 <p>INTERNATIONAL OIL POLLUTION COMPENSATION FUNDS</p>	Agenda item: 5	IOPC/OCT09/5/5/2	
	Original: ENGLISH	10 July 2009	
	1992 Fund Assembly	92A14	
	1992 Fund Executive Committee	92EC46	
	Supplementary Fund Assembly	SA5	●
	1971 Fund Administrative Council	71AC24	

2008 FINANCIAL STATEMENTS AND AUDITOR'S OPINION

SUPPLEMENTARY FUND

Note by the Director

Summary:	As indicated in document IOPC/OCT09/5/5, the Supplementary Fund financial statements and the Auditor's Opinion are set out.
Action to be taken:	<u>Supplementary Fund Assembly:</u> Approval of financial statements.

- 1 Under Article 16.2 of the Supplementary Fund Protocol, read in conjunction with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the financial statements of the Supplementary Fund for the financial year 2008. The Director has also prepared comments on the financial statements. These comments are at Annex I.
- 2 Financial Regulation 12.3 provides that the financial statements to be prepared by the Director shall comprise of the following:
 - (a)
 - (i) Statement of Appropriations and Obligations Incurred (Annex IV, Statement I);
 - (ii) Income and Expenditure Accounts for all funds (Annex IV, Statement II);
 - (iii) Balance Sheet (Annex IV, Statement III); and
 - (iv) Cash Flow Statement (Annex IV, Statement IV).
 - (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 (Schedule I).
- 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 The financial statements of the Supplementary Fund are audited by the Comptroller and Auditor General of the United Kingdom.
- 5 In view of the limited financial activity of the Supplementary Fund for the financial year 2008, the External Auditor has decided not to produce any Report on the accounts of that period. 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 III.
- 6 The certified financial statements for the financial period 1 January - 31 December 2008 are at Annex IV and consist of the following:

- Statement I Statement of Budget Appropriations and Obligations Incurred in respect of the General Fund for the financial period 1 January - 31 December 2008
- Statement II Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2008
- Statement III Balance Sheet of the Supplementary Fund as at 31 December 2008
- Statement IV Cash Flow Statement for the Supplementary Fund for the financial period 1 January - 31 December 2008

- 7 In addition to the financial statements submitted, Schedule I contains the Report on Contributions during the financial period 1 January - 31 December 2008.
- 8 As there was no incident that involved the Supplementary Fund during that period, there is no schedule of contingent liabilities.
- 9 **Action to be taken**

Supplementary Fund Assembly:

The Supplementary Fund Assembly is invited to consider the External Auditor's Opinion and to approve the financial statements for the financial period 1 January - 31 December 2008.

* * *

ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION
SUPPLEMENTARY FUNDDIRECTOR'S COMMENTS ON THE
FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD
1 JANUARY TO 31 DECEMBER 2008**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 (1992 CLC) 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 total amount of compensation payable for any one incident for pollution damage in the States which become party to the Supplementary Fund Protocol is 750 million SDR^{<1>} which at 31 December 2008 corresponded to £800 million. This amount includes the amount payable under the 1992 Civil Liability and Fund Conventions.
- 1.4 The Supplementary Fund has an Assembly composed of all Member States. The Assembly is the supreme governing body of the Organisation having *inter alia* the responsibility for financial matters.
- 1.5 By the end of 2008 there were 21 Member States of the Supplementary Fund and two further States had acceded to the Supplementary Fund Protocol, bringing the number of Member States to 23 by early 2009 (cf page 5).

2 Secretariat

- 2.1 The IOPC Funds have a joint Secretariat, based in London, headed by one Director. The 1992 Fund Secretariat also administers the 1971 Fund and the Supplementary Fund.

<1> The SDR which is the unit of account used in the Conventions and the Protocol 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.

As at 31 December 2008 the Secretariat had 33 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 normally meets three times a year. In 2008 they met in March, June and December.

4 Investment Advisory Body

4.1 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.

4.2 The Investment Advisory Body normally meets four times a year. In 2008 they met in February, May, September and November.

5 Financial Overview

5.1 There is an income and expenditure account for the General Fund. The General Fund covers the Supplementary Fund's expenses for the administration, including the Supplementary Fund's share of the costs of running the joint Secretariat. Separate Claims Funds will be established for incidents in respect of which the Supplementary Fund will be called upon to pay compensation. There have been no incidents that have involved the Supplementary Fund.

