Secretary-General to call on Members to make additional contributions to cover such expenditure until such time as a proposal to adjust the level of the Budget has been approved.

Regulation 8 – Transfer of Appropriations

Within a financial period, the Secretary-General may transfer appropriations between Part I Output Groups, provided that the total amount transferred in each financial period represents no more than EUR 250 000 or 5%, whichever the higher, in the limit of EUR 500 000 of the approved appropriations of each of the source Output Group and the receiving Output Group. Transfers falling outside these limits shall be

¹ These procedures are set out in [C(2008)93/REV1].

subject to approval by the Budget Committee. All transfers of appropriations shall be reflected in regular reporting to the Budget Committee.

Regulation 9 – Commitments and Expenditure to be made in a Future Financial Period

§1. The Secretary-General may request authorisation from the Budget Committee to undertake commitments in a future financial period in the following cases:

- a) for investment expenditure, such authorisations to remain valid without time limit unless otherwise specified; or
- b) for Output Results specifically approved to be carried out over a period of years and for which a global amount has been decided by Council, such authorisations to remain valid for the intended period of the Output Results concerned.

Where feasible, such requests for authorisation shall be accompanied by a table indicating, for each commitment, the amount of expenditure foreseen in respect of future financial periods.

§2. The Secretary-General is authorised to undertake commitments in the current financial period for expenditures to be made after the end of that period in the following cases:

- a) employment of staff;
- b) property rental;
- c) for Output Results which are intended to be carried out over the biennium, commitments relating to contracts for the procurement of goods and services in the first financial period of the biennium for expenditure to be made in the second financial period of the biennium, provided that the Output Results are included in the Programme of Work and the provisional Budget for the second financial period of the biennium; and
- d) contracts for the procurement of goods and services other than those described in paragraph c) above:
 - i) not exceeding a firm period of 12 months;
 - ii) exceeding a firm period of 12 months, provided that the total expenditure over the entire period of the commitment does not exceed EUR 150 000.

In cases other than those set forth in paragraphs a) to d) above, the Secretary-General shall seek the specific authorisation of the Budget Committee before undertaking commitments in a financial period involving expenditures to be made after the end of that period. These requests for authorisation shall provide estimates of expenditure foreseen in respect of future financial periods. The Secretary-General shall return to the Budget Committee for further authorisation should the actual expenditure exceed the estimated amount by more than 10% or EUR 100 000, whichever is the lower. These variations will be included in the annual report on multi-year financial commitments provided to the Budget Committee for information.

Regulation 10 – Carry Forward of Resources

§1. Appropriations corresponding to expenditure committed but for which no payment has been made by the end of the current financial period or at the expiry date of the complementary period, as defined in Regulation 26 §6, shall be carried forward automatically to the Budget of the ensuing financial period. Appropriations so carried forward shall be used only for the realisation of the commitments that justified their carry forward.

§2. Appropriations for the first financial period of a biennium that have not given rise to a commitment by 31 December of that period may be carried forward by the Secretary-General to the second financial period of the biennium, provided the relevant Budget (Part I or individual Part II Budget) is not in deficit, for the purpose of implementing the Output Results to which the appropriations were applied. Other carry forwards not satisfying this condition shall be subject to approval by Council. Unless Council decides otherwise, any remaining Net Results shall be allocated to the relevant Members and/or Participants.

§3. At the end of the second financial period, the Council may decide, at the request of the Secretary-General, that some or all of the Net Results be carried forward to the Budget for the ensuing financial period. Unless Council decides otherwise, any remaining Net Results shall be allocated to the relevant Members and/or Participants.

§4. Reporting on carry-forwards shall be provided as part of the final Budget Results Report (see Regulation 27§1).

Regulation 11 - Types of Income

The income of the Organisation shall consist of assessed contributions, voluntary contributions, grants and other income.

Regulation 12 – Assessed Contributions and Scales of Contributions

§1. The total amount of the assessed contributions of Members shall be calculated so as to cover the appropriations authorised in the Budget of the Organisation, taking into account other income.

§2. The principles and rules for determining the scales of contributions to the Budget of the Organisation, and for calculating the payment of assessed contributions, are set out in Annex I.

