2009 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION

1992 FUND

Note by the Director

Summary:	As indicated in document IOPC/OCT10/5/6, the 1992 Fund financial statements and the Auditor's Report and Opinion are set out.
Action to be taken:	1992 Fund Assembly: Approval of financial statements.

1 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 2009. 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 current and prior financial years and the actions taken on those recommendations.

2 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.

3 The financial statements of the 1992 Fund are audited by the Comptroller and Auditor General of the United Kingdom.

4 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.

5 Pursuant to Financial Regulation 14.10, the External Auditor has submitted to the 1992 Fund Assembly, through its Chairman, his Report on the audit of the financial statements of the 1992 Fund for the financial period ended 31 December 2009. The Auditor's Report is at Annex IV.

6 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 1992 Fund 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 (cf Statement II.5).

7 The financial statements have been prepared by the Director in accordance with the 1992 Fund's Financial Regulations applicable in 2009 and in compliance with the United Nations System of Accounting Standards (UNSAS). The certified financial statements for the financial period 1 January to 31 December 2009 are at Annex V 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 2009

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 2009

Statement II.1 — Income and Expenditure Account in respect of the General Fund for the financial period 1 January - 31 December 2009

Statement II.2 — Income and Expenditure Account in respect of the *Erika* Major Claims Fund for the financial period 1 January - 31 December 2009

Statement II.3 — Income and Expenditure Account in respect of the *Prestige* Major Claims Fund for the financial period 1 January - 31 December 2009

Statement II.4 — Income and Expenditure Account in respect of the *Hebei Spirit* Major Claims Fund for the financial period 1 January - 31 December 2009

Statement II.5 — Staff Provident Fund Account for the financial period 1 January - 31 December 2009

Statement III — Balance Sheet of the 1992 Fund as at 31 December 2009

Statement IV — Cash Flow Statement for the 1992 Fund for the financial period 1 January - 31 December 2009

8 In addition to the financial statements submitted, such notes as may be necessary for a better understanding of the financial statements, including a statement of the significant accounting policies and the following schedules are attached:

Schedule I — Report on Contributions during the financial period 1 January - 31 December 2009 and on contributions outstanding for previous financial periods

Schedule II — Report on Payment of Claims for the financial period 1 January - 31 December 2009

Schedule III — Details of Contingent Liabilities of the 1992 Fund as at 31 December 2009

9 **Action to be taken**

1992 Fund Assembly:

The 1992 Fund 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 2009.

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ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2009

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 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 SDR for incidents occurring after that date. These amounts, which as at 31 December 2009 corresponded to £131 million and £197 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, the 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 less is 20 million SDR. This voluntary agreement is applicable to the *Solar 1* incident which occurred in 2006 (cf paragraph 5.6).

<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.

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 2009, 103 States were Members of the 1992 Fund (cf attachment I).

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. As at 31 December 2009 the Secretariat had 33 established posts.

2.2 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 2009 they met in April, 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 2009 they met in February, May, September and November.

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 SDR 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 SDR.

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.

Income

Contribution income

5.3 As regards 2008 contributions to the General Fund some £10 million were levied in 2008 for payment in 2009. Details are provided in **Schedule I.** With respect to the *Erika* Major Claims Funds the Assembly decided not to levy any contributions. In July 2009 the Director decided not to make any 2008 deferred levies[<2>] authorised by the Assembly with respect to the *Prestige* and *Hebei Spirit* Major Claims Funds of £2.0 million and £33.5 million, respectively. The 2008 deferred levy to the *Volgoneft 139* Major Claims Fund was subject to the Executive Committee making a decision authorising payments of compensation with respect to that incident. Since such a decision was not made in 2009 by the Executive Committee there was no 2008 deferred levy made with respect to the *Volgoneft 139* Major Claims Fund.

5.4 Details of outstanding contributions for previous financial periods are also provided in **Schedule I.** As at 31 December 2009 the total outstanding amount of contributions levied was £507 918 compared to £4 305 285 as at 31 December 2008. Outstanding contributions of just over £3.5 million were received in 2009 relating to the *Hebei Spirit* Major Claims Fund where the due date (1 November 2008) for contributions fell outside the normal annual due date for contributions of 1 March. In accordance with the Fund's Internal Regulations, interest is payable by contributors for late payment of contributions.

Management fee

5.5 At their October 2008 sessions the governing bodies of the IOPC Funds decided that the 1971 Fund and the Supplementary Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat in 2009. The management fee was set based on the estimated number of working days that the entire Secretariat would have to spend on 1971 Fund and Supplementary Fund matters. The fee for 2009 was retained at the same level as in 2008 at £210 000 (15 days) and £50 000 (3.5 days) respectively.

Recovery under STOPIA 2006

5.6 Payments relating to compensation payments recovered in 2009 from the P&I Club under STOPIA 2006 in respect of the *Solar 1* incident totalled £395 416.

Interest earned on investments

5.7 Interest earned on the investment of the 1992 Fund assets during the financial period amounted to some £5.28 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 and the Major Claims Funds are as follows:

General Fund	£1.08 million
Erika Major Claims Fund	£1.47 million
Prestige Major Claims Fund	£0.72 million
Hebei Spirit Major Claims Fund	£1.84 million
Provident Fund	£0.15 million
Contributors' account	£0.02 million
Total	£5.28 million

[<2>] 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.

It should be noted that the London clearing bank rate (UK base rate) and the European Central Bank rate (ECB repo rate) fell sharply in 2008 and 2009 which had a considerable impact on the yield earned by the Funds on their investments.

Expenditure

<u>Secretariat Expenses</u>

5.8 The joint Secretariat's administrative expenses for 2009 is provided in Statement I and amounted to £3 416 948, including the External Auditor fees paid in 2009 for the audit of the 2008 financial statements for the three Funds (cf paragraph 5.9). The total obligations incurred in 2009 was 8.2% less than the 2009 budget appropriation of £3 723 625 and 19.9% higher than the total obligations incurred in 2008 of £2 849 042 (cf paragraphs 5.12-5.27).

5.9 The External Auditor's fees for the audit of the financial statements for the three Funds were £62 400 broken down between the Funds as follows:

1992 Fund	£48 500
1971 Fund	£10 300
Supplementary Fund	£3 600

5.10 Excess expenditure under Chapter I, Chapter II and Chapter V was met by transfers within the Chapters. Excess expenditure under Chapter III (Meetings) and Chapter V (Audit Body) was met by budgetary transfers between Chapters as provided in the 1992 Fund's Financial Regulations resulting in revised budget appropriations. One further transfer was made to Chapter V (Audit Body) from Chapter VI (Unforeseen) as authorised by the 1992 Fund Administrative Council acting on behalf of the 1992 Fund Assembly at its June 2009 session.

