

INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1992

ASSEMBLY
12th session
Agenda item 9

92FUND/A.12/8
10 July 2007
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2006 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION

Note by the Director

Summary:	The financial statements and the Auditor's Report and Opinion are set out.
Action to be taken:	Approval of financial statements.

- 1 The financial statements of the 1992 Fund are audited by the Comptroller and Auditor General of the United Kingdom.
- 2 In accordance with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the financial statements of the 1992 Fund for the financial year 2006. The Director has also prepared comments on the financial statements. These comments are at Annex I. Attached to that Annex is a summary of the External Auditor's recommendations from the previous financial year and the actions taken on the recommendations.
- 3 In keeping with best practice the Director has included a Statement of Internal Control which provides positive confirmation of the internal control framework. The statement is at Annex II.
- 4 Pursuant to Financial Regulation 14.9, the External Auditor has submitted to the Assembly, through its Chairman, his Report on the audit of the financial statements of the 1992 Fund for the financial period ended 31 December 2006. The Auditor's Report is at Annex III.
- 5 Under Financial Regulation 14.16 the External Auditor shall express an opinion on the financial statements on which he is reporting. This Opinion is at Annex IV.
- 6 Financial Regulation 12.3 provides that the financial statements to be prepared by the Director shall comprise of the following:
 - (a)
 - (i) a Statement of Appropriations and Obligations Incurred;
 - (ii) Income and Expenditure Accounts for all funds;
 - (iii) a Balance Sheet;
 - (iv) a Cash Flow Statement;

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- (b) such notes as may be necessary for a better understanding of the financial statements, including a statement of the significant accounting policies and details of contingent liabilities.

7 Staff Regulation 26(b) provides that the Director shall establish and operate a Provident Fund to which both the 1992 Fund and staff members shall contribute on such terms and conditions as may be approved by the Assembly. Under Staff Rule VIII.5(g), the auditing of the Provident Fund shall be carried out in conjunction with the annual audit of the accounts of the 1992 Fund.

8 The following financial statements for the period 2006 are submitted herewith:

Statement I Statement of Budget Appropriations and Obligations Incurred in respect of the General Fund for the financial period 1 January - 31 December 2006

Statement II Summary of Income and Expenditure Account in respect of the General Fund, Major Claims Funds and the Provident Fund for the financial period 1 January - 31 December 2006

Statement III Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2006

Statement IV.1 Income and Expenditure Account in respect of the *Erika* Major Claims Fund for the financial period 1 January - 31 December 2006

Statement IV.2 Income and Expenditure Account in respect of the *Prestige* Major Claims Fund for the financial period 1 January - 31 December 2006

Statement V Staff Provident Fund Account for the financial period 1 January - 31 December 2006

Statement VI Balance Sheet of the 1992 Fund as at 31 December 2006

Statement VII Cash Flow Statement for the 1992 Fund for the financial period 1 January - 31 December 2006

9 In addition to the financial statements submitted, the following reports are attached:

Schedule I Report on Contributions during the financial period 1 January - 31 December 2006 and on contributions outstanding for previous financial periods

Schedule II Report on Payment of Claims for the financial period 1 January - 31 December 2006

Schedule III Details of Contingent Liabilities of the 1992 Fund as at 31 December 2006

10 The certified financial statements for the financial period 1 January to 31 December 2006 are at Annex V.

Action to be taken by the Assembly

11 The Assembly is invited to consider the External Auditor's Report and Opinion and to approve the financial statements for the financial period 1 January to 31 December 2006.

ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2006

1 Introduction

- 1.1 The International Oil Pollution Compensation Funds (IOPC Funds) are intergovernmental organisations which provide compensation for oil pollution damage resulting from spills of persistent oil from tankers. The International Oil Pollution Compensation Fund 1971 (1971 Fund) was established in October 1978. It operates within the framework of two international Conventions: the 1969 International Convention on Civil Liability for Oil Pollution Damage (1969 Civil Liability Convention) and the 1971 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage (1971 Fund Convention), both as amended in 1992 by two Protocols. The amended Conventions, known as the 1992 Civil Liability Convention and the 1992 Fund Convention, entered into force on 30 May 1996. The International Oil Pollution Compensation Fund 1992 (1992 Fund) was set up under the 1992 Fund Convention. The 1971 Fund Convention ceased to be in force on 24 May 2002 and does not apply to incidents occurring after that date. However, before the 1971 Fund can be wound up, all pending claims arising from incidents occurring before that date in 1971 Fund Member States will have to be settled and paid and any remaining assets distributed among contributors.
- 1.2 A Protocol to the 1992 Fund Convention adopted in 2003 resulted in the establishment of the International Oil Pollution Compensation Supplementary Fund 2003 (Supplementary Fund), which provides an optional third tier of compensation. The Protocol entered into force on 3 March 2005. Any State Party to the 1992 Fund Convention may become Party to the Protocol and thereby become a Member of the Supplementary Fund.
- 1.3 The maximum amount of compensation payable under the 1992 Conventions for any one incident is 135 million Special Drawing Rights (SDR)^{<1>} in respect of incidents occurring before 1 November 2003 and 203 million SDRs for incidents occurring after that date. These amounts, which as at 31 December 2006 corresponded to £104 million and £156 million respectively, include the sum actually paid by the shipowner or his insurer.
- 1.4 At its February/March 2006 session, the 1992 Fund Assembly took note of a voluntary agreement, Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006, under which the shipowner/P&I Clubs would reimburse the 1992 Fund for part of the compensation payable by the Fund under the 1992 Fund Convention. At its October 2006 session the 1992 Fund Assembly approved administrative procedures for indemnification of the 1992 Fund by the shipowners/P&I Clubs under STOPIA 2006. The contract applies to all small tankers entered in one of the P&I Clubs which are members of the International Group of P&I Clubs and reinsured through the pooling arrangements of the International Group. Owners of small tankers not insured by an International Group Club and/or not covered by the pooling arrangement may agree with their insurers to be covered by STOPIA 2006. The effect of STOPIA 2006 is that the maximum amount of compensation payable by owners of all ships of 29 548 gross tonnage or

^{<1>} The SDR which is the unit of account used in the Conventions referred to in paragraph 1.3 is valued on the basis of a basket of key international currencies and serves as the unit of account of the International Monetary Fund (IMF) and a number of other intergovernmental organisations.

less is 20 million SDRs. This voluntary agreement is applicable to the *Solar 1* incident which occurred in 2006.

- 1.5 The 1992 Fund has an Assembly composed of all Member States and an Executive Committee of 15 Member States elected by the Assembly. The Assembly is the supreme governing body of the Organisation having *inter alia* the responsibility for financial matters. The main function of the Executive Committee is to approve settlement of claims for compensation, when the Director is not authorised to make settlements.

- 1.6 By the end of 2006, 98 States were Members of the 1992 Fund (see page 9).

2 Secretariat

- 2.1 The IOPC Funds have a joint Secretariat, based in London, headed by one Director. Mr Willem Oosterveen took over as Director of the IOPC Funds from Mr Måns Jacobsson with effect from 1 November 2006. The 1992 Fund Secretariat administers the 1971 Fund and the Supplementary Fund.

- 2.2 As at 31 December 2006 the Secretariat had 31 established posts. The Funds use external consultants to provide advice on legal and technical matters as well as on matters relating to management. In connection with a number of major incidents the Funds and the shipowner's third party liability insurer involved have jointly established local claims offices to facilitate the efficient handling of the great numbers of claims submitted and in general to assist claimants.

3 Audit Body

- 3.1 The governing bodies of the IOPC Funds have established a joint Audit Body for the three Funds composed of seven members elected by the 1992 Fund Assembly: one named Chairman nominated by 1992 Fund Member States, five named individuals nominated by 1992 Fund Member States and one named individual not related to the Organisations with expertise and experience in audit matters nominated by the Chairman of the 1992 Fund Assembly.

- 3.2 The Audit Body has the following mandate:

- review the effectiveness of the Organisations regarding key issues of financial reporting, internal controls, operational procedures and risk management;
- promote the understanding and effectiveness of the audit function within the Organisations, and provide a forum to discuss internal controls, operational procedures and matters raised by the external audit;
- discuss with the External Auditor the nature and scope of each forthcoming audit;
- review the Organisations' financial statements and reports;
- consider all relevant reports by the External Auditor, including reports on the financial statements; and
- make appropriate recommendations to the governing bodies.

- 3.3 The Audit Body met in March, June and December 2006 and informally in October 2006 at the time of the October 2006 sessions of the governing bodies.

4 Investment Advisory Body

The governing bodies of the IOPC Funds have established a joint Investment Advisory Body, consisting of three experts with specialist knowledge in investment matters elected by the 1992 Fund Assembly to advise the Director in general terms on such matters.

5 Financial Overview

- 5.1 There are separate income and expenditure accounts for the General Fund and for each of the Major Claims Funds. The General Fund covers the 1992 Fund's expenses for the administration of the Organisation, including the 1992 Fund's share of the costs of running the joint Secretariat, and for compensation payments and claims related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDRs per incident converted at the rate applicable on the date of the incident. Separate Major Claims Funds are established for incidents where the total amount payable by the 1992 Fund exceeds 4 million SDRs.
- 5.2 The 1992 Fund is financed by contributions paid by any person who has received in the relevant calendar year in excess of 150 000 tonnes of crude oil or heavy fuel oil (contributing oil) in ports or terminal installations in a Member State after carriage by sea. The levy of contributions is based on reports of oil receipts in respect of individual contributors, which are submitted to the Secretariat by Governments of Member States.
- 5.3 As requested by the Supplementary Fund Assembly and as authorised by the 1992 Fund Assembly, the Director made necessary funds available to the Supplementary Fund in the form of loans from the 1992 Fund to be repaid, with interest, when the Supplementary Fund had received the first levy of contributions to be decided by its Assembly.

Income

Contribution income

- 5.4 No contributions were levied in 2005 for payment in 2006 as regards the General Fund. With respect to the *Erika* and *Prestige* Major Claims Funds the Assembly decided on levies of £2.0 million and £3.5 million respectively, the entire levies to be deferred)^{<>}. In July 2006 the Director decided not to make any deferred levies.
- 5.5 Details of outstanding contributions for previous financial periods are provided in **Schedule I**. As at 31 December 2006 the total outstanding amount of contributions levied was £328 917.

Miscellaneous income

- 5.6 At their October 2005 sessions the 1971 Fund Administrative Council and the 1992 Fund Assembly decided that the 1971 Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £275 000 for the period 1 January to 31 December 2006 (documents 92FUND/A.10/37, paragraph 28.4 and Annex and 71FUND/AC.17/20, paragraph 18.4 and Annex) compared to a management fee paid in 2005 of £325 000. The management fee was set estimated on the number of working days that the entire Secretariat would have to spend on 1971 Fund matters. It was estimated that 20 working days would be spent by the Secretariat on such matters in 2006, resulting in a fee of £275 000.
- 5.7 At their October 2005 sessions the Supplementary Fund Assembly and the 1992 Fund Assembly decided that the Supplementary Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £70 000 for the 2006 financial period (documents 92FUND/A.10/37, paragraph 28.4 and Annex and SUPPFUND/A/ES.1/21, paragraph 17.4 and Annex) compared to a management fee paid in 2005 of £125 000 (since the Supplementary Fund Protocol entered into force on 3 March 2005

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The 1992 Fund operates a deferred invoicing system. Under that system the Assembly or Administrative Council fixes the total amount to be levied in contributions for a given calendar year, but may decide that only a specific lower amount should be invoiced for payment by 1 March in the following year, the remaining amount or part thereof to be invoiced later in the year if it should prove to be necessary.

£130 000 pro-rated for the period 3 March -31 December 2005). The management fee was set based on the estimated number of working days that the entire Secretariat would have to spend on Supplementary Fund matters. It was estimated that five working days would be spent by the Secretariat on such matters in 2006, resulting in a fee of £70 000.

- 5.8 Compensation payments recovered from the P&I Club under STOPIA 2006 in respect to the *Solar 1* incident was some £1.3 million (cf paragraph 1.4).
- 5.9 Interest earned on the investment of the 1992 Fund assets during the period amounted to some £4.8 million and includes interest on Euros bought and invested in relation to the *Erika* and *Prestige* incidents. Interest earned from investment of the assets of the General Fund was some £1.24 million and from investment of the assets of the *Erika* and *Prestige* Major Claims Funds £2.08 million and £1.31 million, respectively.

Expenditure

Secretariat Expenses

- 5.10 The joint Secretariat's administrative expenses for 2006 amounted to £3 288 685, including the fees for the External Auditor. The total obligations incurred in 2006 was 8.7% less than the 2006 budget appropriation of £3 601 900 and 15% higher than total obligations incurred in 2005 of £ 2 859 699.
- 5.11 The External Auditor's fees for the audit of the financial statements for the three Funds were £60 500 broken down between the Funds as follows.

1992 Fund	£47 000
1971 Fund	£10 000
Supplementary Fund	£3 500

- 5.12 Expenses for running the joint Secretariat were made under six Chapters as set out below.

Chapter	2006 budget appropriations	2006 revised budget appropriations	2006 Obligations incurred		Balance of appropriations
	£	£	£	%	£
I Personnel	2 086 500	2 086 500	1 998 321	60.7	88 179
II General services	757 400	757 400	536 003	16.3	221 397
III Meetings	150 000	176 638	176 638	5.4	-
IV Travel	160 000	145 000	143 991	4.4	1 009
V Miscellaneous expenditure	388 000	433 732	433 732	13.2	-
VI Unforeseen expenditure	60 000	2 630	-	-	2 630
Total	3 601 900	3 601 900	3 288 685	100.00	313 215

Comments on the expenditures by Chapter are provided below.

- 5.13 Excess expenditure resulting in revised budget appropriations were met by three budgetary transfers as provided in the 1992 Fund's Financial Regulations. Two further transfers were made as authorised by the 1992 Fund Assembly at its October 2005 and 2006 sessions.

I Personnel

Chapter	2005 Obligations incurred £	2006 Obligations incurred £	Increase in 2006 %
I Personnel	1 658 445	1 998 321	20.5

- 5.14 The expenditure under Personnel covers Salaries, Separation and recruitment and Staff benefits, allowances and training. The underspend for 2006 was some 4% (£88 179).
- 5.15 The increase of 20.5% as compared to the 2005 obligations was due mainly to expenses associated with the change in Director in 2006, ie the recruitment cost associated with the incoming Director and the separation cost associated with the outgoing Director. In addition, as decided by the Assembly, there was a transition period of four months during which both the incoming and the outgoing Director belonged to the Secretariat. Costs were also incurred in respect of the separation and recruitment of the holder of the post of Legal Counsel.