5.2 The Supplementary 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. Where the aggregate quantity of contributing oil received in a Supplementary Fund Member State in a given calendar year is less than one million tonnes, the Member State will be liable to pay contributions for a quantity of contributing oil corresponding to the difference between one million tonnes and the aggregate quantity of actual contracting oil receipts reported in respect of that State.

Income

Contribution Income

5.3 At its October 2007 session the Supplementary Fund Assembly decided not to levy 2007 contributions to the General Fund.

Interest earned on investments

5.4 Interest on investments amounted to £58 167 in respect of the General Fund.

Expenditure

Supplementary Fund Expenses

- 5.5 At their October 2007 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 £50 000 for the period 1 January to 31 December 2008. The management fee was set based on the estimated number of 3.5 working days that the entire Secretariat would have to spend on Supplementary Fund matters.
- 5.6 The total obligations incurred by the Supplementary Fund in 2008 amounted to £53 500 compared to a budget appropriation for 2008 of £63 500 (**Statements I and II**). The expenditure relating to the Supplementary Fund's share of the costs of running the joint Secretariat and the External Auditor's fees amounted to £53 500 in 2008.

Secretariat Expenses

- 5.7 The joint Secretariat's administrative expenses for 2008 amounted to £2 849 042, including the External Auditor fees paid in 2008 for the audit of the 2007 financial statements for the three Funds (see below). The total obligations incurred in 2008 was 22% less than the 2008 budget appropriation of £3 646 000 and 2.7% lower than the total obligations incurred in 2007 of £ 2 927 628 (document 92FUND/2008 FINANCIAL STATEMENTS, Annex 1, paragraphs 5.12-5.29).
- 5.8 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

- 5.9 Expenses for running the joint Secretariat were made under six Chapters as set out below. Comments on the expenditures by Chapter are given in the 1992 Fund's Financial Statement for 2008 (document 92FUND/2008 FINANCIAL STATEMENTS, Annex 1, paragraphs 5.12-5.29). Excess expenditure under Chapter I (Separation and recruitment) was met from a transfer within the Chapter (Salaries). Excess expenditure under Chapter V (Audit Body) resulting in revised budget appropriations was met by budgetary transfers within the Chapter and between Chapters as provided in the 1992 Fund's Financial Regulations. One further transfer was made to Chapter V (Consultants) from Chapter VI (Unforeseen) as authorised by the 1992 Fund Assembly at its October 2008 session.

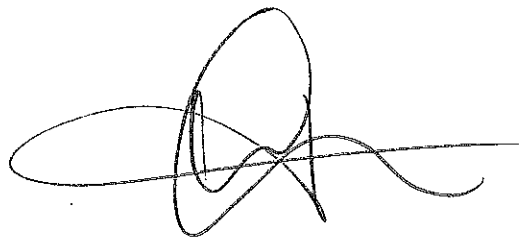
Chapter	2008 budget appropriations	2008 revised budget appropriations	2008 Obligations incurred		2007 Obligations incurred	
	£	£	£	%	£	%
I Personnel	2 152 700	2 142 606	1 723 522	60.5	1 746 881	59.7
II General services	748 800	748 800	569 907	20.0	513 375	17.5
III Meetings	175 000	175 000	129 134	4.5	228 548	7.8
IV Travel	150 000	150 000	14 845	0.5	102 733	3.5
V Miscellaneous expenditure	359 500	411 634	411 634	14.5	336 091	11.5
VI Unforeseen expenditure	60 000	17 960	-	-	-	-
Total	3 646 000	3 646 000	2 849 042	100.00	2 927 628	100.00

10
11

- The Supplementary Fund's cash assets at the end of the 2008 financial period amounting to some £1.1 million were held in Pounds sterling.
- The General Fund balance of £1 136 949 is higher than the working capital which was set by the Assembly at its October 2007 session at £1 million.

Cash Flow Statement for the financial period 1 January - 31 December 2008 (Statement IV)

- 5.12 During the period ended 31 December 2008, the net cash outflow from operating activities was £27 734 and interest from the Supplementary Fund's investments amounted to £58 167 which resulted in a cash balance of £1 136 665 (cf Note 5 to the financial statements).