5.11 Expenses for running the joint Secretariat were made under six Chapters as set out in the table below:

	Chapter	2009 budget appropriations £	2009 revised budget appropriations £	2009 Obligations incurred £	%	2008 Obligations incurred £	%
I	Personnel	2 197 925	2 197 925	2 133 347	62.5	1 723 522	60.5
II	General services	763 300	756 054	616 748	18.0	569 907	20.0
III	Meetings	175 000	182 246	182 246	5.3	129 134	4.5
IV	Travel	150 000	138 000	60 015	1.8	14 845	0.5
V	Miscellaneous expenditure	377 400	392 667	392 667	11.5	411 634	14.5
VI	Unforeseen expenditure	60 000	56 733	31 925	0.9	-	-
	Total	3 723 625	3 723 625	3 416 948	100.00	2 849 042	100.00

Comments on the expenditures by Chapter are provided below:

I *Personnel*

Chapter	2009 Budget appropriations £	2009 Obligations incurred £	Balance of appropriation £	Underspend /(Overspend) in %
I Personnel	2 197 925	2 133 347	64 578	2.9

5.12 The expenditure under Personnel covers Salaries, Separation and recruitment and Staff benefits, allowances and training.

5.13 The obligations incurred under this Chapter in 2009 (£2 133 347) is 23.8% higher than in 2008 (£1 723 522). This is mainly due to vacant professional posts being filled in 2009 and related recruitment costs and an increase in Professional and Higher staff Post Adjustment costs, higher contribution by the organisation to the Provident Fund as a result of $/£ exchange rate and an increase in staff training costs.

II *General services*

Chapter	2009 Budget appropriations £	2009 Obligations incurred £	Balance of appropriation £	Underspend /(Overspend) in %
II General services	763 300	616 748	146 552	19.2

5.14 The appropriations under this heading cover mainly Office accommodation, Office machines and Public information. Of the expenses in this Chapter some 42 % relates to Office accommodation and some 26% to Public information.

5.15 The underspend was mainly in Public Information due to ongoing development of the organisation's website/document server not fully being undertaken in 2009.

5.16 The obligations incurred under this Chapter in 2009 (£616 748) is 8.2% higher than in 2008 (£569 907) due mainly to more expenditure in respect of the IOPC Funds' participation in the Interspill and the reprinting of some Fund publications.

III *Meetings*

Chapter	2009 Budget appropriations £	2009 Obligations incurred £	Balance of appropriation	Underspend /(Overspend) in %
III Meetings	175 000	182 246	(7 246)	(4.1)

5.17 The main expenses under this Chapter relate to the cost of interpretation during meetings and translation and printing of documents for meetings.

5.18 The IOPC Funds governing bodies held 11 days of meetings in 2009, the same as in 2008. The overspend was mainly related to additional support engaged in the absence of the Head of External Relations and Conference Department and travel costs for the Chairman of the 1992 Fund to attend meetings to discuss the new format of the IOPC Funds' meetings.

5.19 The obligations incurred under this Chapter in 2009 (£182 246) is 41.1% higher than in 2008 (£129 134) due also to savings made in 2008 with respect to one meeting held in Monaco.

IV *Travel*

Chapter	2009 Budget appropriations £	2009 Obligations incurred £	Balance of appropriation	Underspend /(Overspend) in %
IV Travel	150 000	60 015	89 985	60

5.20 Where possible, travel costs to various conferences and seminars and to hold workshops on claims handling are shared with travel in relation to incidents. The Secretariat has developed internal guidelines to determine the conferences etc where participation of the Funds is necessary or desirable with a view to being able to prioritise among the increased number of requests.

5.21 Budgeting for travel is difficult as invitations for conferences and seminars are not normally provided in time to be included in the preparation of the budget. Also some conferences pay travel and/or accommodation costs for speakers, but not all.

5.22 A large portion of the travel undertaken in 2009 was related to incidents resulting in an underspend in this Chapter.

5.23 The obligations incurred under this Chapter in 2009 (£60 015) is three times higher than in 2008 (£14 845) due to the Secretariat being able to participate in more conferences as a result of staff availability.

V *Miscellaneous expenditure*

Chapter	2009 Budget appropriations £	2009 Obligations incurred £	Balance of appropriation	Underspend /(Overspend) in %
V Miscellaneous expenditure	377 400	392 667	(15 267)	(4)

5.24 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).

5.25 Obligations incurred in relation to the Audit Body (£150 120) exceeded the budget appropriation (£120 000) due mainly to an increase in travel costs for members of the Audit Body as a result of the newly elected members of the Audit Body attending the October 2009 session of the governing bodies and the increase in travel costs for members as a result of the weakening of Pound sterling during 2009. Some of the overspend was met with a transfer from Chapter VI (Unforeseen) as authorised by the 1992 Fund Administrative Council acting on behalf of the 1992 Fund Assembly at its June 2009 session.

5.26 The obligations incurred under this Chapter in 2009 (£392 667) is 4.6% lower than in 2008 (£411 634).

VI *Unforeseen expenditure*

Chapter	2009 Budget appropriations £	2009 Obligations incurred £	Balance of appropriation	Underspend /(Overspend) in %
VI Unforeseen expenditure	60 000	31 925	28 075	46.8

5.27 The obligation incurred relates to the work commenced on the on-line oil reporting database approved by the 1992 Fund Assembly at its session in October 2009 and the transfer made from this Chapter as set out in paragraph 5.25 above.

<u>Claims and claims-related expenditure</u>

5.28 Compensation payments and claims-related expenditure during 2009 amounted to some £8.3 million (mainly claims-related expenditure). The payments related mainly to the following three incidents:

Erika	(£0.5 million) – Compensation and claims-related expenditure.
Prestige	(£2.2 million) – Compensation and claims-related expenditure.
Hebei Spirit	(£4.9 million) – Claims-related expenditure only

5.29 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 number of claims pending in the French courts.

5.30 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 The *Hebei Spirit* incident which occurred in the Republic of Korea on 7 December 2007 caused serious pollution damage. As the tonnage of the *Hebei Spirit* is in excess of 140 000 GT the limitation amount applicable to the shipowner is therefore the maximum available under the 1992 CLC (89.77 million SDR). The total amount available for compensation under both the 1992 CLC and Fund Convention is 203 million SDR.

5.32 The incidents in which the 1992 Fund was involved during 2009 are listed in **Schedule II**.

General Fund and Major Claims Funds Balances

5.33 The majority of the 1992 Fund's cash assets at the end of the 2009 financial period amounting to some £147.5 million was held in Pounds sterling.

5.34 The General Fund balance at the balance sheet date was £28 462 594, 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 three Major Claims Funds at the balance sheet date were as follows:

	£
Erika Major Claims Fund	49 440 643
Prestige Major Claims Fund	22 037 581
Hebei Spirit Major Claims Fund	45 965 355

5.36 The contingent liabilities as at 31 December 2009 were estimated at over £378.5 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 £2 507 301 on the accounts of staff members as at 31 December 2009 (**Statement II.5**) in comparison to balance last year of £2 154 949. This balance reflects contributions to the Provident Fund during the financial year, withdrawals and repayments of housing loans, withdrawals on separation and interest earned (£149 846) on the investment of the assets of the Provident Fund (cf Note 14 to the financial statements).

Due from HNS Fund

5.38 An amount of £172 208 (including interest) is due from the International Hazardous and Noxious Substances Fund (HNS Fund) (cf Note 8 to the financial statements).

Contributors' account

5.39 As at 31 December 2009 an amount of £205 846 was due to contributors compared to £163 991 on 31 December 2008. This amount includes interest (£1 737) credited in 2009 as provided for in the Internal Regulations.