II General services

Chapter	2005 Obligations incurred £	2006 Obligations incurred £	Decrease in 2006 %
II General services	569 625	536 003	(5.9)

- 5.16 The appropriations under this heading cover mainly Office accommodation, Office machines and Public information. Of the expenses in this chapter some 49% relates to Office accommodation and some 16% to Public information. The underspend of some 29% (£221 397) was mainly in respect of the appropriations for Public information and Office machines. There was decrease of 5.9% as compared to the 2005 obligations.

III Meetings

Chapter	2005 Obligations incurred £	2006 Obligations incurred £	Increase in 2006 %
III Meetings	151 598	176 638	16.5

- 5.17 The IOPC Funds bodies held 14 days of meetings in 2006 compared to 16 days in 2005. However although the number of meeting days was slightly lower in 2006 than in 2005, there was increase in costs of 16.5% compared to 2005. This was due to the fact that the October 2006 sessions of the governing bodies had to be held outside of the International Maritime Organization building due to its refurbishment.
- 5.18 The main expenses under this Chapter relate to the cost of the premises (October 2006 sessions), interpretation during meetings and translation and printing of documents for meetings.
- 5.19 The total expenditure on meetings for 2006 was £176 638, compared to an appropriation of £150 000. At its October 2005 session the Assembly authorised the Director to incur any additional necessary costs associated with holding meetings outside the IMO building during the period 1 July – 31 December 2006 (document 92FUND/A.10/37, paragraph 30.11). The shortfall was covered by a transfer of £15 000 from Chapter IV – Travel in accordance with Financial Regulation 6.3 and a transfer of 11 638 from Chapter VI – Unforeseen expenditure as authorized by the Assembly.

IV Travel

Chapter	2005 Obligations incurred £	2006 Obligations incurred £	Increase in 2006 %
IV Travel	108 791	143 991	32.4

- 5.20 The total expenditure on travel was £143 991, compared to the original appropriation of £160 000. There was an increase of 32.4% compared to the 2005 expenses under this Chapter.
- 5.21 The Secretariat undertakes missions and participates in various conferences and seminars as required. Where possible, travel in respect of incidents was also combined with missions, conferences and seminars. There has been a significant increase in the number of requests for the Secretariat to participate in various conferences and seminars and to hold workshops on claims handling.

V Miscellaneous expenditure

Chapter	2005 Obligations incurred £	2006 Obligations incurred £	Increase in 2006 %
V Miscellaneous expenditure	343 791	433 732	26.2

- 5.22 The total expenditure under this Chapter was £433 732 compared to an appropriation of £388 000. The increase in obligations incurred in 2006 was 26.2% compared to 2005.
- 5.23 This Chapter includes the fees of the External Auditor, the costs relating to the Audit Body and the Investment Advisory Body and Consultants/lawyers fees (non incident related).
- 5.24 The costs of the Audit Body in 2006 was £116 420 (£89 048 in 2005) compared to an appropriation of £110 000. The increase was mainly due to increased travel costs for the members to attend the Body's meetings. In accordance with Financial Regulation 6.3 a transfer was made from Chapter VI – Unforeseen expenditure to cover the shortfall of £6 420.
- 5.25 The cost of the Investment Advisory Body was £37 500.
- 5.26 Consultants were used in respect of studies to be undertaken by the Secretariat not foreseen when the 2006 budget was adopted, assistance with the Secretariat's risk management programme, upgrading the IOPC Funds' bespoke finance and contribution database and development of a staff performance management system for the Secretariat. Legal fees falling under this appropriation were incurred *inter alia* in relation to dealing with contributors who were in arrears.
- 5.27 At its October 2006 session the Assembly authorised the Director to make the necessary transfer to Consultants' fees under Chapter V - Miscellaneous expenditure, within the 2006 budget, from Chapter VI (Unforeseen expenditure) to cover the cost of such fees in 2006 (document 92FUND/A.11/35, paragraph 35).

VI *Unforeseen expenditure*

Chapter	2005 Obligations incurred £	2006 Obligations incurred £
VI Unforeseen expenditure	27 499	-

- 5.28 No expenditure was incurred under this heading. However, transfers were made from this Chapter as set out above, resulting in only a small balance of appropriation.

Claims and claims related expenditure

- 5.29 Compensation payments and claims related expenditure during 2006 amounted to some £56.9 million. The payments related mainly to the *Erika* (£9.4 million) and *Prestige* (£42 million) incidents.
- 5.30 The *Erika* incident in France in 1999 has resulted in over 7 900 claims for compensation. Although most of these claims have been assessed, there are still a considerable number of claims pending in the French courts. The *Prestige* incident which occurred off Spain in 2002 caused serious pollution damage in Spain and France and also affected Portugal and the United Kingdom. This incident has given rise to significant compensation claims.
- 5.31 Significant payments were also made during 2006 in respect of other incidents involving the 1992 Fund, namely the *Solar 1* (£2.0 million), *N° 7 Kwang Min* (£1.3) and the *Dolly* (£1.0) incidents.

- 5.32 The incidents in which the 1992 Fund was involved during 2006 are listed in **Schedule II**.

General Fund and Major Claims Balances

- 5.33 The majority of the 1992 Fund's cash assets at the end of the 2006 financial period amounting to some £91 million was held in Pounds sterling.
- 5.34 The General Fund balance at the balance sheet date was £24 639 049 which is higher than the working capital of £22 million set by the Assembly at its October 2004 session.
- 5.35 The balances due to the two Major Claims Funds were as follows:

	£
<i>Erika</i> Major Claims Fund	42 032 556
<i>Prestige</i> Major Claims Fund	24 106 692

- 5.36 The contingent liabilities as at 31 December 2006 were estimated at over £67.4 million in respect of eight incidents as detailed in **Schedule III**.

Staff Provident Fund

- 5.37 The Staff Provident Fund Account had a balance of £1 883 640 on the accounts of staff members as at 31 December 2006 (**Statement V**). This balance reflects contributions to the Provident Fund during the financial year, in accordance with Staff Regulation 23(b) and Staff Rule VIII.5, withdrawals and repayments of housing loans, withdrawals on separation and interest earned on the investment of the assets of the Provident Fund.

Due from HNS Fund

- 5.38 An amount of £114 537 (including interest) is due from the International Hazardous and Noxious Substances Fund (HNS Fund) (see Note 8 to the financial statements).

Due from Supplementary Fund

- 5.39 An amount of £259 738 (including interest) is due from the Supplementary Fund (see Note 9 to the financial statements).

Contributor's account

- 5.40 At the balance sheet date an amount of £718 927 was due to contributors. This amount includes interest credited in 2006 as provided for in the Internal Regulations.

Cash Flow Statement for the financial period 1 January - 31 December 2006 (Statement VII)

- 5.41 During the period ended 31 December 2006, the net cash outflow from operating activities was £59 701 447 and interest from the 1992 Fund's investments amounted to £4 841 347 which, added to the opening balance of £146 305 576, resulted in a cash balance of £91 444 476 (see Note 16(a) to the financial statements).

6. External Auditor's Recommendations from previous financial years

The External Auditor's recommendations from the 2005 previous financial year cover both the 1992 Fund and the 1971 Fund. These recommendations and the Director's response thereto are set out in the Attachment to this Annex.



Willem Oosterveen
Director
22 June 2007

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**States Parties to both the
1992 Civil Liability Convention and the 1992 Fund Convention
as at 31 December 2006**

**98 States for which 1992 Fund Convention is in force
(and therefore Members of the 1992 Fund)**

Albania	Germany	Papua New Guinea
Algeria	Ghana	Philippines
Angola	Greece	Poland
Antigua and Barbuda	Grenada	Portugal
Argentina	Guinea	Qatar
Australia	Iceland	Republic of Korea
Bahamas	India	Russian Federation
Bahrain	Ireland	Saint Lucia
Barbados	Israel	Saint Vincent and the Grenadines
Belgium	Italy	Samoa
Belize	Jamaica	Seychelles
Brunei Darussalam	Japan	Sierra Leone
Bulgaria	Kenya	Singapore
Cambodia	Latvia	Slovenia
Cameroon	Liberia	South Africa
Canada	Lithuania	Spain
Cape Verde	Luxembourg	Sri Lanka
China (Hong Kong Special Administrative Region)	Madagascar	Saint Kitts and Nevis
Colombia	Malaysia	Sweden
Comoros	Maldives	Switzerland
Congo	Malta	Tonga
Croatia	Marshall Islands	Trinidad and Tobago
Cyprus	Mauritius	Tunisia
Denmark	Mexico	Turkey
Djibouti	Monaco	Tuvalu
Dominica	Morocco	United Arab Emirates
Dominican Republic	Mozambique	United Kingdom
Estonia	Namibia	United Republic of Tanzania
Fiji	Netherlands	Uruguay
Finland	New Zealand	Vanuatu
France	Nigeria	Venezuela
Gabon	Norway	
Georgia	Oman	
	Panama	



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Attachment

RECOMMENDATIONS MADE BY EXTERNAL AUDITOR IN HIS REPORT ON THE FINANCIAL STATEMENTS FOR 2005

RECOMMENDATIONS AND RESPONSE

<i>1992 Fund and 1971 Fund</i>	<u>Recommendations from External Auditor</u>	<u>Response from IOPC Funds' Director</u>	<u>Status</u>
	<ul style="list-style-type: none"> • <u>Recommendation 1</u>: Contributor's account - Review of position in respect of the credit balances of a particular contributor. 	Discussions are being held with the contributor for the purpose of resolving the issue.	To be completed as soon as possible.
	<ul style="list-style-type: none"> • <u>Recommendation 2</u>: Review of recoverability of all contributions outstanding to the Funds. 	The Director will review the position in relation to each of the individual contributors in order to determine whether it will be appropriate to write off any contributions.	Pursuant to the Funds' Financial Regulation 11.5 three write offs were made in October 2006. The External Auditor and the Audit Body were advised of these write offs. The governing bodies at their October 2006 sessions were also notified of these write off in the Funds' documents on "Report on Contributions".
<i>1992 Fund Only</i>	<ul style="list-style-type: none"> • <u>Recommendation 3</u>: The Register of Interest introduced in early 2006 to be completed by staff members including the Director. 	This Register will assist in identifying potential conflicts of interests and related party relationships. The Director shall ensure that written agreements and disclosures are made as appropriate.	Implemented



	<u>Recommendations from External Auditor</u>	<u>Response from IOPC Funds' Director</u>	<u>Status</u>
	<ul style="list-style-type: none">• <u>Recommendation 4:</u> The basis of selection of service suppliers, mainly lawyers, surveyors and other technical experts should be supported by documentation to ensure good procurement practice and compliance with the Funds' administrative instructions.	Selection of service suppliers will be documented.	Implemented
	<ul style="list-style-type: none">• <u>Recommendation 5:</u> Business continuity and consistency in procurement practice.	Purchasing procedures as appropriate for IT and office administration shall be documented.	Purchasing procedure for IT and office administration has been documented.
	<ul style="list-style-type: none">• <u>Recommendation 6:</u> Risk identification process.	The ongoing process on risk management will be pursued as rapidly as practicably possible. On completion key risks will be identified and monitored by the Secretariat.	To be completed as soon as possible during 2007 and key risks identified.

ANNEX II

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT ON INTERNAL CONTROL

Scope of Director's responsibility

Under Article 28.2 of the 1992 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Fund 1992 (1992 Fund). Each Contracting State shall, pursuant to Article 2.2, recognise the Director as the legal representative of the Fund.

Under Article 29.1, the Director shall be the chief administrative officer of the 1992 Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the 1992 Fund's policies, aims and objectives, whilst also safeguarding the 1992 Fund's assets.

As a result of these provisions, the Director has the authority, vis-à-vis third parties, to commit the 1992 Fund without restrictions, unless the third party concerned has been informed of any limitation of this authority decided by the Assembly or Executive Committee.

The Director is however bound by any restriction of his authority decided by the Assembly or Executive Committee. He may delegate his authority to other officers within the limits laid down by the Assembly.

The 1992 Fund, the International Oil Pollution Compensation Fund 1971 and the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund), together referred to as the IOPC Funds, have a joint Secretariat headed by one Director. The 1992 Fund administers the joint Secretariat and staff members are therefore employed by the 1992 Fund.

Pursuant to the authority given and within the limits laid down by the IOPC Funds' governing bodies the Director has delegated his authority to other officers by Administrative Instructions.

The Director is assisted by a Management Team comprising of the Deputy Director / Technical Adviser, the Legal Counsel, the Head of the Claims Department, the Head of the Finance and Administration Department and the Head of the External Relations and Conference Department for the day to day running of the Secretariat.

Statement on the system of internal control

The Director has the responsibility for maintaining a sound system of internal control that supports the work of the 1992 Fund. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks and to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

In 2002 the 1992 Fund Assembly established an Audit Body. The Audit Body meets formally three times a year. The Audit Body has the mandate to review the effectiveness of the Organisation regarding key issues of financial reporting, internal controls, operational procedures and risk management, to review the Organisation's financial statements and reports, and to consider all relevant reports by the External Auditor, including reports on the Organisation's financial statements. This additional oversight provides further assurance that appropriate internal controls are in place.

Capability to handle risk

During 2006 the Director continued a review of the IOPC Funds' risk management and the work carried out towards developing a risk register. In close cooperation with the Audit Body, and with the assistance of external consultants and the External Auditor, five areas of risk have been identified, namely: reputation risk, claims handling process, financial risk, human resource management and business continuity.

Under these five areas, with the assistance of external consultants, the sub risks are being mapped and assessed following which the process and procedures for management of these risks will be documented. This exercise will allow the IOPC Funds to prioritise the key risks and to ensure that these risks have been adequately mitigated. The Audit Body and the External Auditor have made valuable contributions to the work in this field.

The risk and control framework

The system of internal control is based on an on going process designed to ensure conformity with the 1992 Fund Convention, the Financial Regulations, the Internal Regulations and decisions of the 1992 Fund Assembly and Executive Committee.

The Assembly adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the 1992 Fund. Amendments to these Regulations were last made at the extraordinary session of the Assembly in March 2005.