Willem Oosterveen
Director
25 June 2009

* * *

1992 Fund Member States which are Party to the Supplementary Fund Protocol as at 31 December 2008 (21 States)		
Barbados	Hungary	Portugal
Belgium	Ireland	Slovenia
Croatia	Italy	Spain
Denmark	Japan	Sweden
Finland	Latvia	United Kingdom
France	Lithuania	
Germany	Netherlands	
Greece	Norway	
2 States which have deposited an instrument of accession but for which the Protocol does not enter into force until date indicated		
Estonia		14 January 2009
Poland		9 March 2009

* * *

ANNEX II

INTERNATIONAL OIL POLLUTION COMPENSATION SUPPLEMENTARY FUND

STATEMENT OF INTERNAL CONTROL

Scope of Director's responsibility

Under Article 16 of the Supplementary Fund Protocol, read in conjunction with Article 28.2 of the 1992 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund). Each Contracting State shall, pursuant to Article 2.2 of the Supplementary Fund Protocol, recognise the Director as the legal representative of the Supplementary Fund.

Under Article 16.2 of the Supplementary Fund Protocol read in conjunction with Article 29.1 of the 1992 Fund Convention the Director shall be the chief administrative officer of the Supplementary Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the Supplementary Fund's policies, aims and objectives, whilst also safeguarding the Supplementary Fund's assets.

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

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

The International Oil Pollution Compensation Fund 1971 (1971 Fund), the International Oil Pollution Compensation Fund 1992 (1992 Fund) and 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 Legal Counsel, the Head of the Claims Department, the Head of the Finance and Administration Department, the Head of the External Relations and Conference Department and the Technical Adviser/Claims Manager 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 Supplementary 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.

The joint Audit Body established by the IOPC Funds' governing bodies meets formally three times a year. The Audit Body has the mandate to review the adequacy and effectiveness of the Organisation regarding key issues of management and financial systems, 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. The Body reports to the Supplementary Fund Assembly on an annual basis.

Capability to handle risk

During 2008 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 have been mapped and assessed following which the process and procedures for management of these risks have been documented. This exercise allows 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. At its June 2008 meeting, the Audit Body was provided with a Key Risk Register comprising of thirteen risks identified as being key risks across the Secretariat. The Audit Body will review the Key Risk Register on an annual basis.

The risk and control framework

The system of internal control is based on an ongoing process designed to ensure conformity with the Supplementary Fund Protocol, the Financial Regulations, the Internal Regulations and decisions of the Supplementary Fund Assembly.

The Assembly adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the Supplementary Fund. Amendments to these Regulations were last made at the session of the Assembly in October 2008.

The joint Investment Advisory Body established by the IOPC Funds' governing 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 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 Funds' assets. The Body reports to the Supplementary 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 that 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 prior years' financial statements have been addressed.

The Audit Body has taken the view that an internal audit function would be an unnecessary burden and expense on an organisation the size of the joint Secretariat. The Director will keep this issue under review.



I have concluded that there existed an effective system of internal control for the financial year 2008.

A handwritten signature in black ink, consisting of a large, stylized 'W' followed by a series of loops and a long horizontal stroke.

Willem Oosterveen

Director

25 June 2009

ANNEX III

FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION SUPPLEMENTARY FUND FOR THE YEAR ENDING DECEMBER 2008

EXTERNAL AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the International Oil Pollution Compensation Supplementary Fund for the financial period ended 31 December 2008. These comprise Statement I, Statement of Budget Appropriations and Obligations Incurred; Statement II, Summary of Income and Expenditure Account of the General Fund; Statement III, Balance Sheet; Statement IV, Cash Flow Statement; Schedule I and the supporting Notes 1-9. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Director and Auditor

The Director is responsible for the preparation and fair presentation of the financial statements, in accordance with requirements of the Financial Regulations as authorised by the Fund's Assembly. This responsibility includes: designing, implementing and maintaining internal control; the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

My responsibility is to issue a report on the audit of the financial statements, in accordance with Financial Regulation 14. I am required to express an opinion as to whether the financial statements present fairly the financial position at the end of the period and the results of the operations for the period; and that the financial statements were prepared in accordance with the stated accounting policies. I also report to you whether, in all material respects, the transactions have been made in accordance with the financial regulations.