Cash Flow Statement for the financial period 1 January - 31 December 2009 ***(Statement IV)***

5.40 During the period ended 31 December 2009, the net cash inflow from operating activities was £815 584 and interest from the 1992 Fund's investments amounted to £5 276 817 which, added to the opening balance of £141 400 732, resulted in a cash balance of £147 493 133 (cf Note 15(a) to the financial statements).

6 External Auditor's Recommendations from previous financial years and for 2009

The External Auditor's recommendations for the 2009 financial year cover both the 1992 Fund and the 1971 Fund. These recommendations and the Director's response thereto are set out in Attachment II to this Annex.

Appropriate action has been taken on all previous financial years' recommendations.

Willem Oosterveen
Director
24 June 2010

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Attachment I

States Parties to both the 1992 Civil Liability Convention and the 1992 Fund Convention as at 31 December 2009 (103 States)		
Albania	Georgia	Norway
Algeria	Germany	Oman
Angola	Ghana	Panama
Antigua and Barbuda	Greece	Papua New Guinea
Argentina	Grenada	Philippines
Australia	Guinea	Poland
Bahamas	Hungary	Portugal
Bahrain	Iceland	Qatar
Barbados	India	Republic of Korea
Belgium	Ireland	Russian Federation
Belize	Islamic Republic of Iran	Saint Kitts and Nevis
Brunei Darussalam	Israel	Saint Lucia
Bulgaria	Italy	Saint Vincent and the Grenadines
Cambodia	Jamaica	Samoa
Cameroon	Japan	Seychelles
Canada	Kenya	Sierra Leone
Cape Verde	Kiribati	Singapore
China (Hong Kong Special	Latvia	Slovenia
Administrative Region)	Liberia	South Africa
Colombia	Lithuania	Spain
Comoros	Luxembourg	Sri Lanka
Congo	Madagascar	Sweden
Cook Islands	Malaysia	Switzerland
Croatia	Maldives	Tonga
Cyprus	Malta	Trinidad and Tobago
Denmark	Marshall Islands	Tunisia
Djibouti	Mauritius	Turkey
Dominica	Mexico	Tuvalu
Dominican Republic	Monaco	United Arab Emirates
Ecuador	Morocco	United Kingdom
Estonia	Mozambique	United Republic of Tanzania
Fiji	Namibia	Uruguay
Finland	Netherlands	Vanuatu
France	New Zealand	Venezuela
Gabon	Nigeria	

2 States which have deposited an instrument of accession, but for which the 1992 Fund Convention does not enter into force until date indicated	
Syrian Arab Republic	24 April 2010
Benin	5 February 2011

* * *

Attachment II

RECOMMENDATIONS MADE BY EXTERNAL AUDITOR IN MAIN REPORT

SUMMARY RECOMMENDATIONS AND RESPONSE

FINANCIAL STATEMENTS 2008

Recommendations from External Auditor	Response from IOPC Funds' Director	Status
Recommendation 1: That IOPC Funds consider shortening the period between the end of the reporting period and the certification of the financial statements. In doing so the Secretariat will also need to consider introducing a system of an interim closure of their accounts in September each year with a view to producing interim financial statements for audit. We further recommend that where possible reporting requirements are maintained within the existing calendar of governing body meetings.	The IOPC Funds' quarterly accounts are currently produced by the Secretariat shortly after the quarter end. The Secretariat should therefore be in a position to produce financial statements for the first nine months to be presented to the External Auditor at the time of the interim audit each year. The governing bodies hold their main (regular) sessions in autumn each year at which the financial statements are approved. The Audit Body and the Chairpersons of the governing bodies are presented with certified financial statements as soon as they are ready.	*Current reporting period to be retained.* *As set out in last year's Director's response to this recommendation by the External Auditor, the recommendation was raised with the Audit Body at its December 2009 meeting.* *The Audit Body agreed with the Director that there was no perceived benefit in shortening the period, given the nature of the IOPC Funds as intergovernmental organisations, and that it was unlikely that any external party could potentially be misled by the Financial Statements being made available only in summer. A change in the period would also inevitably require changes to the calendar of meetings of both the Audit Body and governing bodies, which would significantly upset the current annual work cycle of the organisations.*

FINANCIAL STATEMENTS 2009

Recommendations from External Auditor	Response from IOPC Funds' Director	Status
Recommendation 1: We recommend that the Secretariat develop an annual stewardship statement, supported by a series of questions and assertions for Heads of Departments in respect of internal control. This document should be certified by Heads of Departments and provided to the Director to provide assurance and evidence to underpin the Statement on Internal Control in respect of 2010.	Under the Funds' Financial Regulations and Administrative Instructions (issued by the Director), the Director has delegated authority to Heads of Departments and other officers of the organisation as appropriate. In the Director's view, considering the size of the Secretariat, an additional layer of sign off seems unnecessary, in that it would mainly seem to increase administration and paperwork without adding any real benefits from a control point of view. Nevertheless, the Director welcomes any suggestions that the External Auditor may have as to the format that this stewardship statement should take.	*To be discussed with External Auditor and Audit Body*
Recommendation 2: We recommend that the Secretariat consider the earlier implementation of the new payroll system to minimise the costs of parallel running. Furthermore, we recommend that results of the parallel run of the new payroll should be reviewed by senior management to confirm the accuracy of the data on the new system before it goes live and that this should be retained for audit purposes.	The introduction of any new software product requires a robust implementation plan to ensure accuracy of any data transfer. As the new payroll system is bespoke and written exclusively to the Fund's specification, a decision was made to run the existing spreadsheet-based payroll system and the new system in parallel for the period to 31 March 2011 so as to cover changes to staff details/entitlements during the period and also test year-end payroll reports before reliance is placed only on the new system. Being a small Secretariat the 'cost' of running a parallel system is not material. The additional assurance provided by running a parallel system for some time outweighs the minimal time/'cost' involved. Results of the parallel run will be signed off by senior management and retained for audit purposes.	*On-going* *Parallel run is currently in progress and will continue up to and including March 2011 payroll.*

Recommendation 3: We recommend that the Secretariat periodically liaise with the representatives of Member States to review the methodology and controls in place for validating oil report data to identify best practice and to gain an understanding of the processes used by Member States.	Under the 1992 Fund Convention it is the responsibility of the Member States to communicate to the Director data on relevant quantities of contributing oil received by entities in their territory. The Secretariat has, in light of the clear delineation of roles and responsibilities set out in the Convention, so far not considered it as its role to audit/validate the methodology and controls that Member States have in place to validate the data. Apart from whether it would be appropriate for a Secretariat to audit/validate the way in which Member States fulfil the role entrusted to them by the Conventions, it is the Director's view, based on solid past experience when a similar exercise was conducted to gather information on another matter, that such an information-gathering exercise will involve significant work and follow up, whilst it may not prove fruitful. However, should the governing bodies instruct the Director to write to Member States to obtain this information, he will do so.	*Subject to decision of governing bodies.*