Staff Regulations are adopted by the 1992 Fund Assembly. Staff Rules are issued by the Director and any amendments to the Staff Rules are reported annually to the 1992 Fund Assembly. Administrative Instructions are issued by the Director as and when required. These instructions were last reviewed and re-issued to staff members in 2005.

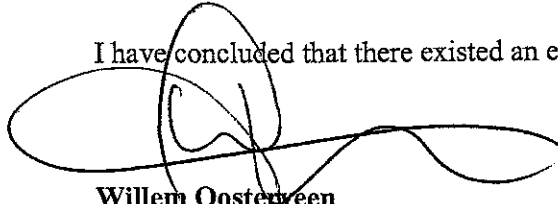
The Investment Advisory Body established by the Assembly advises the Director on relevant procedures for investment and cash management controls. The Body monitors, on a quarterly basis, the credit ratings of financial institutions and reviews the credit ratings of such institutions, which meet the IOPC Funds' investment criteria. The Body also reviews the IOPC Funds' investments and foreign exchange requirements to ensure that reasonable investment returns are achieved without compromising the IOPC Fund's assets. The Body reports to the 1992 Fund Assembly on an annual basis.

Review of effectiveness

The review of the effectiveness of the system of internal control is carried out through the work of the Audit Body and comments of the External Auditor. Any recommendations made by the External Auditor in his management letter and other Reports are considered and a plan to address any identified weakness and to ensure continuous improvement of the current system is agreed. All recommendations made by the External Auditor in his management letter and Report on the 2005 Financial Statements have been addressed.

At its meeting in March 2003 the Audit Body took the view that an internal audit function would be an unnecessary burden and expense on an organisation the size of the 1992 Fund. The Director will keep this issue under review.

I have concluded that there existed an effective system of internal control for the financial year 2006.


Willem Oosterbeek
Director
22 June 2007





National Audit Office

INTERNATIONAL AUDIT

The United Kingdom National Audit Office (NAO) provides an external audit service to the International Oil Pollution Compensation Fund 1992. The External Auditor, Sir John Bourn, has been appointed by the Assembly in accordance with Regulation 14 of the Financial Regulations. In addition to certifying the accounts of the Fund he has authority under the mandate, to report to the Assembly on the economy, efficiency and effectiveness with which the Fund has used its resources.

The NAO provides external audit services to international organisations, working entirely independently of its role as the Supreme Audit Institution of the United Kingdom. The NAO has a dedicated team of professionally qualified staff with wide experience of auditing international organisations.

The aim of the audit is to provide independent assurance to member states; to add value to the Fund's financial management and governance; and to support the objectives of its work.

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External Auditor's Report 2006

International Oil Pollution Compensation Fund 1992

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EXECUTIVE SUMMARY

OVERALL RESULTS OF THE AUDIT

1. We have audited the Financial Statements of the International Oil Pollution Compensation Fund 1992 in accordance with the Financial Regulations and in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and with International Standards on Auditing. I have provided a separate audit opinion and report in relation to the Financial Statements of the International Oil Pollution Compensation Fund 1971 and an opinion in relation to the Supplementary Fund.
2. **The audit examination revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and the validity of the financial statements as a whole and I have placed an unqualified audit opinion on the Fund's financial statements for the year ended 31 December 2006.**
3. Observations and recommendations arising from the audit are set out in summary below. A more detailed analysis of key issues is provided in the section of the report entitled Detailed Report Findings.

MAIN FINDINGS AND RECOMMENDATIONS

Financial Reporting

4. The detailed findings of this report provide a commentary on the Fund's financial position. For the financial year ended 31 December 2006, the 1992 Fund reported shortfall of income over expenditure (excluding the Provident Fund) of £52,770,943 compared with surplus income of £24,833,625 in 2005. This was due to a significant increase in claims expenditure, mainly due to compensation payments in respect of the *Prestige* incident (£40,537,569) and the fact that that no contributions were levied in the period.
5. Overall we found that internal financial controls operated effectively in each of the account areas that we audited and combined with assurance gained from tests of detail there was sufficient reliable evidence to support our audit opinion.
6. We reviewed the need to realign the Fund's Financial Regulations to meet the requirements of International Public Sector Accounting Standards (IPSAS). We have highlighted the key changes relevant to the Fund's accounts and recommended that the Secretariat draw up an implementation plan to address the areas highlighted in the report and eventually seek approval from the Assembly to make changes to the Fund's Financial Regulations.

Financial Management Issues

7. In addition to the work necessary to provide assurance on the financial statements, we reviewed the major areas of the Secretariat's operations in the audit period and provided guidance and support to the Secretariat as required.
8. In 2006 the Fund upgraded its accounting system (FundMan) to improve access, control, data interrogation and IT support options. Our audit looked at the project management, data integrity and access and input controls relating to this upgrade. Apart from some minor issues relating to access controls, reported to management separately, we were satisfied that the project had been executed appropriately, that data remained intact and that the new system provides greater control of the financial information, which can now be externally supported.
9. We also examined transactions on respect of the recent *Solar I* incident which occurred in 2006 and on which the Fund has made compensation payments. As a part of this review we looked at the accounting treatment of the compensation income from the P&I Club, under the Small Tankers Oil Pollution Indemnification Agreement (STOPIA) and the methodology for the distribution of compensation payments to local fishermen who had made claims. We are satisfied that the Secretariat has accounted for the income correctly and that they took adequate precautions to ensure the regularity of compensation payments made.
10. We noted that the Secretariat does not record staff time spent on different activities. We have recommended that the Secretariat consider the benefits of being able to allocate actual time spent on specific areas of work, which would help to identify the true cost of ad hoc projects. In addition, if the Fund is requested also to administer the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS Convention 1996), it might be necessary for the Secretariat to justify any management fee charged, since this fee would be paid by a different group of contributors in Member States.
11. Finally we commend the progress the Secretariat has made in implementing a staff performance management system, which we expect to be fully operational in 2007. We also followed-up on the recommendations from our 2005 audit report and found that the Secretariat had taken steps to address all the audit recommendations.

DETAILED REPORT FINDINGS

Financial Reporting

Income and Expenditure

12. During the financial period 2006, the 1992 Fund reported a General Fund operating deficit of £4,733,325 in significant contrast to the surplus of £4,008,178 reported in 2005. This is explained by an increase in claims expenditure and the fact that no contributions were levied in the period. When the respective surpluses and deficits on the General Fund and Major Claims Funds are taken into account (excluding the Provident Fund), the 1992 Fund reported an overall deficit for the year of £52,770,943 (2005: £24,833,625 - Surplus).

Contributions Income

13. The 1992 Fund did not levy any contributions for receipt 2006. The only movements on contributions related to prior year contributions received (£28,794) or waived (£6,277) during 2006. There were no reimbursements of contributions arising from closure of any Major Claims Fund in the period.

Miscellaneous Income

14. Miscellaneous income received in 2006, including interest relating to the Provident Fund, amounted to £6,944,284 (£7,119,811 in 2005). Interest from investments accounted for £4,801,113 of total miscellaneous income, which represents a 25 per cent decrease on the previous year, mainly as a result of the much smaller cash balances available for investment. The value of interest income reflects the accounting policy of recording interest on the basis of cash received, rather than on an accruals basis when income is due.

Secretariat Expenses

15. Obligations incurred by the 1992 Fund for joint Secretariat expenses totalled £3,288,685, representing an under spend of £313,215 against the approved budgetary appropriations. This under spend is accounted for mainly by lower than expected personnel costs (£88,179) and lower expenditure on public information (£92,447) and office machines (£53,648).
16. Total obligations for the 1992 Fund were £3,275,185, representing an increase of £427,986 or 15 per cent on the previous year's obligations. Almost 80 per cent of this increase related to expenditure on personnel. Significant separation and recruitment costs were key factors in this increase.

Claims and Claims Related Expenses

17. There was a sharp increase in the value of compensation payments made during 2006, which totalled £52.6 million compared with £12.6 million in 2005. This increase was attributed mainly to compensation payments of £40.5 million in relation to the *Prestige* incident (2005: £621,316) and significantly increased payments from the General Fund of £4.1 million (2005: £304,827).
18. Claims related expenditure consisted mainly of technical and legal fees and amounted to £4.2 million (£4.7 million in 2005), reflecting the fact that claims related activity in 2006 remained broadly similar for the General Fund, with decreases in activity for the *Erika* and *Prestige* incidents. Overall claims related expenditure for 2006 was reduced by a payment of £1 million from a P&I Club. This was an interim payment made by the P&I Club towards their share of the joint costs incurred in respect of the *Prestige* incident.

Staff Provident Fund

19. The balance on the Staff Provident Fund at the year end stood at £1,883,640. This represented a decrease of 21 per cent on the closing balance for 2005. The reason for the decrease was withdrawals on separation, from the departure of key secretariat staff in the period.
20. The Provident Fund earned interest of £155,819 during the year, a return on investment of 7.1 per cent on the average net assets held throughout the year.

Assets and Liabilities

21. Cash held by the 1992 Fund amounted to £91.4 million as at 31 December 2006. The level of outstanding assessed contributions decreased from £376,482 in 2005 to £328,916 at the end of 2006, and consisted mainly of amounts still due in respect of the *Prestige* Major Claims Fund. Even though the contributions outstanding remained low in percentage terms, we would continue to encourage all Member States to assist the Funds to obtain outstanding amounts from contributors in their respective States; and for the Fund to continue to actively seek the payment of outstanding balances. The contributors' account balance decreased from £1,036,045 (2005) to £718,927, with the reduction due to repayments made to contributors.

Contingent Liabilities

22. Schedule III to the financial statements discloses the contingent liabilities of the 1992 Fund, which are defined in the accounting policies as all known or likely claims against the 1992 Fund and claims related expenditures estimated for the next financial year. Contingent liabilities as at 31 December 2006 have been estimated at £67,400,000.
23. At 31 December 2006, the *Erika* Major Claims Fund had a balance of £42,032,556 and the *Prestige* Major Claims Fund a balance of £24,106,692, both of which were higher than the estimated contingent

liabilities relating to these incidents at 31 December 2006. Liabilities for the remaining incidents, amounting to £4,700,000, are covered by the General Fund.

Other financial matters: fraud, presumptive fraud or money laundering

24. No cases of fraud, presumptive fraud or money laundering were reported to us by the Secretariat or identified in the items examined as part of the audit of the 2006 financial period.

Adoption of International Public Sector Accounting Standards (IPSAS)

25. The Fund continues to provide timely and well presented financial statements supported by well maintained accounting records and in accordance with its Financial Regulations. As part of our audit we reviewed the Fund's current alignment with United Nations System Accounting Standards (UNSAS) and their continued applicability. Annex II provides an overview of the significant differences between IPSAS and UNSAS, and the likely impact on the Fund of a change in accounting standards.
26. In July 2006 the UN General Assembly passed a resolution that approved the adoption of IPSAS as the United Nations system's accounting standards by 2010. Beyond this date it is likely that UNSAS as an accounting framework will be phased out.
27. IPSAS are generally accepted, high quality, independently produced accounting standards which are comprehensive and supported by Governments, professional accounting bodies and international organisations. They represent international best practice for the public sector and not for profit organisations and utilise the "full accruals" basis for financial reporting. They are issued by the International Public Sector Accounting Standards Board, a standing committee of the International Federation of Accountants. Information on the key differences between UNSAS and IPSAS is set out in Annex II of this report.
28. The **benefits** of adoption of IPSAS include the following:
- Improved stewardship and transparency with respect to all assets and liabilities;
 - More comprehensive and consistent information about costs and income; and
 - Improved consistency and comparability of financial statements over time, and between organisations.
29. The **impact** on accounting and financial reporting for the Fund would include the following:
- The recognition of expenses on the basis of the delivery principle, where expenditure is recognised on the basis of good or services actually received in the accounting period.
 - A change in the basis of the recognition of revenue to full accruals accounting, which would recognise all income when properly due rather than when actually received.
 - Full recognition of liabilities for employee benefit obligations, such as annual leave and repatriation grants.

- The recognition and depreciation of capital assets such as furniture and equipment.
30. Compliance with IPSAS accounting and reporting requirements will involve an analysis of the existing financial systems to ensure that information on capital assets, depreciation, employee benefits, income, and expenditure recognition is complete, sufficiently reliable and correctly captured.
31. Further, to facilitate the reconciliation between budgeted and actual financial results, budgeting methodology will need to be modified to comply with the accruals accounting concept.
32. The existing financial regulations, particularly those governing the carry-over of budgetary appropriations for unliquidated obligations for a period of 24 months, will need to be reviewed and aligned with IPSAS where relevant. In accordance with Financial Regulation 17, all amendments to the Financial Regulations will require Assembly approval.
33. Finally, adoption of IPSAS will require staff training on the application of the new standards, changes to the financial management system and any modified business processes.

Recommendation 1: We recommend that the Secretariat submit a proposal to the Assembly by its 2008 regular session which seeks the adoption of IPSAS by the Fund in principle from 2010. This proposal should include a provisional action plan, detailing the necessary tasks which should include an initial impact analysis, consideration of alternate budgeting practices, implications for the Financial Regulations and the impact on the financial system.

Financial Management Issues

Internal Controls

34. As part of our audit we reviewed the Fund's internal controls, established by management to ensure the regularity of transactions and to provide effective stewardship of resources. We found the controls in operation to be effective for the purpose of supporting our audit opinion.

Accounting System Upgrade (FundMan)

35. In 2006 the Fund's accounting system was upgraded and the new system was used from 1st January 2006. As part of our audit we looked at the following aspects of this system upgrade:
- Project management;
 - Data integrity;
 - Access and input controls.

Project Management

36. We reviewed supporting documentation relating to the upgrade and found that, although evidence of risk assessment and system mapping were in place, the minutes for project team meetings were not always complete and did not always clearly record progress. In addition, while the costs of hardware and the consultant were known, no budget had been developed for the project to include the costs of staff time. Without a proper budget, the Secretariat were unaware of the real cost of the upgrade, and could not monitor progress of the project against budget. Monitoring against budgets for projects is a powerful tool that ensures that costs are controlled and potential overspends identified. This in turn improves the quality of financial information available to the management team, and allows them to react, learn from the information, and make sound decisions.

Recommendation 2: We recommend that the Secretariat prepare budgets that include staff time for the execution of project work, to ensure that the full costs of such work can be assessed and monitored. This will also help the project team ensure that work is delivered on time and to budget.