I read the other information attached to the financial statements and consider whether it is consistent with the audited financial statements. This other information consists of the Director's Comments on the Financial Statements and the Statement on Internal Control. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. I am not required to consider whether the Statement on Internal Control covers all risks and controls, or form an opinion on the effectiveness of the International Oil Pollution Compensation Funds corporate governance procedures or its risk and control procedures. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Director in the preparation of the financial statements, and of

whether the accounting policies are most appropriate to the International Oil Pollution Compensation Funds circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the transactions have been made in accordance with the Financial Regulations and applied to the purposes intended by the Fund's Assembly. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

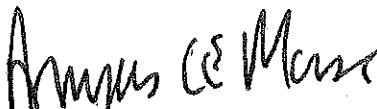
Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2008 and the results of operations for the period then ended in accordance with the International Oil Pollution Compensation Funds stated accounting policies.

Opinion on Regularity

In my opinion, in all material respects, the transactions have been made in accordance with the Financial Regulations and applied to the purposes intended by the Fund's Assembly.

I have no observations to make on these financial statements.



Amyas C E Morse
Comptroller and Auditor General
United Kingdom
External Auditor

National Audit Office
London

6th July 2009

ANNEX IV

FINANCIAL STATEMENTS

OF THE INTERNATIONAL OIL

POLLUTION COMPENSATION SUPPLEMENTARY FUND

FOR THE FINANCIAL PERIOD

1 JANUARY - 31 DECEMBER 2008

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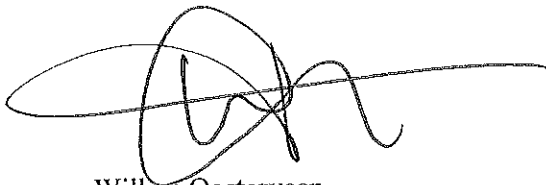
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SCHEDULES

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CERTIFICATION OF THE FINANCIAL STATEMENTS

The appended financial statements numbered I to IV and the supporting Schedule I are certified.



Willem Oosterveen
Director



Ranjit S P Pillai
Head Finance & Administration Department

25 June 2009

STATEMENT I

GENERAL FUND

**STATEMENT OF BUDGET APPROPRIATIONS AND OBLIGATIONS INCURRED
FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2008**

CLASS OF EXPENDITURE		BUDGET APPROPRIATIONS		OBLIGATIONS INCURRED		BALANCE OF APPROPRIATIONS	
		2008	2007	2008	2007	2008	2007
I	Management fee payable to 1992 Fund	50 000	70 000	50 000	70 000	-	-
II	Administrative costs (including external audit fees)	13 500	15 000	3 500	4 288	10 000	10 712
TOTAL OBLIGATIONS		63 500	85 000	53 500	74 288	10 000	10 712

STATEMENT II

GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2008

	Note	2008		2007	
INCOME		£	Total £	£	Total £
Contributions (Schedule I)					
Adjustment to prior year's assessment	2	25 266		1 386 636	
			25 266		1 386 636
Miscellaneous					
Interest on overdue contributions		-		1 837	
Interest on investments	3	58 167		52 569	
			58 167		54 406
Total income			83 433		1 441 042
EXPENDITURE					
Secretariat expenses (Statement I)					
Obligations incurred	4	53 500		74 288	
Total expenditure			53 500		74 288
(Shortfall)/excess of income over expenditure			29 933		1 366 754
Balance b/f: 1 January			1 107 016		(259 738)
Balance as at 31 December			1 136 949		1 107 016

STATEMENT III

**BALANCE SHEET OF THE SUPPLEMENTARY FUND
AS AT 31 DECEMBER 2008**

		2008	2007
	Note	Total	Total
ASSETS		£	£
Cash at banks and in hand	5	1 136 665	1 106 232
Interest on overdue contributions outstanding	6	284	784
Due from 1992 Fund	7	6 464	-
TOTAL ASSETS		1 143 413	1 107 016
LIABILITIES			
Prepaid contributions	8	6 464	-
TOTAL LIABILITIES		6 464	-
GENERAL FUND BALANCE		1 136 949	1 107 016
TOTAL LIABILITIES AND GENERAL FUND BALANCE		1 143 413	1 107 016