Recommendation 4: We recommend that specific variance parameters are established to ensure that significant value and percentage changes in year-on-year Oil Report returns are investigated and subject to review. We further recommend that all key controls over the processing of oil reports are working effectively throughout the year.	Procedures to check oil reports and to seek clarification, should there be significant value and percentage changes in year-on-year oil reports, have always been in place and still are. In addition consideration will be given to enhance the database to automatically flag up significant value and percentage changes to tighten the process of clarifying variances and to diminish the possibility of human oversight. The online reporting system presently on trial, if successful, would be designed to include such checks and balances. In addition, the Secretariat has in place internal control procedures at the time of levy of contributions whereby oil reports are independently and physically checked by staff members not involved in the initial processing of those reports. This provides additional assurance over and above key controls over the processing of oil reports which the Secretariat will ensure are working effectively throughout the year.	*Implemented* *On-going - Enhancement to the database to be considered plus review of online reporting system.*

Recommendation 5: We recommend that the Fund critically appraise the content and format of the new IPSAS compliant financial statements to provide a more concise and focused statement of financial position. This should involve the consideration of eliminating information which is not specifically required by IPSAS, which could instead be provided in a supplementary information document to meet any additional requirements under its Financial Regulations.	The Director welcomes the opportunity offered by the adoption of the new accounting standards to provide Member States with a more user-friendly set of financial statements. This matter was discussed at the June 2010 Audit Body meeting and the Director is grateful to both the External Auditor and the external expert of the Audit Body who have agreed to assist the Secretariat in these endeavours. The Director hopes that such cooperation will make it possible to agree on a content and format for the new style financial statements, which is both IPSAS-compliant and as concise and transparent for Member States as possible, thus hopefully enabling the Secretariat to maintain such format unamended for a number of years, providing continuity to Member States' delegations.	*On-going – review to be undertaken in the summer with assistance of External Auditor and external expert of Audit Body.*

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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 (1971 Fund), 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 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 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.

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 to me, as well as the governing bodies, that appropriate internal controls are in place. The Body reports to the 1992 Fund Assembly on an annual basis.

Capability to handle risk

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.

During 2009 the Director continued a review of the IOPC Funds' risk register. On an annual basis the Audit Body is provided with a Key Risk Register comprising of risks identified as being key risks across the Secretariat for review and it makes specific reference to these matters in its annual report to the governing bodies.

The risk and control framework

The system of internal control is based on an ongoing 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.

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.

The joint Investment Advisory Body established by the IOPC Funds' governing bodies 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 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 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 2009.

Willem Oosterveen
Director
24 June 2010

* * *

FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 FOR THE YEAR ENDED 31 DECEMBER 2009

EXTERNAL AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the International Oil Pollution Compensation Fund 1992 for the financial period ended 31 December 2009. These comprise Statement I, General Fund Joint Secretariat Expenditure; Statement II, Summary of Income and Expenditure Account of the General Fund, Major Claims Funds and the Provident Fund; Statement III, Balance Sheet; Statement IV, Cash Flow Statement; Schedules I to III and the supporting Notes 1-25. 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 2009 and the results of operations and cash flows 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.

Long Form Report

In accordance with Regulation 14 of the Financial Regulations, I have also issued a long-form report on my audit.

Amyas C E Morse

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

National Audit Office
London
15 **July 2010**

NAO
National Audit Office

External Auditor's Report 2009

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

The aim of the audit is to provide independent assurance to the 1992 Fund Assembly, to add value to financial management and governance, and to support the objectives of the Fund's work.

For further information please contact
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International Oil Pollution Compensation Fund 1992

Contents

July 2010

Reference: D19171

EXECUTIVE SUMMARY

***We have provided an unqualified audit opinion on the 2009 financial statements** - which present fairly in all material respects. Our audit revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and validity of the financial statements.*

In addition to comments on 1992 Fund's financial performance – which remains strong - our audit report focuses on other areas of financial and governance interest.

***On Internal Controls** – While overall internal controls operated effectively throughout 2009, we have identified areas where we believe the Fund can strengthen internal controls. These included improving the assurance process to support the Statement on Internal Control.*

***On Oil Reports** – We comment on the need for the Fund to periodically liaise with Member States to ensure that the process for the validation of oil reports is understood and that best practice might be shared to enhance the accurate validation of reports. We have also made observations for the further improvement of the Secretariat's processing and monitoring controls.*

***On IPSAS implementation** – The 1992 Fund is making good progress in preparing for IPSAS and we recap on the most significant issues that will need to be addressed on adoption in relation to compensation payments, post balance sheet events and investments. We have also highlighted the importance of interim IPSAS statements and of taking this opportunity to refresh the wider format and disclosures within the statements to provide a more concise record of financial performance.*

***On Management of Exchange Risk**– We have reviewed the patterns for acquiring foreign currencies to make compensation payments for the Erika, Presitige and Hebei Spirit incidents. We concluded that the Fund exercised effective control and management of these currency holdings with advice from the Investment Advisory Body.*

DETAILED FINDINGS

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 International Standards on Auditing. We have provided a separate audit opinion and report in relation to the financial statements of the International Oil Pollution Compensation Fund 1971 and an audit opinion in relation to the financial statements of the Supplementary Fund.

2. The audit examination revealed no weaknesses or errors which we considered material to the accuracy, completeness and validity of the financial statements. The audit opinion confirms that these financial statements reflect fairly, in all material respects, the financial position as at 31 December 2009 and the results of operations and cash flows for the period then ended, in accordance with United Nations System Accounting Standards and the IOPC Funds' Financial Regulations and stated accounting policies.

3. The main observations and recommendations from our audit are summarised below including our commentary on the action taken by management in response to audit recommendations for 2008. The scope and approach of the audit, which were communicated to the Secretariat in a detailed audit strategy, are summarised at **Annex A.**

Financial Results

Income and Expenditure

4. In overall terms the Fund achieved a surplus of £4.2 million for the 2009 financial year, with the General Fund reporting a surplus of £7.8 million. This was reduced by the deficits shown on the *Prestige* and *Hebei Spirit* Major Claims Funds. Individual deficits on the Major Claims Funds are usually the result of the timing of levies and claims expenditure which can often fall in different financial years for individual incidents. However, the overall fund balance in each Major Claim Fund is currently sufficient to cover these deficits.

5. The Fund's income and expenditure profile can vary significantly from year to year as activity in relation to pollution incidents progresses differently depending on the circumstances of each incident. As part of our audit we reviewed the reasons for significant changes in financial performance during the year.

Income

6. The Fund recorded income of £16 million [this excludes the Provident Fund] (2008:£58 million) and comprised £9.5 million in respect of contributions from contributors and £6.4 million of miscellaneous income. The decline on the previous year was due to the exceptional levy raised during 2008 in respect of the *Hebei Spirit* incident in Korea. The Fund invoiced 96 percent of the approved General Fund levy by the year end (2008: 97.7 per cent), which continues to represent a good performance and a timely submission of Oil Reports. We also noted that despite historically low levels of interest rates miscellaneous income increased from £6 million to £6.4 million in 2009 and consisting primarily of interest on investments which amounted to £5.1 million. The 1992 investment income has remained relatively consistent due to the large cash injection received in 2008 for the *Hebei Spirit* levy. The Fund also received an exceptional court settlement of £494,063 received in respect of the *Shosei Maru* incident in Japan.

Expenditure

7. For the period ending 2009 the Fund reported expenditure of £11.7 million (2008:13.6 million), and this comprised £3.4 million in respect of Secretariat expenses and £8.3 million of claims and claims related expenditure. Secretariat expenses accounted for some 29 percent of total expenditure. Although remaining within forecast budget Secretariat costs increased by £567,506 (20.0 percent) largely as a result of a £409,825 increase in personnel costs following the appointment of staff to vacant professional posts in 2009.