Data Integrity

37. The accounting data was not transferred to a new system but the application used to access and interrogate the data was changed. It was therefore necessary for us to confirm that the new accounting platform presented data correctly and we reviewed in detail the work done to ensure this. We concluded that the results of the work done provided sufficient assurance that the upgrade of the system had not affected the content of the database. In addition, the testing showed that the new user interface software was processing and presenting the database information in the same way as the previous system but with increased viewing flexibility allowing greater use to be made of management information.
38. Finally, we confirmed that the upgrade of the system and all related programming information had been fully documented. This now allows any IT service provider to support the system, which represents a significant improvement in IT support, since previously the Fund relied solely on the internal IT Manager. The Funds now have a maintenance contract with a software house for the support of the upgraded FundMan system.

Access and Input Controls

39. We tested the controls in operation around the FundMan system and found them to be effective, with many pre-defined controls for user authentication and authorisation. The segregated checking of all input information by the Finance Manager prior to posting represents a powerful prevention and detection control.

40. No payment information is stored or used from the system, and the controls over standing data are adequate. We have reported to management on a few minor points on defined user access where improvements can be made but these have no impact on our audit opinion.

SOLAR I Incident

41. In 2006, there were two new incidents for the 1992 Fund: the *Solar I* (Philippines) on 11th August 2006 and the *Shosei Maru* (Japan) on 28th November 2006. Only the *Solar I* incident affected the financial statements for 2006.
42. The *Solar I* incident invoked the STOPIA 2006 memorandum of understanding between the 1992 Fund, the ship owner and the P&I Club. Under this agreement, the Fund is entitled to indemnification by the ship owner and the P&I Club of the difference between the limitation amount applicable to the ship under the 1992 Civil Liability Convention and the total amount of admissible claims or 20 million Special Drawing Rights, whichever is lower. The Fund invoices the ship owner and the P&I Club for the amounts paid by the Fund on a regular basis, for payment within 14 days of the date of the invoice. Our audit work examined the following three aspects of this situation:
- The appropriate accounting treatment required;
 - Disbursement methodology; and
 - The STOPIA 2006 operation.

Accounting treatment

43. We reviewed the treatment of STOPIA 2006 income against the Fund's Financial Regulations and UNSAS requirements. We concluded that all income should be accounted for as miscellaneous income in the accounts as it was by nature different from assessed contributions. This recommendation has been incorporated by the Secretariat into the 2006 financial statements.

Disbursement Methodology

44. Many claimants from the *Solar I* incident were local independent fishermen. This resulted in numerous small claims from rural communities in the Philippines. We reviewed the process and controls in operation over payments to the fishermen. We confirmed that the Fund had identified and utilised a clear and controlled process for ensuring fair claims assessment, using an independent expert to assess the loss suffered by fishermen and to ensure payments to claimants.

STOPIA 2006 Operation

45. *Solar I* was the first instance of the operation of the STOPIA 2006 agreement between the Fund, the ship owner and the P&I Clubs. The key element of this agreement was that the ship owner and the P&I Club would reimburse the Fund for compensation payments made within 14 days of the date of invoice. We can confirm that, at the time of audit, all invoices to the ship owner and the P&I Club for the *Solar I* incident had been paid within 14 days of invoice issue, in accordance with the STOPIA 2006 agreement.

Secretariat Management Fees

46. The Secretariat for the 1992 Fund also operates as the Secretariat for the 1971 Fund and the Supplementary Fund. It is possible that the Secretariat may become responsible in the future for administering the Hazardous and Noxious Substances (HNS) Fund. We noted that charges to the 1971 Fund and the Supplementary Fund for 2006 were based on the Director's best estimate of staff time spent on administering the two Funds. Activity on each of the Funds fluctuates within the year and, since there is no monitoring of the actual time spent by staff on a particular Fund, it is not possible to fully verify the accuracy of management fee estimates by the Secretariat.
47. While we recognise that the current apportionment of fees is carried out on a reasonable basis and agreed by the governing bodies of all three Funds, the Secretariat could become responsible for the HNS Fund, at which point it would be important to justify any management fee allocated to the new Fund.

Recommendation 3: We recommend that if the Secretariat were to become responsible for the HNS Fund, a more formal and accurate system of allocation of Secretariat time to such work should be considered, since any such fee would need to be adequately justified to Member States.

Performance Management

48. The Secretariat has engaged with a consultant and Funds staff to design a performance management system. The introduction of staff performance management provides many benefits, including setting challenging work programmes and identifying training needs and opportunities. During our audit we reviewed the progress the Secretariat had made in developing an improved system of performance management. We confirm that the Secretariat has made good progress in establishing such a system, which we expect to be fully operational in 2007.

Recommendation 4: We recommend that the Secretariat continue with its plans to introduce a full staff performance management system in 2007. The introduction of such a system reflects the Fund's continued openness to adapt and incorporate best practice into all areas of its operation.

Progress on 2005 Audit Recommendations

49. As part of our responsibilities as external auditors, we routinely report to the Assembly on management's implementation of prior year audit recommendations. This serves to provide assurance to the Assembly that appropriate action is taken in response to audit recommendations.

Contributor's Account

50. In 2005 we identified one contributor which was owed almost £1 million from the Funds. This had not been repaid, since the contributor was a dissolved joint venture between two oil companies. We recommended that the Secretariat should address this issue and repay the balance. On follow-up, we concluded that the Fund had pursued the repayment of this money but that progress with the companies had been slow. We encourage the Secretariat to continue its efforts to return this outstanding balance.

Procedure Manuals

51. We reviewed progress made by the Secretariat in documenting and issuing procedures to capture and preserve the knowledge of the current staff, and document best practice, thus ensuring that operations and decisions remain transparent for management review and audit purposes. The following procedure manuals had been issued by the completion of our 2006 audit:
- Investment manual;
 - Payments manual;
 - Claims Department procedures; and
 - Guidelines for procurement (IT and administration).
52. We found that each of the manuals laid out procedures clearly and logically, such that the users of these manuals would be able to use them easily. We commend the Secretariat for reacting promptly to our recommendations and encourage them to continue to document and standardise procedures to ensure consistency of application.

Service Supplier Selection

53. We recommended that the basis of service supplier selection should be documented to support internal or external review and to assure good procurement practice. We noted that all purchasing staff had been reminded to ensure that this is done via a memorandum issued in the financial period. We identified new business partners and reviewed their selection; and we cross-referenced all business partners on FundMan to the Fund's register of interests. We found the supplier selection procedures to be transparent and logical.

Claims Handling Offices

54. In our 2005 report we reviewed expenditure at satellite Claims Handling Offices set up for the *Erika* and *Prestige* incidents. In 2006, the administration of these functions was re-organised with the closure of two offices as a result of the lessening of the administrative aspects of claims handling undertaken by the offices concerned. As part of our testing, we reviewed the average monthly cost to the Fund of old and new claims handling operations over the financial period. After re-organisation, the average monthly cost fell by approximately 60 per cent, while the total value of claims processed by the operations year on year increased by 60 percent. We commend the Secretariat for identifying the opportunity to review and improve this administration process.

Register of Interests

55. As mentioned above, we reviewed the operation of the new Register of Interests, which included cross reference to all business partners. We confirmed that the system was operating effectively and we identified no undeclared interests that could be considered as a conflict of interest.

Recoverability of Contributions

56. In 2005 we recommended that the Secretariat should review the recoverability of all outstanding contributions (Financial Regulation 11.5). We can confirm that the Secretariat performed such a review in 2006, which resulted in the write off of £6,277 in the year, and we were satisfied with the Secretariat's rationale for approving write off.

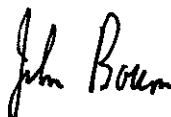
Risk Management

57. In our 2004 and 2005 audit reports, we noted that the Fund had continued to make progress in completing the mapping process for all its operations. As part of our audit, we confirmed that this process was still in progress, but we would again encourage a greater impetus to complete the exercise. It is essential that the Secretariat consolidate and prioritise the key risks from all the operational areas into a risk register.

Recommendation 5: We recommend that the Secretariat prioritise the completed risk register to identify key risks facing the organisation. These risks, where there is high likelihood of occurrence and where high impact would ensue, should be regularly monitored by the Secretariat, to ensure that appropriate controls are in place to mitigate and manage the risks to an acceptable level.

Acknowledgement

58. We are grateful for the continued assistance and co-operation provided by the Director and Secretariat staff during our audit.



Sir John Bourn

Comptroller and Auditor General, United Kingdom

External Auditor

SCOPE AND AUDIT APPROACH

Audit Scope and objectives

Our audit examined the financial statements of the International Oil Pollution Compensation Fund 1992 (1992 Fund) for the financial period ended 31 December 2006 in accordance with Financial Regulation 14. The main purpose of the audit was to enable us to form an opinion on whether the financial statements fairly presented the Fund's financial position, its surplus, funds and cash flows for the year ended 31 December 2006; and whether they had been properly prepared in accordance with the Financial Regulations.

Audit Standards

Our audit was conducted in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board. These standards required us to plan and carry out the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. Management were responsible for preparing these financial statements and the External Auditor is responsible for expressing an opinion on them, based on evidence obtained during the audit.

Audit Approach

Our audit included a general review of the accounting systems and such tests of the accounting records and internal control procedures as we considered necessary in the circumstances. The audit procedures are designed primarily for the purpose of forming an opinion on the Fund's financial statements. Consequently our work did not involve detailed review of all aspects of financial and budgetary systems from a management perspective, and the results should not be regarded as a comprehensive statement of all weaknesses that exist or all improvements that might be made

Our audit also included focused work in which all material areas of the financial statements were subject to direct substantive testing. A final examination was carried out to ensure that the financial statements accurately reflected the Fund's accounting records; that the transactions conformed to the relevant financial regulations and governing body directives; and that the audited accounts were fairly presented.

Major differences between UNSAS and IPSAS which affect the IOPC Funds

UNSAS	IPSAS	Effect
1. Reporting requirements take a "modified accruals" approach that is similar to cash accounting	<ul style="list-style-type: none"> Requirements are on a "full accrual" basis 	<ul style="list-style-type: none"> IPSAS reports a larger group of items (assets and liabilities) on the balance sheet than UNSAS.
2. Costs of fixed assets are reported as expenditure, in the statement of Income and Expenditure, when the assets are purchased	<ul style="list-style-type: none"> Cost of fixed assets are capitalised and are included on the balance sheet when first acquired. The original cost is then spread over the useful life of that asset as a depreciation expense 	<ul style="list-style-type: none"> There will be a decrease on reported expenditure and an increase in assets reported. A capital reserve will need to be established upon initial recognition of existing fixed assets.
3. Accrued employee benefits in respect of repatriation grants and annual leave are to be reported in a note to the accounts	<ul style="list-style-type: none"> Full recognition of liabilities for employee benefits and reported as an expense 	<ul style="list-style-type: none"> An increase in reported expenditure and a corresponding increase in liabilities for the amounts accrued.
4. Reported expenditure represents disbursements and unliquidated obligations (ULO's)	<ul style="list-style-type: none"> Recognition of expenditure on the basis of goods and services received. (The delivery principle). 	<ul style="list-style-type: none"> There would be a reduction in reported expenditure as not all ULO's of the period would be recognised as expenditure.
5. Preparation of budgets on a cash basis.	<ul style="list-style-type: none"> Preparation of budget on an accrual basis 	<ul style="list-style-type: none"> Changes of content and format of budget due to adoption of accruals basis. Or a reconciliation between the two basis

**FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION
COMPENSATION FUND 1992 FOR THE YEAR ENDED 31 DECEMBER 2006**

AUDIT OPINION

To: the Assembly of the International Oil Pollution Compensation Fund 1992

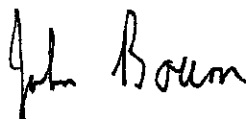
I have audited the accompanying financial statements, comprising Statements I to VII, Schedules I to III and the supporting Notes of the International Oil Pollution Compensation Fund 1992 for the financial period ended 31 December 2006. These financial statements are the responsibility of the Director. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

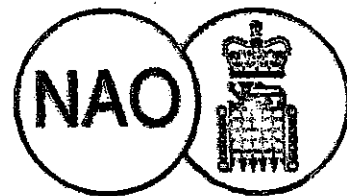
In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2006 and the results of operations and cash flows for the period then ended in accordance with the 1992 Fund's stated accounting policies set out in Note 1 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in my opinion, the transactions of the 1992 Fund, which I have tested as part of my audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with Financial Regulation 14, I have also issued a long-form Report on my audit of the Fund's financial statements.



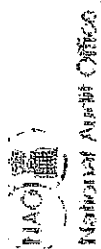
SIR JOHN BOURN
Comptroller and Auditor General,
United Kingdom,
EXTERNAL AUDITOR



National Audit Office
London, 21 June 2007

ANNEX V

**FINANCIAL STATEMENTS
OF THE INTERNATIONAL OIL
POLLUTION COMPENSATION FUND 1992
FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2006**



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SCHEDULES

Schedule I	Report on Contributions during the financial period 1 January - 31 December 2006 and on contributions outstanding for previous financial periods	23-25
Schedule II	Report on Payment of Claims for the financial period 1 January - 31 December 2006	26-27
Schedule III	Details of Contingent Liabilities of the 1992 Fund as at 31 December 2006	28-30

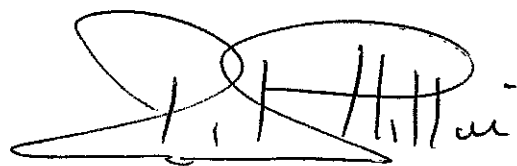
CERTIFICATION OF THE FINANCIAL STATEMENTS

The appended financial statements numbered I to VII and the supporting schedules are certified.