§3. For Part I of the Budget, the assessed contribution of each Member shall be calculated in accordance with the general scale of contributions approved by the Budget Committee for the financial period. Absent such approval by 31 March of the financial period, contributions shall be called up in accordance with a provisional scale calculated applying the rules and principles set out in Annex I.

§4. For Part II of the Budget, each participant's share in financing these Programmes shall be fixed in accordance with the general rules and principles set out in Annex I or such other methods as Council may have determined.

§5. No later than 1 March of each financial period, the Secretary-General shall inform Members of the amount of their assessed contributions for that financial period, in accordance with the provisions of the present Regulation. Assessed contributions shall be payable in Euros.

§6. The Secretary-General may, before the end of each financial period, invite Members to make advance payments in respect of their assessed contribution liability for the following financial period. Such requests shall not exceed an amount equal to 90 per cent of each Member's assessed contributions for the current financial period.

Regulation 13 - Contributions of New Members

Countries which become Members during the financial period shall be required to make a contribution for that period according to the scale or share decided by Council upon the advice of the Budget Committee. The disposition of such a contribution shall be decided by Council.

Regulation 14 - Voluntary Contributions and Grants

§1. Income in the form of voluntary contributions from Members or grants may be provided to the Organisation for the implementation of the Programme of Work and shall be the object of a corresponding appropriation. The Secretary-General shall maintain a system of control of the terms and conditions of a proposed voluntary contribution or grant.

§2. Within that system of control, the Secretary-General is authorised to accept any voluntary contribution or grant in an amount not exceeding EUR 250 000. Other voluntary contributions or grants are subject to acceptance by the Budget Committee.

§3. Appropriations in this category which have not been committed before the end of the financial period may be carried forward by the Secretary-General to the ensuing financial period for the completion of the Output Results to which the amount was applied, and in accordance with any relevant donor conditions.

§4. Quarterly reports shall be made on voluntary contributions and grants accepted and on the status of their collection and arrears.

Regulation 15 – Income Offsetting Expenditure

Income may be treated as offsetting expenditure to which it relates. Such cases may include insurance reimbursements, internal billing within the Organisation, interest income and expense.

Regulation 16 – Financial Risk Management

An effective system of financial risk management shall be established to identify and address internal and external risks to the Organisation, on an ongoing basis throughout the year, and bring them to the attention of the Budget Committee and the Audit Committee in a timely manner.

Regulation 17 - Bank Accounts and Payment Orders

In accordance with the principles established in the Organisation's Internal Control Framework, the Secretary-General shall designate the officials authorised to open the Organisation's accounts in banks or similar institutions, and shall designate the officials authorised to approve payment signatories.

Regulation 18 – Control of Expenditure

§1. The Secretary-General shall put in place all measures required for effective management of all of the Organisation's expenditure so that the approved Programme of Work is carried out in an optimal manner.

§2. Directors, heads of programmes, or other officials to whom the Secretary-General entrusts the responsibility of a budget should, in delegating authority, ensure due regard to accountability and the principle of segregation of duties. The measures put in place by them to control the Organisation's expenditures shall provide, *inter alia*, the reasonable assurance that:

- the expenditure relates to, or is useful for, the implementation of the Programme of Work;
- the expenditure represents the best value for the Organisation;
- the expenditure envisaged can be carried out in conformity with the Financial Regulations, the Financial Instructions or other rules applicable to the Organisation;

- sufficient resources are available to pay for the proposed expenditure; and
- the supporting documentation required for the expenditure is available and appropriate.

§3. The *Chief of Finance* shall establish a system of Budget control to periodically forecast the Budget results for the financial period. If risks of budget over-expenditure or under-realisation of income in respect of the Part I Budget, an Annex Budget or the Budget of any Part II Programme are so identified, the Chief of Finance may suspend the use of appropriations or of specific commitments of appropriations for which no legal commitments exist.

Regulation 19 – Procurement of Goods and Services and Procurement Board

§1. “Procurement” is the acquisition by the Organisation from third parties of all goods and services necessary for its functioning or for the implementation of the Programme of Work.

§2. The procurement of goods and services shall be made in accordance with provisions to be set out in the Financial Instructions, in order to optimise the use of resources and to maximise *transparency* in the selection of suppliers. To this effect, the Financial Instructions shall define the conditions under which the relevant competitive procurement processes, including calls for tender, shall be carried out.