8. Claims expenditure fell significantly in 2009 by some £3.9 million (85.5 percent). The decrease is explained by the fact that in 2008 substantial compensation payments were made in relation to the *Slops* and *Shosei Maru* incidents, both of which saw high compensation pay outs (£3,217,422 and £754,823 respectively). Both incidents were closed in the 2009 financial year.

9. The increase of £1.6 million (26.3 percent) in claims related expenditure in 2009 was mostly due to increased activity on the *Hebei Spirit* incident which has seen a substantial rise in the number of compensation claims submitted. The incident occurred in 2007 and the enormity of the oil spill and associated damage necessitated the establishment of a local claims office in the Republic of Korea. As at 31 December 2009 the Secretariat had incurred claims related costs to set up the claims handling office and assessing claims of £8,143,516, but has yet to make any compensation payments as the Club has not reached its compensation payment limit under the Civil Liability Convention.

Assets and Liabilities

10. The Fund continues to present a healthy surplus of assets over liabilities with net assets of £145.9 million (2008: £144.2 million) at the end of 2009. Total assets of £148.7 million primarily consisted of cash holdings amounting to some £147.5 million and contributions outstanding of some £508,000. Total liabilities of £2.8 million consisted of £2.5 million in respect of the Staff Provident Fund and some £205,000 remaining in the Contributors' Account. The Secretariat is actively seeking to refund credit balances to contributors.

11. The balance sheet includes an asset and matching liability in respect of the Staff Provident Fund, representing the amounts contributed by staff and by the Fund into the Staff Provident Fund. The value of the Fund now stands at £2.5 million. The Fund has seen an increase of £352,352 or 16.3 percent in 2009. At their October 2009 session, the governing bodies agreed with the Director's proposal to amend the staff rules to allow for additional voluntary staff contributions to the Staff Provident Fund of up to 5% of pensionable remuneration. Thus the voluntary contributions figure will be much higher in 2010 when a full twelve months of contributions is reported.

12. Contingent liabilities for the 1992 Fund were disclosed as £378.5 million (2008: £410.4 million) and represent the estimated value of claims and claims related expenses for eight incidents. Of these the *Erika, Prestige, Hebei Spirit* and the *Volgoneft 139* incidents account for virtually the whole of the contingent liability. At present contribution levies have not been raised on the *Volgoneft 139* incident to meet the contingent liability of £197 million for this incident and therefore the Fund's asset position does not include contributions from Member States in respect of this incident. We are satisfied that, when appropriate, the 1992 Fund will obtain contributions to fund this liability.

13. In overall terms the 1992 Fund's financial position remains sound and our audit confirms that the mechanisms in place allow for these future contingent liabilities to be collected through the levy of contributions made under the Fund Convention.

Internal Controls

14. As a part of our audit process we undertake a review of key internal financial controls. The result of this review has again confirmed that the systems and procedures established by the Secretariat have provided an effective level of internal financial control during this financial period. Our audit did not identify any material weaknesses in these controls. Through our reports to the Audit Body we have made a number of observations in relation to the operation of controls in 2009.

Statement on Internal Control

15. IOPC Funds became one of the first international organisations to adopt a Statement on Internal Control. The Statement provides a mechanism through which the Director confirms his responsibilities for internal control and describes the systems established to provide him with the necessary assurances over their operation. The Statement provides Member States and other stakeholders with greater assurance at the year end that the Funds have an effective system of internal control in place. We review the processes in place to provide evidence for the assertions made in the Statement, and report to you if we disagree with any comments or assertions made within it. The most significant areas through which the Director gains his assurance are from the risk management process and the reports of the External Auditor. We noted that the Director has confirmed that he does not believe that further assurance through the establishment of an internal audit function is considered necessary given his assessment of risk.

16. In reviewing the Statement we have identified some further scope for improvement in documenting and obtaining evidence to underpin the Director's Statement. In our view this is particularly important given the absence of an internal assurance function. At present there is no formal system for divisional heads to provide their own assurance statement to the Director to confirm that controls have operated effectively and that the transactions authorised have been in accordance with the Funds' regulations. We would encourage the Funds to develop a simple and high level stewardship statement for sign off by Heads of Department on annual basis. We would be happy to supply examples of such statements made by other public sector bodies to the Secretariat and to discuss the detail of our recommendation with the members of the Audit Body.

17. The Audit Body plays a significant role in informing the Director in respect of his assessment on internal controls and the assurance provided by the Investment Advisory Body and the External Audit process. We continued to participate in these meetings and have welcomed the Audit Body's commitment to perform an annual review of its effectiveness. This is particularly important as the Audit Body considers new appointments to its membership and to ensure that it is able to bring the necessary skills and experience to address the risks faced by the Funds. We will work with the Audit Body members to provide examples of tools to facilitate this review and provide guidance and best practice examples from other international organisations.

Development of the new payroll system

18. Our review of the business developments taking place within the Secretariat confirmed that a new payroll system, which is currently being tested and finalised, is expected to be adopted in 2011 and discussions with the Secretariat confirm that they are on track to meet this target. The system will automate the calculation of payroll figures which is complex and currently performed manually by Finance staff. We welcome this development having highlighted the risks with the current payroll system in our previous reports. However, we note that some manual input will still be required including the input of UN exchange rates on a monthly basis and the use of a 'special payroll function' which will be used for adjustments such as back dating pay for staff joining mid month. In reviewing the arrangements for the new system we have noted that the two systems are currently being run in parallel. Although there is a clear need to test the operation of the system we would encourage the Secretariat to consider whether an earlier implementation would reduce the inefficiency arising from the operation of two parallel systems. We have also highlighted the importance of senior management performing a review of data transfer.

Other financial matters: fraud and irregularity

19. Through discussion with management we have confirmed that no cases of fraud, presumptive fraud or irregularity were recorded by the Secretariat. No cases or instances have been identified as a result of our audit examination.

Recommendation 1: We recommend that the Secretariat develop an annual stewardship statement, supported by a series of questions and assertions for Heads of Departments in respect of internal control. This document should be certified by Heads of Departments and provided to the Director to provide assurance and evidence to underpin the Statement on Internal Control in respect of 2010.

Recommendation 2: We recommend that the Secretariat consider the earlier implementation of the new payroll system to minimise the costs of parallel running. Furthermore, we recommend that results of the parallel run of the new payroll should be reviewed by senior management to confirm the accuracy of the data on the new system before it goes live and that this should be retained for audit purposes.

Levy Income - Validation of Oil Reports

20. The 1992 Fund Convention and the Supplementary Fund Protocol require that all participating Member States report annually to the Director of the International Oil Pollution Compensation Funds (IOPC Funds) the details of any entity which is liable to pay contributions to the relevant Fund, as well as the quantity of contributing oil received by each of these entities in the preceding year. The Funds' Internal Regulations require that the reports should be submitted using a standardised form issued by 30 April each year. In instances where no such liability to make contributions has arisen in a Member States, the Director must also be notified.