STATEMENT IV

CASH FLOW STATEMENT OF THE SUPPLEMENTARY FUND FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2008

	2008		2007	
	£	£	£	£
Cash as at 1 January		1 106 232		-
OPERATING ACTIVITIES				
Operating Surplus	(28 234)		1 314 185	
Decrease/(Increase) in Debtors	(5 964)		(784)	
Increase/(Decrease) in Creditors	6 464		(259 738)	
Net cash flow from operating activities		(27 734)		1 053 663
RETURNS ON INVESTMENTS				
Interest on investments	58 167		52 569	
Net cash inflow from returns on investments		58 167		52 569
Cash as at 31 December		1 136 665		1 106 232

NOTES TO FINANCIAL STATEMENTS

1

Significant Accounting Policies

In accordance with the Supplementary 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 Supplementary Fund, and in compliance with the provisions of the Supplementary Fund Protocol and the Internal Regulations of the Supplementary Fund.

(b) **Basis of preparation**

The accounts are prepared on the basis of a General Fund only.

The financial year is the calendar year.

(c) **Accounting convention**

The accounts are prepared under the historical cost convention.

(d) **Administrative expenditure**

Expenditure comprises of 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.

The amounts are net of Value Added Tax.

(e) **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.

Adjustments to prior years' assessments

Adjustments made in 2008 in respect of previous years assessments based on contributing oil reports received late totals £25 266 as set out below:

	Applicable Oil receipt year	Contributions levied £
United Kingdom		
General Fund 2006	2005	25 238
Japan		
General Fund 2006	2005	28

3 Interest on investments

As at 31 December 2008 the Supplementary Fund's portfolio of investments comprised of the Fund's bank deposits in respect of the General Fund and the interest received in 2008 on the investments amounted to £58 167.

The distribution of the deposits by financial institution is set out in Note 5.

4 Obligations incurred

At their October 2007 sessions the Supplementary Fund Assembly and the 1992 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 £50 000 for the period 1 January to 31 December 2008 (documents SUPPFUND/A/3/20, paragraph 16.3 and Annex and 92FUND/A.12/28, paragraph 22.3 and Annex).

The figure of £53 500 is made up as follows:

	£
Management fee payable to the 1992 Fund	50 000
External Auditor's fee	<u>3 500</u>
	<u>53 500</u>

5 Assets

(a) Cash at bank and in hand

The amount of £1 136 665 was held as follows:

Time deposit accounts

	£
<u>Pounds sterling</u>	
Barclays Bank plc	1 100 000

Current and call deposits accounts

Barclays Bank plc - £ Business Premium	36 665
	<u>1 136 665</u>

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 12 of the Supplementary Fund Protocol and Internal Regulation 3.8.

As set out in Note 1(e) 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.

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 totalling £284 was receivable as at 31 December 2008.

7 Payment due from the 1992 Fund

As at 31 December 2008, an amount of £6 464 due from the 1992 Fund to the Supplementary Fund comprises of contributions received by the 1992 Fund on behalf of the Supplementary Fund.

8 Prepaid Contributions

The amount of £6 464 represents 2006 contributions, due by 15 January 2009 but received in 2008, from a contributor in the United Kingdom.

9 General Fund balance

The figure of £1 136 949 represents the excess of Income over Expenditure in respect of the General Fund.

* * *

SCHEDULE I

REPORT ON CONTRIBUTIONS DURING THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2008

- 1 The General Fund covers the Supplementary Fund's expenses for the administration of the Supplementary Fund and a Claims Fund will be set up for any incident for which the Supplementary Fund has to pay compensation.
 - 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 Supplementary Fund after sea transport in the preceding calendar year. Contributions to 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 Supplementary 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. In addition, for the Supplementary Fund, the Government of any Member State for which the total quantity of contributing oil received is less than 1 million tonnes will be liable to pay contributions based on the difference between the quantity actually received by contributors in that State and 1 million tonnes.
 - 3 One State, Hungary, became a Member of the Supplementary Fund in 2008, resulting in 21 States being Members of the Supplementary Fund as at 31 December 2008.
 - 4 At its October 2007 session the Assembly decided not to levy 2007 contributions to either the General Fund or the Claims Funds.
 - 5 The total amount levied over the years is £1.4 million and no contributions remains outstanding as at 31 December 2008.
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