§3. A Procurement Board is established by the Secretary-General. It provides an opinion to the official responsible for the decision to commit the Organisation vis-à-vis third parties for all transactions for which a call for tenders is required. The Board expresses an opinion on the regularity of the procedure, the appropriateness of the choice of supplier and the terms and conditions of the proposed contract before its signature. Should the opinion of the Procurement Board not be followed, this occurrence shall be reported to the Procurement Board, together with the relevant explanations.

§4. In exceptional cases defined in the Financial Instructions, derogations with respect to the procurement process may be granted by the Procurement Board.

§5. The Secretary-General or the Executive Director may also grant derogations in cases of overriding urgency or due to exceptional circumstances. Any such derogation shall be reported to the Procurement Board at its next meeting following the derogation and to the Audit Committee at the same time.

§6. The Procurement Board shall submit an annual activity report to the Budget Committee for information.

Regulation 20 – Non-Budgetary Expenditure

The Chief of Finance shall authorise *non-budgetary expenditures* and ensure that they be made within the limits of the corresponding amounts of income available. Non-budgetary expenditure does not contribute to the achievement of outputs in the Programme of Work and includes expenditure related to seconded staff from the Organisation, transactions concerning reserves and technical operations in the Organisation’s accounts, such as the recording of IPSAS (International Public Sector Accounting Standards) adjustments.

Regulation 21 – Grants, Subsidies and Scholarships

§1. The Organisation may provide grants or subsidies to bodies, insofar as such grants or subsidies are indicated expressly in the Organisation’s Programme of Work and Budget or in co-operation agreements supporting the implementation of the Programme of Work.

§2. The Organisation may also provide scholarships to individuals or groups of researchers in support of their research or training, insofar as such scholarships are indicated expressly in the Organisation's Programme of Work and Budget.

Regulation 22 - Cash Management Operations

§1. The Secretary-General is authorised to carry out cash management operations which are necessary in the interests of the Organisation. In particular, the Secretary-General may invest on a *short-term* basis funds not immediately required or borrow funds in case of a deficit in the general treasury to finance expenditure authorised in the Budget.

§2. The Secretary-General shall inform the Budget Committee of investments and borrowings made and shall take account of any proposals made on such occasions.

Regulation 23 - Working Capital Fund

Council may, if necessary, establish a working capital fund.

Regulation 24 - Writing off of Loss of Assets

The Secretary-General may authorise the writing off of loss of assets. The Secretary-General shall seek the prior approval of the Budget Committee before writing off any loss of assets of the same type in an amount in excess of EUR 200 000. A full statement of all amounts written off shall be attached as an annex to the financial statements.

Regulation 25 – Signature of Legal Instruments

Any instrument whereby the Organisation enters into a legally binding commitment vis-à-vis third parties and that necessarily entails expenditure, income or loss of income for the Organisation, or that necessarily affects the Organisation's assets, shall be signed by an official empowered to do so by virtue of the Financial Regulations, the Financial Instructions, the Regulations, Rules and Instructions applicable to the various categories of the Organisation's staff or, lastly, a written authorisation or delegation by the Secretary-General.

Regulation 26 – Accounting

§1. The accounting records of the Organisation shall be maintained in Euros.

§2. The financial statements of the Organisation shall be prepared in accordance with International Public Sector Accounting Standards (IPSAS). The financial statements of the OECD Staff Provident Fund shall be prepared in accordance with International Accounting Standards (IAS). Any divergence from the use of the specified standards shall be explained in the notes to the financial statements.

§3. The Organisation's accounting system shall support the effective management of the Programme of Work and the Budget.

§4. The Secretary-General shall ensure that accounting records, as well as the programmes and equipment required to consult them, be kept for 10 years. Supporting documentation shall be kept for 5 years after the closing of the corresponding accounts. In the case of payroll records and their supporting documentation, the time period is extended to the life of the Organisation plus 50 years.

§5. All invoicing related to assessed contributions, voluntary contributions, grants, sales of publications and any other income shall be carried out under the control of the Chief of Finance.

§6. At the beginning of each financial period, the Secretary-General shall have until 15 February inclusive to close the accounts of the previous period. During this complementary period, the Secretary-General may authorise commitments and may make payments out of the Budget for the previous financial period and from voluntary contributions accepted before the end of the previous financial period.