21. Oil reports detail the amount of oil received by each entity, which is used to calculate contributors' levies. Reports confirming the amount of oil received require a dual signature placing the onus for validating the quantity of oil received both on the company receiving the oil and also on the appropriate Government representative of the Member State. In some instances the Member State has assumed liability to pay the relevant contributions.

22. The data submitted in oil reports drives the level of contributions made, and given the financial implication of the oil reports for the oil receivers, there is a potential risk that contributors may understate the amount of oil received. The IOPC Funds have several controls in place to monitor reported oil figures and to detect any potential errors. However, the responsibility for ensuring the data is accurate ultimately lies with the Member States. Under the 1992 Fund Convention the 1992 Fund have to rely on the relevant authorities having adequate systems and controls in place to address the risk of error in these reports. Although the Funds and their Audit Body have in recent years worked effectively to improve the timely submission of oil reports, we have found that there has been no recent review of the consistency of practice amongst Member States in validating oil reports.

23. We believe that it would be appropriate for the Secretariat, in consultation with the Funds governing bodies to liaise with appropriate representatives of Member States to assess and review the methodology, systems and controls in place for validating oil reports on a cyclical and sample basis. This would help to identify best practice that could be communicated to all Member States to achieve commonality and provide greater assurance to all stakeholders that the allocation of levies is based on accurate data. We believe that, as a minimum, the IOPC Funds should have an understanding of the mechanisms which underpin the collation and verification of oil reports by Member States.

24. Our review of oil reports also involves examining the internal controls in place within the Secretariat for processing oil reports and assessing contribution levies. We found that in overall terms the controls in place are robustly designed. From our detailed examination of oil reports for 2009 we noted that there was some scope to further improve the segregation of duty between the input and validation role which would help to minimise the risk of fraud or error.

25. The Secretariat also carries out a review of the data submitted by individual Member States to compare year on year the movements in reported oil shipments. This provides an analytical method to assess the risk of misstatement or error within the submitted oil report data, particularly if large unexpected movements are detected. During the course of our audit we made recommendations to improve the effectiveness of this control to ensure that all significant variances were followed up, documented and reviewed.

Recommendation 3: We recommend that the Secretariat periodically liaise with the representatives of Member States to review the methodology and controls in place for validating oil report data to identify best practice and to gain an understanding of the processes used by Member States.

Recommendation 4: We recommend that specific variance parameters are established to ensure that significant value and percentage changes in year-on-year Oil Report returns are investigated and subject to review. We further recommend that all key controls over the processing of oil reports are working effectively throughout the year.

Adoption of International Public Sector Accounting Standards (IPSAS)

Preparation for IPSAS

26. The IOPC Funds presented a project plan to their governing bodies in October 2008 which outlined the processes to be followed for the adoption of IPSAS. As part of this process, the Secretariat reviewed the Financial Regulations and accounting policies and submitted these changes to the Funds' governing bodies for approval. We worked with the Secretariat to ensure that the planned changes to regulations and policies supported the transition to IPSAS.

27. As part of our process in supporting the Funds through their transition to IPSAS we have agreed with the Secretariat that our 2010 audit will include an audit of interim financial statements, which will be presented to us in the IPSAS format and reported to the Audit Body. This process will enable us to review the disclosures, policies and the restatement of 2009 balances for comparative purposes. In our experience this process enables us to work with the Secretariat to identify any potential amendments to presentation or accounting treatment in sufficient time to enable matters to be resolved prior to the preparation of the annual statements. This minimises the risk of error or delay and will reduce the risk of any adverse impact on the audit opinion.

28. Our review of the interim statements will also enable us to engage with the Secretariat on the scope for revising the general presentation of the associated commentaries, notes and disclosures which, over time, have added significantly to the material included alongside the primary financial statements. In our view it is important that the opportunity of IPSAS transition is used to consider the type of financial information presented to the Assembly so that it provides an accurate but concise record of the Fund's financial

performance. For example, consideration could be given to reducing the amount of detail on particular incidents, which could instead be presented as an information annex to accompany the financial statements. This would then enable the Assembly to focus more easily on the overall financial health and performance of the Fund.

29. The Funds have made significant progress on the preparations for the adoption of International Public Sector Accounting Standards by analysing the key impacts arising from the adoption of these accounting standards. In doing so they have consulted the external auditor on three significant issues which will arise on the adoption of IPSAS, as follows:

- **Compensation claims assessed but not paid -** We have identified that the Secretariat should seek to undertake a reliable and sufficiently accurate estimate of individual claim costs to form the basis of a provision within the accounts; only where this is not possible should claims be reported as contingent liabilities. This will significantly enhance the level of reporting, providing a much clearer picture of the level of assessed and reported liabilities outstanding at the balance sheet date.

- **Post balance sheet events** – Under the requirements of IPSAS 14, the Secretariat will be required to make adjustments to provisions for any material compensation payment estimates for claims received prior to the year-end but only approved by the relevant Club and Fund in the period between the end of the financial year and the date of signature of the financial statements. This will provide a more timely presentation of data to Member States and provide a more accurate measure of resource commitment at the close of the financial period. The new Web-Based Claims Management System provides report functionality to enable such data to be easily extracted.

- **Investments** Dual currency deposits (DCDs) will need to be reported and valued at fair value at the reporting date. This may give rise to a notional unrealised accounting gain or loss in the financial statements, which might not actually reflect the anticipated return of the deposit over its full term. The IPSAS accounting treatment should not influence or over-ride the advice provided by the Investment Advisory Body. It was agreed with the Investment Advisory Body and Secretariat that the accounting treatment for interest income under IPSAS would be recorded on an accrued basis in the financial statements along with an appropriate Note to the Financial Statements regarding the valuation of any outstanding DCDs at the year-end. Any notional losses or gains would therefore be explained within the Note to the financial statements.

30. The Funds have also revised their accounting policies to take account of IPSAS requirements relating to employee benefits, in particular repatriation grants and accruing for staff leave. Unlike many international organisations the IOPC Funds do not have an after service health benefit scheme nor a pension scheme.

Recommendation 5: We recommend that the Fund critically appraise the content and format of the new IPSAS compliant financial statements to provide a more concise and focused statement of financial position. This should involve the consideration of eliminating information which is not specifically required by IPSAS, which could instead be provided in a supplementary information document to meet any additional requirements under its Financial Regulations

Management of Exchange Rate Risk

31. Recent financial uncertainty has given rise to currency fluctuation in recent months and the 1992 Fund is now being exposed to a currency which is not freely traded as a result of the *Hebei Spirit* incident. As a consequence we undertook a review of the way in which exchange rate risk is managed by the Secretariat. The Secretariat acquires foreign currencies in anticipation of making compensation payments in local currencies. Due to a range of circumstances there may be delays in the anticipated profile of compensation payments, which can lead increase the risk of exposure to significant movements in exchange rates. However, the Fund has a policy of retaining currencies acquired until such time as payment is made in respect of claims and this mitigates the risk as any loss or gain would only materialise should the currencies be converted back to Sterling. Notional gains or losses at the end of the financial year arising from holding currencies other than Sterling are credited or debited to the respective funds. Over the last three years significant fluctuations in the rate of the Euro against Sterling has created significantly different notional gains and losses. The gains and losses for the last three years are as follows:

- 2007 Notional Gain of - £1,790,799
- 2008 Notional Gain of - £7,191,996
- 2009 Notional Loss of - £2,540,215

32. To evaluate how the Funds monitor and mitigate the exchange rate risk we examined the three largest ongoing incidents, the *Erika*, *Prestige* and *Hebei Spirit*, and considered the actions taken by the Secretariat.