Willem Oosterveen
Director

National Audit Office



Ranjit S P Pillai
Head Finance & Administration Department



STATEMENT OF APPROPRIATIONS

GENERAL FUND - JOINT SECRETARIAT EXPENDITURE

STATEMENT OF BUDGET APPROPRIATIONS AND OBLIGATIONS INCURRED FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

CLASS OF EXPENDITURE			BUDGET APPROPRIATIONS		REVISED BUDGET APPROPRIATIONS		OBLIGATIONS INCURRED		BALANCE OF APPROPRIATIONS	
			2006	2005	2006	2005	2006	2005	2006	2005
			£	£	£	£	£	£	£	£
SECRETARIAT										
I PERSONNEL										
a	Salaries		1 385 300	1 306 900	1 385 300	1 306 900	1 377 018	1 223 974	8 282	82 926
b	Separation and recruitment	2	125 000	105 000	142 272	105 000	142 272	10 522	-	94 478
c	Staff benefits, allowances and training	2	576 200	566 000	558 928	566 000	479 031	423 949	79 897	142 051
			2 086 500	1 977 900	2 086 500	1 977 900	1 998 321	1 658 445	88 179	319 455
II GENERAL SERVICES										
a	Office accommodation	12	287 400	259 200	287 400	259 200	260 585	255 199	26 815	4 001
b	Office machines		110 000	90 000	110 000	90 000	56 352	71 492	53 648	18 508
c	Furniture and other office equipment		17 500	17 500	17 500	17 500	6 879	7 212	10 621	10 288
d	Office stationery and supplies		22 000	22 000	22 000	22 000	15 140	10 456	6 860	11 544
e	Communications		68 000	70 000	68 000	70 000	50 287	57 250	17 713	12 750
f	Other supplies and services		47 500	51 000	47 500	51 000	39 795	33 022	7 705	17 978
g	Hospitality		25 000	20 000	25 000	20 000	19 412	19 377	5 588	623
h	Public information		180 000	180 000	180 000	173 402	87 553	115 617	92 447	57 785
			757 400	709 700	757 400	703 102	536 003	569 625	221 397	133 477
III MEETINGS										
		2	150 000	145 000	176 638	151 598	176 638	151 598	-	-
IV TRAVEL										
	Conferences, seminars and missions	2	160 000	125 000	145 000	125 000	143 991	108 791	1 009	16 209
V MISCELLANEOUS EXPENDITURE										
a	External Audit (1992 Fund, Supplementary Fund and 1971 Fund) *	12	60 500	55 000	60 500	55 000	60 500	55 000	-	-
b	Consultants' fees	2	180 000	180 000	219 312	180 000	219 312	169 743	-	10 257
c	Audit Body	2	110 000	90 000	116 420	90 000	116 420	89 048	-	952
d	Investment Advisory Body		37 500	30 000	37 500	30 000	37 500	30 000	-	-
			388 000	355 000	433 732	355 000	433 732	343 791	-	11 209
VI UNFORESEEN EXPENDITURE										
		2	60 000	60 000	2 630	60 000	-	27 449	2 630	32 551
TOTAL I - VI			3 601 900	3 372 600	3 601 900	3 372 600	3 288 685	2 859 699	313 215	512 901
TOTAL OBLIGATIONS 1992 FUND ONLY (ie excluding 1971 Fund and Supplementary Fund External Audit fees)										
							3 275 185	2 847 199		

Note A: This statement deals only with administrative expenditure. Expenditure in respect of claims is dealt with in Statement III for the General Fund and in Statements IV.1 and IV.2 for the Erika and Prestige Major Claims Funds

- * External Audit fees payable in 2006 in respect of 2005 Financial Statements
- 1992 Fund - £47 000
- 1971 Fund - £10 000
- Supplementary Fund - £3 500

STATEMENT II

**SUMMARY OF INCOME AND EXPENDITURE ACCOUNT OF THE GENERAL FUND, MAJOR CLAIMS FUNDS AND
 THE PROVIDENT FUND FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006**

	2006				2005	
	General Fund	Erika	Prestige	Provident Fund	Total	Total
INCOME	£	£	£	£	£	£
Contributions						
Contributions & adjustments to prior years' assessment	28 794	-	(6 277)	384 672	407 189	39 050 979
Reimbursement to contributors	-	-	-	-	-	(599 995)
	28 794	-	(6 277)	384 672	407 189	38 450 984
Miscellaneous						
Management fee	345 000	-	-	-	345 000	450 000
Recovery under STOPIA 2006 (Salary / incident)	1 337 568	-	-	-	1 337 568	-
Sundry income/ repayment of housing loan	2 465	-	-	443 000	445 465	58 242
Transfer from <i>Nankhodka</i> MCF	-	-	-	-	-	117 834
Interest on loans to HNS Fund & Supplementary Fund	12 827	-	-	-	12 827	5 286
Interest on overdue contributions	165	-	2 146	-	2 311	86 199
Interest on investments	1 248 120	2 089 653	1 307 521	155 819	4 801 113	6 402 250
	2 946 145	2 089 653	1 309 667	598 819	6 944 284	7 119 811
Total income	2 974 939	2 089 653	1 303 390	983 491	7 351 473	45 570 795
EXPENDITURE						
Secretariat expenses						
Obligations incurred	3 275 185	-	-	-	3 275 185	2 847 199
Claims						
Compensation	4 160 033	7 921 605	40 537 569	-	52 619 207	12 644 168
Claims related expenses	273 046	1 484 478	2 487 009	-	4 244 533	4 709 072
Reimbursement of joint costs from P&I Club	-	-	(1 000 000)	-	(1 000 000)	-
Loans/ withdrawals	-	-	-	1 482 224	1 482 224	109 973
Total expenditure	7 708 264	9 406 083	42 024 578	1 482 224	60 621 149	20 310 412
Income less expenditure	(4 733 325)	(7 316 430)	(40 721 188)	(498 733)		
Exchange adjustment	(28)	(310 757)	(302 581)	-	-	-
Balance b/f: 1 January	29 372 402	49 659 743	65 130 461	2 382 373		
Balance as at 31 December	24 639 049	42 032 556	24 106 692	1 883 640		

STATEMENT III

GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

	Note	2006		2005	
INCOME		£	£	£	£
Contributions (Schedule I)					
Contributions		-		5 366 024	
Adjustment to prior years' assessment	3	28 794		114 944	
Less contributions waived	4	-		(2 965)	
			28 794		5 478 003
Miscellaneous					
Management fee	5	345 000		450 000	
Recovery under STOPIA 2006 (<i>Solar 1</i> incident)	1(e)/6	1 337 568		-	
Sundry income	7	2 465		9 120	
Transfer from <i>Nakhodka</i> MCF		-		117 834	
Interest on loan to HNS Fund	8	4 331		3 083	
Interest on loan to Supplementary Fund	9	8 496		2 203	
Interest on overdue contributions	10	165		5 956	
Less interest on overdue contributions waived		-		(569)	
Interest on investments	11	1 248 120		1 365 824	
			2 946 145		1 953 451
Total income			2 974 939		7 431 454
EXPENDITURE					
Secretariat expenses (Statement I)					
Obligations incurred	12		3 275 185		2 847 199
Claims (Schedule II)					
Compensation	1(e)/6		4 160 033		304 827
Claims related expenses (Schedule II)					
Fees		233 916		266 067	
Travel		35 031		5 033	
Miscellaneous		4 099		150	
			273 046		271 250
Total expenditure			7 708 264		3 423 276
(Shortfall)/excess of income over expenditure			(4 733 325)		4 008 178
Exchange adjustment			(28)		11
Balance b/f: 1 January			29 372 402		25 364 213
Balance as at 31 December	24		24 639 049		29 372 402

Ministry of Finance
MAC

STATEMENT IV.1

ERIKA MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

	Note	2006		2005	
				£	£
INCOME					
Miscellaneous					
Sundry income		-		9 531	
Interest on overdue contributions		-		3 777	
Interest on investments	11	2 089 653		2 650 429	
			2 089 653		2 663 737
Total income			2 089 653		2 663 737
EXPENDITURE (Schedule II)					
Compensation		7 921 605		11 718 025	
Fees		1 480 682		1 785 899	
Travel		1 706		1 954	
Miscellaneous		2 090		551	
Total expenditure			9 406 083		13 506 429
Excess/(Shortfall) of income over expenditure			(7 316 430)		(10 842 692)
Exchange adjustment	13		(310 757)		(277 446)
Balance b/f: 1 January			49 659 743		60 779 881
Balance as at 31 December	24		42 032 556		49 659 743



Approved by the Board of Directors

STATEMENT IV.2

PRESTIGE MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

	Note	2006		2005	
INCOME				£	£
Contributions (Schedule I)					
Contributions		-		32 894 926	
Adjustment to prior years' assessment		-		362 855	
Less contributions waived	4	(6 277)		(50 456)	
			(6 277)		33 207 325
Miscellaneous					
Interest on overdue contributions	10	2 482		81 182	
Less interest on overdue contributions waived	4	(336)		(4 147)	
Interest on investments	11	1 307 521		2 250 699	
			1 309 667		2 327 734
Total income			1 303 390		35 535 059
EXPENDITURE (Schedule II)					
Compensation		40 537 569		621 316	
Fees		2 463 784		2 617 861	
Reimbursement of joint costs from P&I Club	14	(1 000 000)		-	
Travel		19 286		26 924	
Miscellaneous		3 939		4 633	
Total expenditure			42 024 578		3 270 734
Excess/(Shortfall) of income over expenditure			(40 721 188)		32 264 325
Exchange adjustment	13		(302 581)		(12 922)
Balance b/f: 1 January			65 130 461		32 879 058
Balance as at 31 December	24		24 106 692		65 130 461


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National Audit Office

STATEMENT V

STAFF PROVIDENT FUND

RECEIPTS AND PAYMENTS ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

	Note	2006	2005
		£	£
Accounts of staff members as at 1 January		2 382 373	1 955 615
RECEIPTS			
Contributions of staff members	15	120 224	113 884
Contributions of IOPC Funds	15	264 448	251 767
Repayment of housing loan		443 000	39 591
Interest received	11,15	155 819	131 489
		983 491	536 731
PAYMENTS			
Housing loans		562 100	45 000
Withdrawal on separation		920 124	64 973
		1 482 224	109 973
Accounts of staff members as at 31 December		1 883 640	2 382 373

 National Audit Office



National Audit Office
STATEMENT VI

BALANCE SHEET OF THE 1992 FUND AS AT 31 DECEMBER 2006

2006						2005	
	Note	General Fund	Eritka	Prestige	Total	Total	
ASSETS		£	£	£	£	£	
Cash at banks and in hand	16	25 953 613	41 983 026	23 508 837	91 445 476	146 305 576	
Contributions outstanding	17	45 379	-	283 537	328 916	376 482	
Interest on overdue contributions outstanding	10	3 888	-	31 186	35 074	87 735	
Due from HNS Fund	8	114 537	-	-	114 537	82 398	
Due from Supplementary Fund	9	259 738	-	-	259 738	177 742	
Due from 1971 Fund	18	22 790	-	-	22 790	8 347	
Tax recoverable	19	127 917	49 530	282 936	460 383	664 317	
Receivable from P&I Club under STOPIA 2006 (Solar I incident)	1(e)/6	845 491	-	-	845 491	-	
Miscellaneous receivable	20	57 798	-	196	57 994	28 719	
TOTAL ASSETS		27 431 151	42 032 556	24 106 692	93 570 399	147 731 316	
2006						2005	
	Note	General Fund	Eritka	Prestige	Total	Total	
LIABILITIES		£	£	£	£	£	
Staff Provident Fund	15	1 883 640	-	-	1 883 640	2 382 373	
Payable to P&I Club under STOPIA 2006 (Solar I incident)	6	8 603	-	-	8 603	-	
Accounts payable	21	44 247	-	-	44 247	6 965	
Unliquidated obligations	22	136 685	-	-	136 685	143 327	
Contributors' account	23	718 927	-	-	718 927	1 036 045	
TOTAL LIABILITIES		2 792 102	-	-	2 792 102	3 568 710	
2006						2005	
	Note	General Fund	Eritka	Prestige	Total	Total	
FUNDS' BALANCES		£	£	£	£	£	
Working capital		22 000 000	-	-	22 000 000	22 000 000	
Surplus / (Deficit)		2 639 049	42 032 556	24 106 692	68 778 297	122 162 606	
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES	24	24 639 049	42 032 556	24 106 692	90 778 297	144 162 606	
TOTAL LIABILITIES, GENERAL FUND AND MCFs BALANCES		27 431 151	42 032 556	24 106 692	93 570 399	147 731 316	

STATEMENT VII

CASH FLOW STATEMENT OF THE 1992 FUND FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

	2006		2005	
	£	£	£	£
Cash as at 1 January		146 305 576		121 617 345
OPERATING ACTIVITIES				
Operating Surplus	(58 029 603)		18 154 673	
Decrease/(Increase) in Debtors	(699 183)		241 682	
Increase/(Decrease) in Creditors	(972 661)		(153 570)	
Net cash flow from operating activities		(59 701 447)		18 242 785
RETURNS ON INVESTMENTS				
Interest on investments	4 841 347		6 445 446	
Net cash inflow from returns on investments		4 841 347		6 445 446
Cash as at 31 December		91 445 476		146 305 576

Ministry of Agriculture
Kampala

NOTES TO FINANCIAL STATEMENTS

1 Significant Accounting Policies

In accordance with the 1992 Fund's Financial Regulation 12.3(b) and in compliance with United Nations accounting standards where appropriate, the principal accounting policies followed in arriving at the financial information given in the respective statements are set out below.

(a) Rules and procedures

The financial statements are prepared in accordance with the Financial Regulations of the 1992 Fund, and in compliance with the provisions of the 1992 Fund Convention and the Internal Regulations of the 1992 Fund.

(b) Basis of preparation

The accounts are prepared on the basis of a General Fund, Major Claims Funds and a Provident Fund, as laid down in Financial Regulation 7.

The financial year is the calendar year.

(c) Accounting convention

The accounts are prepared under the historical cost convention, modified to the extent that the cost of all property acquired is immediately charged as an expense, in accordance with Financial Regulation 11.4. Therefore, office machines, furniture and other supplies are not shown as assets in the Balance Sheet.

(d) Administrative expenditure

Expenditure comprises payments and unliquidated obligations incurred in respect of the current budget year.

Obligations are recorded on the basis of contracts, purchase orders, agreements or other forms of legal undertaking.

Unliquidated obligations are obligations or that part of obligations which are not yet paid. In accordance with Financial Regulation 6.4, appropriations for unliquidated obligations remain available to discharge legal obligations for 24 months following the end of the financial period to which they relate.

The amounts are net of Value Added Tax.

(e) Expenditure arising out of incidents

Expenditure arising out of incidents is charged in the year of payment. There is no specific appropriation to meet any settlement of claims.

At its February/March 2006 session, the 1992 Fund Assembly took note of a voluntary agreement, Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006, under which the shipowner/P&I Clubs would reimburse the 1992 Fund for part of the compensation payable by the Fund under the 1992 Fund Convention. At its October 2006 sessions the Assembly approved administrative procedures for indemnification of the 1992 Fund and by shipowners/P&I Clubs under STOPIA 2006 set out in the Annex to document 92FUND/A.11/29.