Regulation 27 – Reporting

§1. Reports on the forecasted Budget Results for the financial period shall be presented periodically to the Budget Committee. A final Budget Result report shall be presented to the Budget Committee after the annual closing of the accounts. The presentation of these reports shall be consistent with the presentation of the Budget as described in Regulation 3. The reports shall, *inter alia*, compare the Budget Results to the approved Budget and shall include information on the use of Budget appropriations, the financing of appropriations, and a summary of transfers of appropriations. The final Budget Result report for a financial period shall also present a table outlining all income offsetting expenditure in the budget accounts, comparative analyses with prior year expenditure, a summary of all carry-forwards of appropriations, as well as a table regarding the administrative cost recovery charge on voluntary contributions and grants.

§2. The treasury position of the Organisation, including the collection of assessed contributions, shall be presented to the Budget Committee on a quarterly basis. At least once per year, a report shall provide a full assessment of the general cash position, investments or short-term borrowings related to treasury surpluses and deficits, interest income and expense, bank fees and foreign currency exposure management.

§3. Subject to §4 below, the Secretary-General shall, *inter alia*, present the following additional reports to the Budget Committee, and as may be appropriate, to Council:

- i) Quarterly reports on voluntary contributions and grants accepted
- ii) Quarterly reports on the collection and arrears of voluntary contributions and grants
- iii) Regular financial reports on publications
- iv) Programme Implementation Reporting (PIR), presented following the end of a biennium, including use of the Central Priorities Fund (CPF).
- v) Regular reports on reserves
- vi) Regular reports on the Secretary-General's Allocation Fund
- vii) Regular reporting on Multi-Year Financial Commitments, including variations in commitments and expenditure to be made in a future financial period
- viii) Medium Term Orientations Survey provided in the context of PWB preparations
- ix) Annual activity report from the Procurement Board

§4. The Budget Committee shall review reporting requirements periodically or upon a proposal from the Secretary-General or Council.

Regulation 28 – Delegation

Except as otherwise provided by, *inter alia*, the Regulations, Rules and Instructions applicable to the various categories of staff, an official authorised to act by virtue of the Financial Regulations, the Financial Instructions or a specific instrument assigning authority, may delegate this authority in writing to another

official. Except if authorised in writing, the official to whom a power has been so delegated may not sub-delegate it.

Regulation 29 – Residual authority

In the event of the absence or incapacity of an official expressly authorised to act by the Financial Regulations or the Financial Instructions, or should the post in question be vacant, the Secretary-General, a Deputy Secretary-General, the Executive Director or the hierarchical superior of the official in question, shall be authorised to so act. Should the post in question be vacant, they may also confer these functions on another official, in writing, on an interim basis.

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.

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 Secretary-General's appointment, and 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).

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.

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.

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.

The Council at its 1176th Session, meeting at Ministerial level, adopted the Resolution of the Council on the financing of Part I of the Budget of the Organisation [C/MIN(2008)6/FINAL]. In its conclusions, the Council further “noted that the Decision of the Council on the *Principles and rules for determining the scales of contributions by Members to the Budget of the Organisation of 2004* [Annex I to C(2003)263] will need to be amended to reflect the Resolution[...]” [§6d] and “invited the Executive Committee to submit these draft amendments for Council’s approval so as to ensure that they are in place in time for implementation in determining Members’ assessed contributions starting in financial year 2009.” [§6e] [C/MIN(2008)6/REV2].

The provisions of Annex I to C(2003)263 are contained in the present Annex I to the Financial Regulations. The present Annex I will be duly modified following the approval by the Council of the amendments proposed by the Executive Committee, as indicated above. The principles and rules for determining the scales of contributions by Members set out below in the present Annex I will therefore no longer apply to the Part I of the Budget as from 2009.