33. The IOPC Funds employ an independent Investment Advisory Body made up of three external experts who provide ongoing advice to the Funds throughout the year on all aspects of treasury management. The use of such an independent body assists the Secretariat with the complexity of managing their

substantial portfolio of cash and investment holdings. Our work is also informed by our engagement with the Investment Advisory Body.

34. Tables 1 and 2 set out the compensation regime as per the *1992 Convention* which show the maximum liabilities payable by the Fund and reflect the magnitude of the value of funds and currencies that might need to be held for any one incident.

Table 1: 1992 Regime for incidents occurring from 1 November 2003 and Supplementary Fund regime for incidents occurring from 3 March 2005

	Special Drawing Rights	*£*	*US$*
Shipowner			
Ship up to 5 000 gross tons	**4.5 million**	**4.4 million**	**6.6 million**
Ship over 5 000 and up to 140 000 gross tons	**4.5 million plus 631 for each extra ton**	**4.4 million plus 636 for each extra ton**	**6.6 million plus 923 for each extra ton**
Ship over 140 000 gross tons	**89.8 million**	**90.6 million**	**131.4 million**
1992 Fund			
Maximum (including shipowner's share)	**203 million**	**204.8 million**	**297 million**
Supplementary Fund			
Maximum (including amount paid by 1992 Fund)	**750 million**	**756.5 million**	**1 097 million**

Source: IOPC Funds Website

Table 2: 1992 Conventions Regime for incidents occurring before 1 November 2003

	Special Drawing Rights	*£*	*US$*
Shipowner			
Ship up to 5 000 gross tons	**3 million**	**3 million**	**4.5 million**
Ship over 5 000 and up to 140 000 gross tons	**3 million plus 420 for each extra ton**	**3 million plus 424 for each extra ton**	**4.5 million plus 615 for each extra ton**
Ship over 140 000 gross tons	**59.7 million**	**60.2 million**	**87.3 million**
1992 Fund			
Maximum (including shipowner's share)	**135 million**	**136.2 million**	**197.5 million**

Source: IOPC Funds Website

35. Inevitably the profile of the currencies held by the Funds will be determined by the location of reported incidents and the functional currencies which are associated with the locations. IOPC Funds accumulate the necessary currency as and when they expect to make payments based on advice of the Investment Advisory Body, taking account of the strength of Sterling against the required currency. To some extent the exchange rate risk is mitigated by a broadly equal movement in the potential liability payable in the same currency. The financial statements report any notional gains and losses arising, valuing the currency held at the prevailing exchange rate as at 31 December. Realised gains and losses are charged against the cash surplus. The real risk comes from the levy being raised in Sterling, and the consequent changes in this purchasing power on conversion of other currencies.

36. The Secretariat estimates the level of expenditure which it expects the Funds to disburse in the next 18 months, and this is reflected in the budget presented to the Assembly. Then, if applicable, the Assembly approves a levy to cover these costs, which is payable in Sterling. There is a risk that by the time the Funds actually make the payments that the budgeted exchange rate has weakened to the point that the Sterling amount levied does not cover the budgeted payments due in the local currency. This would theoretically lead to an additional levy being required and in extreme circumstances could lead to delays in the payment of compensation.

37. To counteract this risk, the Funds, with the help of the Investment Advisory Body, exercise a hedging strategy. Hedging is a process by which financial risk is either eliminated or reduced. At their October 2009 sessions the governing bodies noted that the Investment Advisory Body had recommended to the Director that a more structured approach to hedging should be introduced, which would ensure, in principle, 50% of the assessed currency exposure of any incident should be hedged within six months of the approval of a levy. Historically currency was accumulated, in consultation with the Investment Advisory Body, when the exchange rate appeared to be favourable and when compensation payments were anticipated to be paid. In order to assess the effectiveness of the hedging strategy as a control over financial risk we reviewed the major claims funds *Erika, Prestige and Hebei Spirit.*

Erika incident – France 1999

38. The exchange rate on the date of the incident was equivalent to £0.6263 per Euro of liability. After reviewing the Funds' historic Euro purchases for the *Erika* incident to date we noted an average exchange rate of £0.6771, compared to the exchange rate at 31 December 2009 of £0.88. The maximum compensation liability in relation to this incident is as follows:

- Maximum total liability 135million SDR (€184,763,160)
- P & I Club liability €12,843,481
- 1992 Fund liability €171,919,676

39. Normally the levy of contributions for a particular incident is made in a few tranches over a number of financial years, even if the total liability is established early in the incident cycle. As a consequence the Secretariat will not have sufficient resources to purchase the full estimate of Euro currency needs in advance of collection of the various levies.

40. At present the level of Euro currency holding is around €23 million (including interest income earned over the years), representing 43 percent of the remaining estimated liability and there are no current plans to move from this position given recent rulings by the French Courts, which indicate that other parties may be held liable for the damages.

41. The Funds' policy is not to engage in currency speculation when holding reserves of a particular currency and the policy is usually to retain a currency once purchased until compensation is fully paid. A more active trading policy would run the risk of crystallising more significant gains and losses. Table 3 shows the acquisition and utilisation of Euros in respect of the *Erika* incident since 2001. It shows that as at the end 2009 the Funds held €20.8 (excluding accumulated interest) million in Euros being the net amount of Euro purchased and Euros expended.

Table 3: Euros utilisation in *Erika* incident

Year	Opening balance €	Euros purchased €	Euros expended €	Closing balance (excluding interest) €
2001	9,059,789	-	-	9,059,789
2002	9,059,789	20,096,670	(24,258,016)	4,898,443
2003	4,898,443	30,834,055	(31,054,134)	4,678,364
2004	4,678,364	17,190,147	(10,702,943)	11,165,568
2005	11,165,568	10,000,000	(17,000,000)	4,065,568
2006	4,065,568	17,665,476	(11,706,110)	10,024,934
2007	10,024,934	12,436,653	(1,448,469)	21,013,118
2008	21,013,118	-	(171,558)	20,841,560
2009	20,841,560	-	(36,629)	20,804,931

Prestige incident – Spain 2002

42. The exchange rate on the date of the incident was €0.6375. After reviewing the Funds historical Euro purchases for the *Prestige* incident we noted an average exchange rate of 0.6877, compared to the exchange rate as at 31 December 2009 of 0.88. The liability in respect of the incident was fixed as follows:

- Maximum total liability 135 million SDR (€171,520,703)
- P & I Club liability €22,777,986
- 1992 Fund liability €148,742,717

43. At present the level of Euro currency holding is around Euro 7.2 million (including interest income earned over the years), representing 25 percent of the remaining estimated compensation liability. Table 4 shows the acquisition and utilisation of Euros in respect of the Prestige incident since 2003 again confirming that there is no currency speculation activity.