STOPIA 2006 which applies to pollution damage in States for which the 1992 Fund Convention is in force, is a contract between owners of small tankers to increase, on a voluntary basis, the limitation amount applicable to the tanker under the 1992 Civil Liability Convention. The contract applies to all small tankers entered in one of the P&I Clubs which are members of the International Group of P&I Clubs and reinsured through the pooling arrangements of the International Group. Owners of small tankers not insured by an International Group Club and/or not covered by the pooling arrangement may agree with their insurers to be covered by STOPIA 2006. The effect of STOPIA 2006 is that the maximum amount of compensation payable by owners of all ships of 29 548 gross tonnage or less is 20 million Special Drawing Rights (SDR).

In respect of ships covered by STOPIA 2006 the 1992 Fund continues to be liable to compensate claimants if and to the extent that the total amount of admissible claims exceeds the limitation amount applicable to the ship in question under the 1992 Civil Liability Convention. The 1992 Fund is not a party to the agreement, but the agreement confers legally enforceable rights on the 1992 Fund of indemnification from the shipowner involved. The 1992 Fund is entitled to indemnification by the shipowner of the difference between the limitation amount applicable to the ship under the 1992 Civil Liability Convention and the total amount of the admissible claims or 20 million SDR, whichever is lower.

The 1992 Fund invoices the shipowner/P&I Club for the amounts paid by the Fund on a regular basis, normally monthly, for payment within 14 days of the date of the invoice. Interest may be charged by the Fund for late receipt of payment at 2% higher than the lowest London clearing bank base rate. The 1992 Fund levies contributions from its contributors for any amounts required if and to the extent that the total amount of compensation payable in respect of the incident exceeds 20 million SDRs payable by the shipowner/P&I Club.

Expenses up to 4 million SDRs in respect of any one incident are charged to the General Fund in accordance with Financial Regulation 7.1(c)(i), and expenses over that amount in respect of any one incident are charged to the Major Claims Fund constituted for the incident in question in accordance with Financial Regulation 7.2(d).

For incidents that fall under STOPIA 2006 expenses in respect of any one incident are to be charged to the General Fund up to 4 million SDR after account has been taken of any reimbursements made by the shipowner/P&I Club for part of the compensation payable by the 1992 Fund under the 1992 Fund Convention, and expenses over that amount will be charged to the Major Claims Fund to be established for that incident.

A report on expenditure arising out of incidents is provided in **Schedule II**.

(f) Contingent liabilities

In accordance with Financial Regulation 12.3(b), details of contingent liabilities are given in **Schedule III**. Estimates of contingent liabilities include all known or likely claims against the 1992 Fund. All these claims may not necessarily mature. In the case of fees, these are calculated for the coming year only, due to the difficulties of predicting the length and cost of legal proceedings or of negotiations for reaching out-of-court

settlements. Those liabilities which mature will, under the 1992 Fund Convention, be met from contributions levied by the Assembly.

(g) Income

Income is based on firm revenues due in the financial period and either received or receivable in this period.

Income from contributions is included only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States. A report on contributions is provided in **Schedule I**.

Interest on overdue contributions is included only in the year in which the overdue annual contribution is actually paid. No interest is charged on overdue interest.

Investment income is based only on interest received from investments maturing during the financial period.

(h) Interest on contributors' account

In accordance with Internal Regulation 3.9 any credit balance on a contributors' account bears interest. The interest is added to the credit balance every year when levies are due or reimbursements are made, normally on the 1 March.

(i) Investments

Investments of the 1992 Fund's assets include the assets of the Staff Provident Fund and the Contributors' account, which are merged with the 1992 Fund's assets for investment purpose, in order to obtain better interest rates.

Investments of assets of Major Claims Funds may be made in currencies other than Pounds sterling to meet payments in respect of a particular incident. The interest earned on investments in currencies other than Pounds sterling are credited directly to the respective Major Claims Fund.

(j) Loans between funds

Financial Regulations 7.1(c)(iv) and 7.2(d), respectively, provide that loans can be made from the General Fund to a Major Claims Fund and from a Major Claims Fund to the General Fund or to another Major Claims Fund. Such loans shall be reimbursed with interest, in accordance with Financial Regulations 7.1(a)(iv) and 7.2(b)(iii).

Interest on any loan made is calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate.

(k) Translation of currencies

The majority of the 1992 Fund's assets and liabilities at the end of the financial period 2006 were held in Pounds sterling. Gains and losses arising from foreign currency exchange transactions during the relevant accounting period are treated as normal items of operation.

If in relation to Major Claims Funds currencies are bought for Pounds sterling and invested in accordance with Financial Regulation 10.4(a), any gains or losses at the end of the financial year arising from holding these currencies are credited or debited to the respective Funds.

Payments for claims related expenses made in foreign currencies are converted into sterling at the rate of exchange obtained from the bank on the date of transaction. Payments for compensation claims made from foreign currency bought for sterling and invested are converted at the rate at which the currency was purchased, on a first in first out basis.

Any other gains or losses at the end of the financial year arising from holding monetary items, ie assets to be received in determinable amounts of money, are credited or debited to the respective Funds.

For the translation of all monetary assets and liabilities, the rate applied is the rate of exchange for the Pound sterling against various currencies on 29 December 2006 (the last banking day of 2006) as published in the London Financial Times.

2 **Revised budget appropriations**

Excess expenditure resulting in revised budget appropriations and met by budgetary transfers as provided in Financial Regulation 6.3 is notified to the Assembly in the Director's Comments on Statement I. Within the authority given to the Director under that Regulation three transfers were made in 2006, namely:

One transfer within Chapters

Chapter	Transfer from appropriation	Transfer to appropriation	Amount £
I	Staff benefits, allowances and training	Separation and recruitment	17 272

Two transfers between Chapters

Chapter	Transfer from appropriation	Chapter	Transfer to appropriation	Amount £
IV	Travel	III	Meetings	15 000
VI	Unforeseen expenditure	V	Audit Body	6 420

Two further transfers were made as authorised by the Assembly at its October 2005 session (document 92FUND/A.10/37, paragraph 30.11) and its October 2006 session (document 92FUND/A.11/35, paragraph 35), since they did not fall within the Director's authority under Financial Regulation 6.3.

Chapter	Transfer from appropriation	Chapter	Transfer to appropriation	Amount £
VI	Unforeseen expenditure	III	Meetings	11 638
VI	Unforeseen expenditure	V	Consultants' fees	39 312

3 **Adjustments to prior years' assessments**

Adjustments in respect of contributions totaling £28 794 were made on the basis of reports on contributing oil receipts in previous years as set out below:

	State	Contributions levied £	Reason for levy
General Fund 2004	Argentina	28 794	Oil report received late

4 **Contributions and interest on contributions waived**

Pursuant to Financial Regulation 11.5, the Director decided to write off an outstanding contribution amount of £6 277 and interest due of £336 to the *Prestige* Major Claims Fund (see Schedule I, paragraph 5).

5 Management fee

At their October 2005 sessions the 1992 Fund Assembly and the 1971 Fund Administrative Council decided that the 1971 Fund should pay a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £275 000 for the period 1 January to 31 December 2006 (documents 92FUND/A.10/37, paragraph 28.4 and Annex and 71FUND/AC.17/20, paragraph 18.4 and Annex).

At their October 2005 sessions the 1992 Fund Assembly and the Supplementary Fund Assembly decided that the Supplementary Fund should pay a flat management fee towards the cost of running the joint Secretariat. The fee was set in the budget at £70 000 for the period 1 January to 31 December 2006 (documents 92FUND/A.10/37, paragraph 28.4 and Annex and SUPPFUND/A/ES.1/21, paragraph 17.4 and Annex).

In the 2006 financial statements the management fee receivable from the 1971 Fund and the Supplementary Fund are included in the income of the General Fund. Obligations incurred for the Secretariat expenses therefore represents the cost of running the joint Secretariat and the External Auditor's fees for the 1992 Fund only.

6 Recovery from the P&I Club under the STOPIA agreement

The STOPIA 2006 agreement covers the *Solar 1* incident, which occurred in the Philippines on 11 August 2006.

As set out in Note 1(e) the 1992 Fund is entitled to indemnification by the shipowner of the difference between the limitation amount applicable to the ship under the 1992 Civil Liability Convention and the total amount of the admissible claims or 20 million SDR, whichever is the lower.

Some 3 400 individual claimants in the Philippines were paid compensation in 2006 by the 1992 Fund, by way of Managers' Cheques (Bankers Drafts). The Managers' Cheques were issued by Land Bank of the Philippines, each with a 30 day validity. Of the Managers' Cheques issued in 2006, cheques for a total of the Philippine Peso equivalent of £8 603 were cancelled mainly due to non collection of the cheques by claimants. This amount has been included under 'Miscellaneous receivable' in the Balance Sheet (see Note 20). As the 1992 Fund had already invoiced the P & I Club for the compensation paid under STOPIA 2006, the corresponding credit due to the P & I Club is included under 'Amounts Payable to P& I Club under STOPIA 2006' in the Balance Sheet. Both "Compensation" paid and the "Recovery under STOPIA 2006" in the General Fund, Income and Expenditure Account for 2006 has been adjusted with the value of the cancelled Managers' Cheques. The 1992 Fund has invoiced the P & I Club for the amount of £1 346 171. An amount of £845 491, which was invoiced on 29 December 2006 for payment by 11 January 2007, was outstanding as at 31 December 2006. Payment was received by the due date.

It should also be noted that in October 2006 the shipowners' insurer informed the 1992 Fund that it had decided to reserve its right under the Civil Liability Convention to oppose claims from claimants whose negligence may have caused or contributed to the pollution damage. It is understood that claims from such third parties are only likely to be in respect of preventive measures. The Fund's position as regards claims for the cost of preventive measures is however different in that the Fund would be liable to pay any claims for reasonable costs of preventive measures made by third parties even where the negligence of such parties may have caused or contributed to the pollution damage. In May 2007, the shipowners' insurer notified the Fund that they had decided to drop their reservation to oppose such claims under the Civil Liability Convention. In November 2006 a payment of PHP 60 million (£631 000) was made by the Fund for such a claim and this payment will now be reimbursed by the shipowner's insurer in 2007 under the terms of the STOPIA 2006 agreement.

Sundry income

The figure of £2 465 relates to unliquidated obligations as at 31 December 2005 not having materialised as at 31 December 2006.

Due from the International Hazardous and Noxious Substance Fund

The Diplomatic Conference which adopted the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, 1996 (HNS Convention) had requested the 1992 Fund Assembly to assign to the Director of the 1992 Fund the administrative tasks necessary for the setting up of the HNS Fund, provided that such tasks should be undertaken on the basis that all expenses would be repaid by the HNS Fund. At its first session the 1992 Fund Assembly instructed the Director to carry out the tasks requested by the HNS Diplomatic Conference (document 92FUND/A.1/34, paragraph 31.1-31.3). As a result of this decision any expenses relating to the preparation for the entry into force have been treated as loans from the 1992 Fund.

The figure of £4 331 in Statement III represents interest due on loans totaling £103 528 made by the General Fund to the HNS Fund. This amount includes loan of £27 808 from the General Fund made during the financial period 2006. The total amount due from the HNS Fund, including cumulative interest, is £114 537.

Due from the Supplementary Fund

At its April /May 2002 session, the Assembly decided to make available to the International Maritime Organization (IMO) funds to finance a Diplomatic Conference in the Spring of 2003 for the adoption of a Protocol establishing a Supplementary Fund (the ensuing costs estimated by IMO at £56 500) on the understanding that the amount paid to IMO would be reimbursed, with interest, to the 1992 Fund by the Supplementary Fund when the Protocol establishing that Fund had entered into force (document 92FUND/A/ES.6/10, paragraph 6.11). A Protocol establishing such a Supplementary Fund was adopted in May 2003.

The figure of £8 496 in Statement III represents interest due on loans of £246 447 made since 2003 by the General Fund to the Supplementary Fund. This amount includes loans totaling £3 500 from the General Fund made during the financial period 2006 and the management fee of £70 000 payable by the Supplementary Fund to the 1992 Fund (see Note 5). The total amount due from the Supplementary Fund, including cumulative interest, is £259 738.

The Protocol entered into force on 3 March 2005. As decided by the 1992 Fund Assembly and the Supplementary Fund Assembly the loans taken by the Supplementary Fund will be repaid to the 1992 Fund in 2007 when the Supplementary Fund receives its first levy of contributions (documents 92FUND/A.10/37, paragraph 30.12 and SUPPFUND/A/ES.1/21, paragraph 19.5).

Interest on overdue contributions

Interest is charged at 2% above the lowest London clearing bank base rate on unpaid contributions from the date on which payment is due, in accordance with Article 13.1 of the 1992 Fund Convention and Internal Regulation 3.9.

As set out in Note 1(g) above interest on overdue contributions, either received or receivable, is included only in the year in which the outstanding contribution is paid. Therefore when an outstanding contribution is paid, an invoice is raised in respect of the corresponding interest and the interest income is accounted for. Interest is charged on contributions outstanding for the whole period for which they remain outstanding. Such income is shown under 'Miscellaneous' in the Income and Expenditure statements of the General Fund and respective Major Claims Funds as 'Interest on overdue contributions'.

Interest on overdue contributions is shown as an asset on the balance sheet (Interest on overdue contributions outstanding) until it is received.

Interest on overdue contributions totaling £35 074 was receivable as at 31 December 2006.

11 Interest on investments

As at 31 December 2006 the 1992 Fund's portfolio of investments comprised of the 1992 Fund's bank deposits in respect of the General Fund, the *Erika* and *Prestige* Major Claims Funds, the Contributors' Account, and the Provident Fund. In relation to the *Erika* and *Prestige* Major Claims Funds investments were also held in Euro and the interest earned on these Euro investments are credited directly to the respective Major Claims Fund. The distribution of the deposits by financial institution is set out in Note 16.

Interest received in 2006 on the investments amounted to £4 841 347. This amount is distributed as follows:

	£
General Fund	1 248 120
<i>Erika</i> Major Claims Fund	2 089 653
<i>Prestige</i> Major Claims Fund	1 307 521
Staff Provident Fund	155 819
Contributors' account	40 234
	<u>4 841 347</u>

12 Obligations incurred

The figure of £3 275 185 represents the cost of running the joint Secretariat (see Statement I). This amount includes the External Auditor's fees for the 1992 Fund of £47 000 and excludes the External Auditor's fees for the 1971 Fund of £10 000 and the Supplementary Fund of £3 500.