ANNEX I

PRINCIPLES AND RULES FOR DETERMINING THE SCALES OF CONTRIBUTIONS BY MEMBERS TO THE BUDGET OF THE ORGANISATION

The scales of contributions by Members to the Budget of the Organisation shall be determined annually according to the following principles and rules:

Section I. General Principles and Rules

1. Contributions by Members shall be assessed according to their capacity to pay, as determined by reference to national income statistics.
2. National income shall be calculated on the basis of “gross national product at factor cost” less a deduction of 10% for depreciation. In the cases of countries for which no gross national product data are available, direct use of national income data shall be made.
3. “Gross national product at factor cost” shall be equal to “Gross national income at market prices” less “Taxes less subsidies on production and imports paid to general government” as defined and published in “System of National Accounts 1993.” The Secretariat shall, whenever necessary, so adjust the official data as to bring them into line with these standard definitions.
4. For this purpose, there shall be determined the estimated average national income for the three latest calendar years for which figures for all Members are available.
5. The conversion of national income and gross national product data shall be made on the basis of a common currency unit according to the average current official exchange rates for these years.
6. Under these rules, the rate of contribution of any Member cannot be increased by more than 10% year on year in relative terms, or by more than 0.75% in absolute terms.²

² As a transitional measure until accession of new members, these limits shall apply to increases in the relative taxable income of Members, a calculation which includes the new per capita abatement in Part I of

Section II. Rules for Part I of the Budget

1. A scale of “taxable incomes” shall be determined by deducting a fixed amount of \$875 per capita³ from the national income of each Member. Subject to adjustments ensuing from the application of paragraph 6 of Section I and paragraphs 2-5 of this Section, a Member’s percentage contribution shall be equal to the proportion that its “taxable income” bears to the total “taxable income” for all Members.
2. Until a new Member accedes to the Organisation, no Member shall pay more than 24.975% of the total Budget of the Organisation. When a new Member accedes to the Organisation, the scale of contributions, i.e. the share of all prior Members, will be adjusted proportionately. The maximum contribution (“contribution cap”) for all Members shall be modified accordingly but shall not be adjusted below a floor of 24.250%.
3. The contribution cap percentage shall also apply as the maximum share (“redistribution cap”) in the scale for redistribution resulting from the contribution cap.
4. A share adjustment of 0.128% shall be added to the relative taxable income shares of Members, up to an adjusted share limit of 1.5%.⁴
5. The total share adjustment will be applied to limit any Member’s increase from redistribution to 2.5% and the remainder to reduce uncapped contribution shares which exceed 1.5%.⁵

Section III. Rules Normally Applied for Other Parts of the Budget

1. The scales of contribution other than for Part I of the Budget shall normally be determined in accordance with Sections I and Section III of this Annex.
2. A scale of “taxable incomes” shall be determined by deducting a fixed amount of \$450 per capita from the national income of each Member. Subject to adjustments ensuing from the application of paragraph 6 of Section I and paragraph 2 of this Section, a Member’s percentage contribution shall be equal to the proportion that its “taxable income” bears to the total “taxable income” for all Members.
3. Until a new Member accedes to the Organisation, no Member shall pay more than 24.975% or less than 0.10% of the total Budget of the Organisation. When a new Member accedes to the Organisation, the scale of contributions, i.e. the share of all prior Members, will be adjusted proportionately. The maximum and the minimum contributions for all Members shall be modified accordingly but shall not be adjusted below a floor of 24.250% and 0.097%.

the Budget, rather than to the contribution share resulting from the application of the other new rules for Part I.

³ For 2005, the per capita abatement shall be \$663 [(450+875)/2].

⁴ For 2005, the share adjustment shall be 0.064 % (0.128/2).

⁵ For 2005, the maximum redistribution would be 3,95%, rather than 2.5%. As a further transitional measure, until accession of new members, before being applied to reduce uncapped contribution shares which exceed 1.5%, the share adjustment remainder shall be applied to offset net share increases resulting from the introduction of a redistribution cap and redistribution limit and the increase of the per capita abatement.

ANNEX II
**RECOVERY OF MEMBERS' ASSESSED CONTRIBUTIONS AND ALLOCATION OF
INTEREST INCOME**

Net interest income earned by the Organisation on short-term investments directly attributable to Members' assessed contributions is to be apportioned to Members according to "weighted" scales defined as follows:

- i) Each Member's share of income earned from interest on short-term investments is to be determined on the basis of the dates and amounts of its contributions paid in to Part I and to the various chapters of Part II of the Budget of the Organisation.
- ii) "Debit" interest points are calculated with effect from 1 January of the current financial period on contributions payable and cumulated until the date of their payment in the Organisation's bank account or 31 December, whichever comes first.
- iii) "Credit" interest points are calculated on amounts of contributions paid in, with effect from the date of payment of these funds into the Organisation's bank account. These credit points are cumulated to 31 December of the financial period in question.
- iv) "Credit" interest points are also calculated on previous financial period's Budget surpluses, provided that the Member has paid all of its contributions to that Budget before the end of the financial period concerned. These "credit" interest points will take effect from 1 January of the following financial period. If instead, a Member makes final settlement of its contributions in the year following that in which the contributions were due, "credit" interest points are calculated to take effect from the date final settlement of contributions was made to the said Budget. These "credit" points are also cumulated to 31 December of the financial period in question.
- v) The amount of any Member's "credit" share of gross income earned from interest on short-term investments in year N will be determined by its proportion of the total of "credit" interest points (application of sub-paragraphs iii) and iv) above) calculated on payment of current financial period contributions (N)(Part I and Part II of the Budget) and previous financial period Budget surpluses (N-1). Following the closing of the Accounts of year N, these weighted sums are credited to a special individual Member transit account.
- vi) At the same time, the amount of any Member's "debit" share of interest paid on short-term borrowings in year N will be determined by its proportion of the total of "debit" interest points (sub-paragraph ii), above) calculated on the non-payment of current and prior financial period contributions. Following the closing of the Accounts of year N, these weighted sums are debited to the individual Member's transit account referred to in v) above.
- vii) The net balances available to each Member are determined by the difference between v) and vi) above. The Members shall be informed thereof no later than the 31 March following the end of the financial period in question.

GLOSSARY OF TERMS FOR THE FINANCIAL REGULATIONS

Accountability – The acknowledgement and assumption of responsibility for actions, products, decisions, and policies including the administration, governance and implementation within the scope of the role or employment position and encompassing the obligation to report, explain and be answerable for resulting consequences.

Annex Budget – A budget for special purposes managed separately from the Part of the Budget to which it is attached, in order to facilitate monitoring and control. Due to the fact that their financing involves assessed contributions from all Members, the Annex-Budgets cited in Regulation 3§3 a) related to Pensions, Publications and Investment appropriations are attached to Part I of the Budget, whose principal source of financing is assessed contributions from all Members, as stipulated in Regulation 3§5.”

Appropriations – The amounts of money which the Secretary-General is authorised by members to spend in the course of a financial period for the purposes approved by them. Appropriations are recorded in the budget and, as they are spent, in the accounting system.

Budget – The sum of appropriations allocated for purposes of the execution of the Programme of Work. Budgets approved are annual and are financed by assessed contributions and other income (not including voluntary contributions).

Budget Result – Actual expenditure and income compared with initial budget estimates at the end of the financial period.

Chief of Finance – The official designated as such in the Financial Instructions.

Commitments – Part or all of an appropriation that is formally reserved for identified expenditure and/or to meet a legal obligation on behalf of the Organisation.

Expenditure authorisation – The authority to enter into obligations and make disbursements in the name of the Organisation.

Net Results – Actual income less actual expenditure at the end of the financial period.

Non-budgetary expenditure – The use of financial resources for operations of the Organisation which are not included in the Programme of Work and Budget, since they are not concerned with the production of outputs and related services.

Other Income – Any amounts received by the Organisation which are not assessed contributions or voluntary contributions and grants. Income from the sale of publications is the main source of ‘Other Income’. ‘Other income’ for Part I of the Budget also includes interest income.

Output Area – A policy area containing a coherent set or body of Output Results that members can expect to be delivered to them in that policy area over the period of the Programme of Work.

Output Groups – Two or more Output Areas that contribute to the achievement of the same Strategic Objective.

Output Results – Products and services delivered by the OECD as set out in the Programme of Work.

Part II Programmes – Programmes that in light of their content, participation or financing arrangements, the Council decided to include in Part II of the Budget. These programmes may be of common interest to a limited number of members, or relate to special sectors of activity not covered by Part I.

Programme of Work – Members' wishes in terms of Output Results as set out in a formal planning document.

Qualified Majority – 60% of member countries, unless opposed by three or more members who represent at least 25% of the Part I scale of contributions.

Short-term – A period of time not exceeding 12 months in duration.

Strategic Objectives – In accordance with the aims of the Organisation as stipulated in the OECD Convention, the long-term policy goals of member governments that guide the Organisation's strategic planning, priority-setting, budgeting and resource allocation.

Transparency – Qualities concerning openness, communication and accountability.