It should be noted that the United Kingdom Government meets 80% of the costs related to the rental of the Secretariat offices and storage space. The total rental payments of the Secretariat offices for 2006 amounted to £604 250 of which the United Kingdom Government paid £483 400. The balance £120 850 was borne by the 1992 Fund and is included under the appropriation Office accommodation.

13 Exchange adjustment

With respect to the *Erika* and *Prestige* Major Claims Funds, Euros were bought for sterling and invested. Compensation payments made in Euros in respect of these incidents have been converted at the rate at which the currency was purchased, on a first in first out basis. As at 31 December 2006 there was an exchange loss of £309 559 from currency revaluation of Euros held in London and Lorient with respect to the *Erika* Major Claims Fund and an exchange loss of £297 443 from currency revaluation of Euros held in London, Bordeaux and Madrid with respect to the *Prestige* Major Claims Fund.

The exchange loss from revaluation of taxes reimbursed or to be reimbursed in Euros by the French and Spanish authorities as at 31 December 2006 was £1 198 and £5 138 in relation to the *Erika* Major Claims Fund and the *Prestige* Major Claims Fund respectively. Exchange losses have been debited to the respective Fund (Note 1(k)).

14 Reimbursements of joint costs

Under the Memorandum of Understanding between the P&I Clubs and the 1992 Fund, costs for the use of joint experts are apportioned between the P&I Clubs and the 1992 Fund based on their respective compensation liability.

In respect of the *Prestige* incident the Club made an interim payment of £1 million in 2006.

15 Staff Provident Fund (Statement V)

The rate of contribution for staff members is 7.9% of their respective pensionable remuneration and for the 1992 Fund 15.8% of that remuneration, pursuant to Staff Rule VIII.5(b).

The Provident Fund is invested together with the 1992 Fund's assets. The basis of calculation of the interest on the Provident Fund is that laid down by the 1971 Fund Executive Committee in 1980 (Record of Decisions, document FUND/EXC.2/6, item 6). Interest is calculated and fixed monthly by the Director according to investments held during that month.

The interest earned relating to the period from 1 January to 31 December 2006 was £155 819.

16 Assets

(a) Cash at bank and in hand

The amount of £91 445 476, which includes a balance of £718 927 on the Contributors' Account and £1 883 640 on the Staff Provident Fund, was held in various financial institutions and accounts as follows:

Time deposit accounts

	£	£
<u>Pounds sterling</u>		
ABN Amro	3 000 000	
Alliance & Leicester plc	3 750 000	
Bank of Ireland	12 300 000	
Barclays Bank plc	3 750 000	
BNP Paribas	3 000 000	
Deutsche Bank AG	2 500 000	
Dexia Bank Belgium	7 750 000	
Lloyds TSB	5 000 000	
Nationwide Building Society	15 000 000	
Svenska Handelsbanken	2 400 000	
Ulster Bank Ireland	<u>8 500 000</u>	
		66 950 000
<u>Foreign Currency Deposits (Pounds sterling equivalent)</u>		
<i>Erika Major Claims Fund (Euro deposits)</i>		
ABN Amro	2 400 101	
BNP Paribas	4 974 966	
<i>Prestige Major Claims Fund (Euro deposits)</i>		
Barclays Bank plc	5 862 048	
BNP Paribas	<u>98 301</u>	
		13 335 416
<u>Current and call deposits accounts</u>		
Bank of Scotland – Call a/c	10 420 550	
Barclays Bank plc - £ Business Premium/ Current a/cs	470 567	
HSBC Bank - Money Manager a/c	268 612	
Petty cash imprest a/c	<u>331</u>	
		<u>11 160 060</u>
		<u>91 445 476</u>

(b) Office machines, furniture and other supplies

As set out in Note 1(c), office machines, furniture and other supplies are not shown as assets in the Balance Sheet.

As at 31 December 2006 the purchase value of these supplies and equipment, including furniture and equipment purchased during 2006, amounts to £456 891 made up as follows:

	Office equipment £	Office furniture £	Library £
Balance b/f	287 237	134 789	17 957
Additions in 2006	27 533	6 619	239
Less disposals in 2006	(17 350)	(133)	-
Balance c/f	297 420	141 275	18 196

17 Contributions outstanding

Outstanding contributions due to the 1992 Fund as at 31 December 2006 totaled £328 916. A report on contributions outstanding is provided in **Schedule I**.

18 Payment due from 1971 Fund

As at 31 December 2006, an amount of £22 790 was due from the 1971 Fund to the 1992 Fund. This amount consists mainly of claims related payments made on behalf of the 1971 Fund.

19 Tax recoverable

The amount recoverable of £460 383 is made up as follows:

		€	£
Due from the United Kingdom Government	VAT		124 823
	Insurance Premium Tax / Airport Departure Tax		2 764
Due from the French Government	TVA	214 504	144 525
Due from the Spanish Government	IVA	279 432	188 271
	Total		460 383

20 Miscellaneous receivable

The amount of £57 798 consists mainly of the following:

- (a) £25 698 paid to BUPA for 2007 subscriptions to the health insurance scheme, 50% of which will be recovered from staff members and 50% charged to 2007 expenditure;
- (b) £11 882 being 80% of the amount paid to Consultants in relation to a rent review in respect of the IOPC Funds' offices will be reimbursed by United Kingdom Government;
- (c) £9 158 representing salary advances to be recovered from staff members in 2007 under Staff Rule IV.11;
- (d) £8 603 represents amount held by Land Bank of the Philippines (see Note 6); and
- (e) £1 388 includes amounts due from organisers of conferences/seminars for Secretariat staff's travel costs.

21 **Accounts payable**

The amount of £44 247 consists of the following:

- (a) £36 898 payable to staff members in relation to travel in 2006;
- (b) £3 839 being National Insurance Contributions payable in January 2007; and
- (c) £3 510 representing amounts due to the Company Barclaycard.

22 **Unliquidated obligations**

The figure of £136 685 is made up of obligations incurred in 2006 but unliquidated at 31 December 2006.

The unliquidated obligations consist of the following amounts:

- (a) £48 178 due to the International Maritime Organization (IMO) in respect of staff costs, interpreter fees and rent of office space (up to July 2006) in the IMO building;
- (b) £38 582 due to INMARSAT for hosting the October 2006 sessions of the governing bodies;
- (c) £8 088 for consultants fees; and
- (d) £41 837 for various supplies.

23 **Contributors' account**

The amount of £718 927 is the balance on the Contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £40 234 credited in 2006 to contributors as provided in Internal Regulation 3.9.

24 **Funds' Balances**

The figure of £24 639 049 represents the excess of Income over Expenditure in respect of the General Fund. The balance is higher than the working capital, which at 31 December 2006 was £22 million, as decided by the Assembly at its October 2004 session.

The balances in respect of the Major Claims Funds are set out below and represent excess of Income over Expenditure:

	£
<i>Erika</i> Major Claims Fund	42 032 556
<i>Prestige</i> Major Claims Fund	24 106 692

25 **Separation benefits**

Under the Staff Regulations and Rules, staff members are entitled to certain benefits upon separation from service. Expenditure is recorded in the year in which the benefits are paid. Entitlements and the corresponding liabilities as at 31 December 2006 are estimated as follows:

£

Repatriation		
- travel and removal costs	70 000	
- grant	<u>93 775</u>	
		163 775
Annual leave		<u>109 008</u>
		<u>272 783</u>

26 Financial instruments

Dual Currency Deposits

Since 2002 the 1992 Fund have invested sterling in the form of Dual Currency Deposits (DCDs) in line with the recommendation of the Investment Advisory Body. Five DCDs were placed in 2006.

A DCD is a type of deposit where an amount is placed in sterling (the base currency) with a financial institution which meets the 1992 Fund's investment criteria with the possibility that the principal sum will be repaid by the bank in a second currency (eg Euro) if at expiry of the deposit the exchange rate between sterling and the second currency is below a certain rate (i.e. a predetermined conversion rate chosen at the time the deposit is placed). The duration of this deposit is selected to satisfy the 1992 Fund's cash flow requirements.

The DCDs allow the 1992 Fund to undertake foreign exchange hedging between sterling and a second currency without any costs and with the added benefit of a higher return on the deposit. The interest will always be repaid in sterling. The possibility that the principal amount will get converted to Euros at the predetermined conversion rate is acceptable to the 1992 Fund as it has an on-going requirement for Euros to meet claims arising from the *Erika* and *Prestige* incidents.

In 2006, three DCDs totalling £9 500 000 matured and net additional interest of £87 072 was earned on these investments. Four DCDs totalling £11 500 000 placed in 2006 will mature in 2007.

Participating forward

In order to cover some of the risk in connection with purchasing amounts in Euros, at the recommendation of the Investment Advisory Body the 1992 Fund concluded, on 23 March 2006, two Participating Forward Foreign Exchange Transactions. These transactions gave the 1992 Fund the option of purchasing £15 million equivalent of euros on 27 September 2006 at a €/£ exchange rate of 0.7060 if the rate at that date was above the set exchange rate. Should the €/£ rate at that date have been 0.7060 or lower, the 1992 Fund would only have been committed to purchase euros equivalent to £7.5 million (50%) at the €/£ exchange rate of 0.7060 and, if required, the balance at the prevailing more favorable exchange rate. This transaction resulted in the purchase £7.5 million worth of euros (€10.6 million (50%)) at the €/£ exchange rate of 0.7060 on 27 September 2006.

* * *

SCHEDULE I

REPORT ON CONTRIBUTIONS DURING THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006 AND ON CONTRIBUTIONS OUTSTANDING FOR PREVIOUS FINANCIAL PERIODS

- 1 The General Fund covers the 1992 Fund's expenses for the administration of the 1992 Fund Secretariat and for compensation payments and claims related expenditure up to a maximum amount for each incident of Pounds sterling equivalent of 4 million SDRs per incident converted at the rate applicable on the date of the incident. For an incident which gives rise to payments by the 1992 Fund in excess of 4 million SDRs, a Major Claims Fund is established to cover such payments.
- 2 Contributions to the General Fund have to be paid by any person who received more than 150 000 tonnes of contributing oil (crude and heavy fuel oil) within the territory of a Member State of the 1992 Fund after sea transport in the preceding calendar year. Contributions to Major Claims Funds are levied on the basis of the quantities of contributing oil received in the year preceding that in which the incident occurred, if the State was a Member of the 1992 Fund at the time of the incident. In the case of associated persons (ie commonly controlled entities), the aggregate quantities received are taken into account for the purpose of establishing whether the figure of 150 000 tonnes is reached.
- 3 Six States became Members of the 1992 Fund in 2006: Albania, Bulgaria, Luxemburg, Maldives, Saint Kitts and Nevis and Switzerland resulting in 98 States being Members of the 1992 Fund as at 31 December 2006.

At its session in October 2005 the Assembly decided not to levy 2005 contributions due in 2006 to the General Fund. In order to enable the 1992 Fund to make payments of claims for compensation arising out of the *Erika* and *Prestige* incidents, the Assembly decided to raise 2005 contributions to the *Erika* and *Prestige* Major Claims Funds of £2.0 million and £3.5 million respectively, the entire levies to be deferred. The Director was authorised to decide whether to invoice all or part of the deferred levies to these Major Claims Funds for payment during the second half of 2006, if and to the extent required. The Director decided not to invoice any deferred levy as part of the 2005 annual contributions. No 2005 contributions were therefore levied.

- 5 Contributions totalling £6 277 was due to the *Prestige* Major Claims Fund from a contributor in Netherlands, which had been declared insolvent. Pursuant to Financial Regulation 11.5, the Director decided to write off the amount of £6 277 outstanding from that contributor as well as interest due to the *Prestige* Major Claims Fund of £336 from a contributor in Jamaica. In accordance with the Regulation, both the External Auditor and the Audit Body were notified of these write-offs.
- 6 A comprehensive report on the payment of contributions as at 5 October 2006 was submitted to the Assembly at its 11th session (document 92FUND/A.11/13). The report contained in this schedule is a comprehensive up-date of the earlier reports. An amount of £328 916.52 or 0.09% of the total amount levied over the years remained outstanding as at 31 December 2006 as set out below:

CONTRIBUTION YEAR							
State	2000 £	2001 £	2002 £	2003 £	Total £	2004 £	Total £
Panama	14 133.13	9 219.88	6 985.45	175 051.35	205 389.81	73 225.88	278 615.69
Russian Federation		1 532.40	1 282.52	32 571.27	35 386.19	14 914.64	50 300.83
	14 133.13	10 752.28	8 267.97	207 622.62	240 776.00	88 140.52	328 916.52

**CONTRIBUTIONS OUTSTANDING FOR
PREVIOUS FINANCIAL PERIODS AS AT 31.12.2006**

General Fund and Major Claims Funds

State		Assessment £	Receipt £	Outstanding £
Panama	General Fund 2000	14 133.13	0.00	14 133.13
	General Fund 2001	9 219.88	0.00	9 219.88
	General Fund 2002	6 985.45	0.00	6 985.45
	General Fund 2003	8 721.83	0.00	8 721.83
	Prestige Major Claims Fund 2003	166 329.52	0.00	166 329.52
	Prestige Major Claims Fund 2004	73 225.88	0.00	73 225.88
		<u>278 615.69</u>	<u>0.00</u>	<u>278 615.69</u>
Russian Federation	General Fund 2001	6 158.35	4 625.95	1 532.40
	General Fund 2002	1 282.52	0.00	1 282.52
	General Fund 2003	2 033.45	0.00	2 033.45
	General Fund 2004	13 520.40	12 049.91	1 470.49
	Prestige Major Claims Fund 2003	30 537.82	0.00	30 537.82
	Prestige Major Claims Fund 2004	13 444.15	0.00	13 444.15
		<u>66 976.69</u>	<u>16 675.86</u>	<u>50 300.83</u>
Total		<u>345 592.38</u>	<u>16 675.86</u>	<u>328 916.52</u>

**CONTRIBUTIONS FOR PREVIOUS YEARS NOT ASSESSED DUE TO NON-SUBMISSION OF
REPORTS ON CONTRIBUTING OIL RECEIPTS FOR RELEVANT YEAR AS AT 31 DECEMBER 2006**

		<u>Contribution Year</u>	<u>Applicable Oil receipt year</u>
Bahrain	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	General Fund	2000	1999
	General Fund	1998	1997
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
	<i>Erika Major Claims Fund</i>	1999, 2000, 2001 & 2002	1998
Cambodia	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
Cape Verde	General Fund	2004	2003
Comoros	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
Dominica	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
Dominican Republic	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	General Fund	2000	1999
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
Grenada	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
Guinea	General Fund	2004	2003
	General Fund	2003	2002
Panama	General Fund	2004	2003
Saint Vincent and the Grenadines	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	<i>Prestige Major Claims Fund</i>	2004 & 2003	2001
Tanzania	General Fund	2004	2003
	General Fund	2003	2002

SCHEDULE II

REPORT ON PAYMENT OF CLAIMS FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2006

- 1 Financial Regulation 4.6 requires the Director to maintain a running record of all expenses incurred by the 1992 Fund in respect of each incident giving rise to claims against the Fund.
- 2 Expenditure incurred by the 1992 Fund during 2006 in respect of various incidents amounted to £55 863 740 and is made up as follows:

	£
General Fund (see paragraph 3)	4 433 079
Erika Major Claims Fund	9 406 083
Prestige Major Claims Fund(see Note 14 to Financial Statements)	<u>42 024 578</u>
	<u>55 863 740</u>

- 3 The General Fund covers compensation payments and claims related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDRs per incident converted at the rate applicable on the date of the incident. During 2006 payments from the General Fund were made in respect of five incidents and reimbursement was received in respect of one incident. The major portion of the claims and claims related expenditure from the General Fund related to three incidents, the *Solar 1* incident (£2 005 194) (see Notes 1(e) and 6 to Financial Statements), the *N°7 Kwang Min* incident (£1 342 990) and the *Dolly* incident (£1 040 814).
- 4 In general, the position as at 31 December 2006 can be summarised as follows:

Incident	Year	Compensation £	Fees and related costs £	Other costs £	Total £
1 Incident in Germany	2006	-	-	-	-
	2005	-	22 014	3 220	25 234
	2004	-	26 640	912	27 552
	2003	-	18 210	58	18 268
	2002	-	8 896	24	8 920
	2001	-	11 481	1 817	13 298
	2000	-	3 895	8	3 903
	1999	-	10 997	499	11 496
	Total to date	-	102 133	6 538	108 671
2 <i>Dolly</i>	2006	1 029 174	11 613	27	1 040 814
	2005	-	119 620	16	119 636
	2004	-	39 636	5	39 641
	2003	-	1 308	16	1 324
	2002	-	-	-	-
	2001	-	2 281	-	2 281
	Total to date	1 029 174	174 458	64	1 203 696

Incident	Year	Compensation £	Fees and related costs £	Other costs £	Total £
3 <i>Erika</i>	2006	7 921 605	1 480 682	3 796	9 406 083
	2005	11 718 026	1 785 899	2 504	13 506 429
	2004	7 502 681	2 004 166	4 581	9 511 428
	2003	23 218 618	2 659 213	7 182	25 885 013
	2002	15 730 700	4 693 769	34 697	20 459 166
	2001	9 773 083	4 100 465	62 323	13 935 871
	2000	-	2 252 311	93 137	2 345 448
	1999	-	-	699	699
Total to date		75 864 713	18 976 505	208 919	95 050 137
4 <i>Al Jaziah 1</i>	2006	-	9 199	17	9 216
	2005	-	10 785	1 871	12 656
	2004	-	9 142	1 507	10 649
	2003	335 878	14 754	75	350 707
	2002	25 532	7 949	3 833	37 314
	2001	204 756	16 142	47	220 945
	2000	-	23 218	361	23 579
Total to date		566 166	91 189	7 711	665 066
5 <i>Slops</i>	2006	-	39 995	13	40 008
	2005	-	96 333	-	96 333
	2004	-	22 536	-	22 536
	2003	-	63 228	47	63 275
	2002	-	38 620	23	38 643
	2001	-	9 004	-	9 004
	2000	-	10 938	6	10 944
Total to date		-	280 654	89	280 743
6 Incident in Sweden	2006	-	(5 125)	(18)	(5 143)
	2004	-	5 125	18	5 143
Total to date		-	-	-	-
7 <i>Prestige Reimbursement from P&I Club</i>	2006	40 537 569	2 463 784	23 225	42 024 578
	2006	-	(1 000 000)	-	(1 000 000)
	2005	621 316	2 617 861	31 557	3 270 734
	2004	123 033	2 325 594	288 810	2 737 437
	2003	39 915 420	3 293 373	120 473	43 329 266
	2002	-	35 969	10 626	46 595
Total to date		81 197 338	9 736 581	474 691	91 408 610
8 <i>N°7 Kwang Min</i>	2006	1 164 982	177 986	22	1 342 990
Total to date		1 164 982	177 986	22	1 342 990
9 <i>Solar 1 (Under STOPIA 2006 agreement)</i>	2006	1 965 877	248	39 069	2 005 194
Total to date		1 965 877	248	39 069	2 005 194

SCHEDULE III

DETAILS OF CONTINGENT LIABILITIES OF THE 1992 FUND AS AT 31 DECEMBER 2006

- 1 Contingent liabilities represent all known or likely claims against the 1992 Fund as at 31 December 2006 as well as an estimate of fees and other costs for 2007 (Note 1(f) to the financial statements). The figures are based on information available up to 30 April 2007.
- 2 There are contingent liabilities of the 1992 Fund estimated at £67 400 000 in respect of eight incidents as at 31 December 2006.
- 3 Details of the contingent liabilities, given in rounded figures, are set out below.

Incident	Date	Contingent liabilities at 31.12.06		
		Compensation £	Other costs £	Total £
1 Incident in Germany	20.6.96	1 200 000	30 000	1 230 000
2 <i>Erika</i>	12.12.99	38 300 000	2 000 000	40 300 000
3 <i>Al Jaziah 1</i>	24.1.00	-	10 000	10 000
4 <i>Slops</i>	15.6.00	2 000 000	80 000	2 080 000
5 <i>Prestige</i>	13.11.02	19 900 000	2 500 000	22 400 000
6 <i>N°7 Kwang Min</i>	24.11.05	55 000	25 000	80 000
7 <i>Solar 1</i>	11.08.06	-	100 000	100 000
8 <i>Shosei Maru</i>	28.11.06	1 100 000	100 000	1 200 000
TOTAL		62 555 000	4 845 000	67 400 000

- 4 Out of these contingent liabilities, some £5.3 million had been liquidated as at 30 April 2007, mainly in respect of the *Solar 1* (£3.5 million) (cf paragraph 13), *Prestige* (£1.3 million) and *Erika* (£382 000) incidents.
- 5 The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, ie 2007. High amounts of lawyers' and surveyors' fees have been included in the contingent liabilities in respect of the *Erika* and *Prestige* incidents. The amounts have been assessed on the basis of the likely volume of work to be carried out in 2007.
- 6 The incidents in respect of which over the years the 1992 Fund has been, or may be, obliged to make payments are set out in the IOPC Funds' Annual Report 2006.

Incident in Germany

- 7 As regards the spill from an unknown source in Germany, the German authorities took legal action against the owner of the ship suspected of being responsible for the oil spill and his insurer. The authorities informed the 1992 Fund that, if their attempts to recover the cost of their clean-up operations from the shipowner were to be unsuccessful, they would claim against the 1992 Fund. In order to prevent its claims against the 1992 Fund from becoming time barred, the German authorities also took legal action against the Fund. In a judgement rendered in December 2002 the German Court of first instance held the owner of the suspected ship and his insurer liable for the

pollution damage. The shipowner and the insurer appealed against the judgement. At a hearing held in December 2004, the Appeal Court indicated that on the basis of the evidence submitted, it was far from convinced that the suspected ship was the source of the pollution. In March 2005 the Executive Committee authorised the Director to conclude an out-of-court settlement with all the other parties involved, ie the Federal Republic of Germany, the shipowner and his insurer providing the amount to be paid by the shipowner and the Club was above the 18% offered at that time. In the light of the decision by the Executive Committee the Director decided to accept a proposed settlement offer whereby the 1992 Fund would pay 80% of any proven loss suffered by the Federal Republic of Germany as result of the incident. For the purpose of the contingent liabilities the total compensation arising out of this incident (including interest) is estimated at €2.2 million. The 1992 Fund's share is €1.76 million (£1.2 million) and fees and other costs for 2007 are estimated at £30 000.

Erika

- 8 The total amount of the established claims in respect of the *Erika* incident will exceed the maximum amount available for compensation under the 1992 Conventions (135 million SDR, corresponding to FFfr1 211 966 811 or €184 763 149). The limitation amount applicable to the *Erika* under the 1992 Civil Liability Convention is FFfr84 247 733 or €12 843 484. The 1992 Fund's liability would therefore be FFfr1 127 719 078 (€171 919 665). The 1992 Fund had as at 31 December 2006 paid €115.2 million in compensation. The balance payable by the 1992 Fund in compensation is €56.7 million (£38.3 million). Fees and other costs are estimated at £2 million for 2007.

Al Jaziah 1

- 9 The *Al Jaziah 1* incident occurred in the United Arab Emirates, which at the time of the incident was a member of both the 1992 Fund and the 1971 Fund. The 1992 Fund Executive Committee and the 1971 Fund Administrative Council decided that the liabilities arising out of this incident should be distributed between the two Funds on a 50:50 basis. All claims have been settled and paid. The 1992 Fund has taken recourse action against the owner of the *Al Jaziah 1*, which will give rise to legal costs in 2007 estimated at £10 000.

Slops

- 10 In July 2000, the Executive Committee decided that the *Slops* should not be considered as a 'ship' for the purpose of the 1992 Civil Liability Convention and the 1992 Fund Convention and that these Conventions therefore did not apply to the incident. Two Greek clean up contractors did not accept the Committee's decision and took legal action against the owner of the *Slops* and the 1992 Fund. In December 2002 a Greek Court of first instance held that the *Slops* fell within the definition of 'ship' and ordered the Fund to pay €2 323 360 (£1 565 000) plus interest and costs. The Fund appealed against the judgement. In February 2004 the Court of Appeal held that the *Slops* did not fall within the definition and rejected the claims. The claimants appealed to the Greek Supreme Court. In June 2006 the Supreme Court held that at the time of the incident, the *Slops* should be regarded as a 'ship' as defined in the 1992 Conventions and that the Court of Appeal's judgement should be set aside and the case be referred back to that Court to examine the merits of the substance of the dispute i.e. the admissible quantum of the claim. For the purpose of the contingent liabilities, the total compensation arising from the incident is estimated at £2 million. Fees and other costs are estimated at £80 000 for 2007.

Prestige

- 11 The total amount of the established claims will exceed the maximum amount available for compensation under the 1992 Conventions, 135 million SDR, corresponding to €171 520 703 (£116 million). The limitation amount applicable to the *Prestige* under the 1992 Civil Liability Convention is estimated at 18.9 million SDR, corresponding to €22.8 million (£15.4 million). The 1992 Fund's liability would therefore be approximately €148.7 million (£100.2 million). By the end of 2006 the 1992 Fund had paid a total of €119.1 million, including €57 555 000 and

€56 365 000 paid to the Spanish State in 2003 and 2006 respectively, €4.4.million for damage in France and €328 488 for damage in Portugal. The balance payable by the 1992 Fund in compensation is therefore some €29.6 million (£19.9 million). Fees and other costs are estimated at £2.5 million for 2007.

Nº7 Kwang Min

- 12 The 1992 Fund was informed by the Korean Ministry of Maritime Affairs and Fisheries that the *Nº7 Kwang Min* was not insured for pollution liabilities and that the shipowner had very few assets. The Executive Committee decided at its February 2006 session that the 1992 Fund was liable for settling all claims arising from the incident in view of the shipowner not being able to meet his obligations under the 1992 Civil Liability Convention. Claims totalling KRW 3 450 million have been assessed for KRW 2 052 million. For the purpose of the contingent liabilities compensation payable is estimated at KRW 100 million (£55 000). Fees and other costs are estimated at £25 000 for 2007.

Solar 1

- 13 In August 2006 the *Solar 1* capsized and sank in the Philippines. The limitation amount applicable to the *Solar 1* in accordance with the 1992 Civil Liability Convention is 4.51 million SDR (£3.5 million). However, the owner of the *Solar 1* was a party to the Small Tanker Oil Pollution Indemnification Agreement 2006 (STOPIA 2006) whereby the limitation amount applicable to the tanker under that Convention was increased, on a voluntary basis, to 20 million SDR (£15.4 million). In October 2006 the shipowners' insurer informed the 1992 Fund that it had decided to reserve its right under the Civil Liability Convention to oppose claims from claimants whose negligence may have caused or contributed to the pollution damage. It is understood that claims from such third parties are only likely to be in respect of preventive measures. The Fund's position as regards claims for the cost of preventive measures is however different in that the Fund would be liable to pay any claims for reasonable costs of preventive measures made by third parties even where the negligence of such parties may have caused or contributed to the pollution damage. In May 2007, the shipowners' insurer notified the Fund that they had decided to drop their reservation to oppose such claims under the Civil Liability Convention. In November 2006 a payment of PHP 60 million (£631 000) was made by the Fund for such a claim and this payment will now be reimbursed by the shipowner's insurer in 2007 under the terms of the STOPIA 2006 agreement. By December 2006 a substantial number of claims had also been submitted from the fisheries, mariculture and tourism sectors, they are however expected to fall within the limitation amount applicable to the shipowner under STOPIA 2006. For the purpose of the contingent liabilities, compensation payable will all fall under the STOPIA 2006 agreement. Fees and other costs are estimated at £100 000 for 2007.

14 *Shosei Maru*

In November 2006 the tanker *Shosei Maru* collided with a cargo vessel in Japan. About 60 tonnes of heavy fuel oil and bunker diesel oil escaped into the sea from the *Shosei Maru*. The limitation amount applicable to the *Shosei Maru* under the 1992 Civil Liability Convention is 4.51 million SDR or ¥810 million (£3.5 million). The ship was not entered into STOPIA 2006, and therefore the 1992 Fund will have to compensate for damage in excess of the limitation amount. Claims for the costs of clean up operations and preventive measures, cleaning hulls of commercial and cleaning vessels, replacement of seaweed nets and loss of earnings are expected to total some ¥1 070 million (£4.6 million). For the purpose of the contingent liabilities compensation payable by the 1992 Fund is estimated at £1.1 million and fees and other costs for 2007 are estimated at £100 000.