Table 4: Euros utilisation in *Prestige* incident

Year	Opening balance €	Euros purchased €	Euros expended €	Closing balance (excluding interest) €
2003	-	57,895,037	(57,555,725)	339,312
2004	339,312	9,950,957	(178,422)	10,111,847
2005	10,111,847	41,379,742	(920,982)	50,570,607
2006	50,570,607	16,428,044	(59,316,792)	7,681,859
2007	7,681,859	-	(1,626,888)	6,054,971
2008	6,054,971	-	(350,970)	5,704,001
2009	5,704,001	-	374,537	5,329,464

Hebei Spirit – Republic of Korea

44. At the time of writing this report, the 1992 Fund did not hold any Korean Won as they did not expect to make any payments until late 2010. However, the Funds are in the process of developing a hedging strategy for this incident with the advice from the Investment Advisory Body, in compliance with the hedging guidelines adopted in the later part of 2009. The approach to acquiring local currency for the *Hebei Spirit* incident will have to differ from the *Erika* and *Prestige* incidents as the Korean Won is not a freely traded currency. The liability in respect of *Hebei Spirit* is fixed as follows:

- Maximum total liability 203 million SDR (KRW321.6 billion)
- P & I Club liability K SDR 89.77 million
- 1992 Fund liability SDR 113.23 million

Overall conclusion on hedging strategy

45. While it is beyond the remit of the External Auditor to provide a view on the way in which financial risk is managed, we are able to conclude that the oversight mechanisms in place for treasury management are working effectively. Through the Investment Advisory Body the 1992 Fund has a process in place to manage the risks to their business in relation to the acquisition and retention of foreign currencies, within approved parameters and acting on the advice of suitably qualified and independent advisors. Having reviewed a sample of incidents, we were satisfied that the 1992Fund acted in accordance with expert advice, and this was confirmed through the minutes of meetings held with the Investment Advisory Body. We also evidenced that the advice of the Investment Advisory Body was received over the full timescale of the incidents in order to manage exchange rate risk. From our review of the profile of currencies acquired, used and held, we have confirmed that the Fund has not deviated from this advice or the approved strategy.

46. Through our annual meeting with the Investment Advisory Body; a review of the minutes of their meetings; third party confirmations of investment and cash deposit balances; and the examination of operational controls over such transactions, we obtained the necessary material assurance that internal controls over investment and cash deposits were in place throughout the financial period.

Progress on Previous Audit Recommendations

47. As part of our responsibilities as External Auditor we routinely report to the 1992 Fund Assembly on management's implementation of prior year audit recommendations, to provide assurance to the Assembly that appropriate action is taken. In 2008 we recommended that the Fund should consider shortening the period between the end of the financial year and the certification of the financial statements with a view to earlier reporting to its governing body. However, at present the Fund is not able to accommodate such a change within the existing arrangements for the timing of governing body meetings, but nevertheless the Fund will keep the issue under consideration, particularly as it moves to the adoption of IPSAS.

Acknowledgement

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

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

1st July 2010

ANNEX A

SUMMARY OF AUDIT RECOMMENDATIONS

CHANGES NEED TO REFLECT ANY CHANGES AGREED

On Assurances for the Statement on Internal Control

Recommendation 1: We recommend that the Secretariat develop an annual stewardship statement, supported by a series of questions and assertions for Heads of Departments in respect of internal control. This document should be certified by Heads of Departments and provided to the Director to provide assurance and evidence to underpin the Statement on Internal Control in respect of 2010.

On the New Payroll System

Recommendation 2: We recommend that the Secretariat consider the earlier implementation of the new payroll system to minimise the costs of parallel running. Furthermore, we recommend that results of the parallel run of the new payroll should be reviewed by senior management to confirm the accuracy of the data on the new system before it goes live and that this should be retained for audit purposes.

On Oil Reports

Recommendation 3: We recommend that the Secretariat periodically liaise with the representatives of Member States to review the methodology and controls in place for validating oil report data to identify best practice and to gain an understanding of the processes used by Member States.

Recommendation 4: We recommend that specific variance parameters are established to ensure that significant value and percentage changes in year-on-year Oil Report returns are investigated and subject to review. We further recommend that all key controls over the processing of oil reports are working effectively throughout the year.

On Adoption of IPSAS

Recommendation 5: We recommend that the Fund critically appraise the content and format of the new IPSAS compliant financial statements to provide a more concise and focused statement of financial position. This should involve the consideration of eliminating information which is not specifically required by IPSAS, which could instead be provided in a supplementary information document.

ANNEX V

FINANCIAL STATEMENTS

OF THE INTERNATIONAL OIL

POLLUTION COMPENSATION FUND 1992

FOR THE FINANCIAL YEAR

ENDED 31 DECEMBER 2009

CONTENTS

Page No.

FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS

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

Willem Oosterveen
Director

Ranjit S P Pillai
Head Finance & Administration Department

24 June 2010

National Audit Office

STATEMENT I

GENERAL FUND - JOINT SECRETARIAT EXPENDITURE

STATEMENT OF BUDGET APPROPRIATIONS AND OBLIGATIONS INCURRED FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	CLASS OF EXPENDITURE	NOTE	BUDGET APPROPRIATIONS 2009	BUDGET APPROPRIATIONS 2008	REVISED BUDGET APPROPRIATIONS 2009	REVISED BUDGET APPROPRIATIONS 2008	OBLIGATIONS INCURRED 2009	OBLIGATIONS INCURRED 2008	BALANCE OF APPROPRIATIONS 2009	BALANCE OF APPROPRIATIONS 2008
	SECRETARIAT		£	£	£	£	£	£	£	£
I	PERSONNEL									
a	Salaries	2	1 548 995	*1 485 034*	1 555 204	*1 469 996*	1 555 204	*1 223 456*	-	*246 540*
b	Separation and recruitment	2	35 000	*35 000*	43 007	*39 944*	43 007	*39 944*	-	-
c	Staff benefits, allowances and training	2	613 930	*632 666*	599 714	*632 666*	535 136	*460 122*	64 578	*172 544*
			2 197 925	*2 152 700*	2 197 925	*2 142 606*	2 133 347	*1 723 522*	64 578	*419 084*
II	GENERAL SERVICES									
a	Office accommodation	11	319 300	*316 300*	319 300	*316 300*	299 330	*291 954*	19 970	*24 346*
b	Office machines	2	71 500	*80 000*	79 482	*80 000*	79 482	*76 214*	-	*3 786*
c	Furniture and other office equipment	2	25 000	*15 000*	17 018	*15 000*	9 935	*10 378*	7 083	*4 622*
d	Office stationery and supplies		22 000	*22 000*	22 000	*22 000*	10 196	*11 324*	11 804	*10 676*
e	Communications		68 000	*73 000*	68 000	*73 000*	41 780	*61 380*	26 220	*11 620*
f	Other supplies and services		32 500	*37 500*	32 500	*37 500*	29 648	*27 871*	2 852	*9 629*
g	Hospitality		25 000	*25 000*	25 000	*25 000*	17 846	*22 669*	7 154	*2 331*
h	Public information	2	200 000	*180 000*	192 754	*180 000*	128 531	*68 117*	64 223	*111 883*
			763 300	*748 800*	756 054	*748 800*	616 748	*569 907*	139 306	*178 893*
III	MEETINGS	2	175 000	*175 000*	182 246	*175 000*	182 246	*129 134*	-	*45 866*
IV	TRAVEL									
	Conferences, seminars and missions	2	150 000	*150 000*	138 000	*150 000*	60 015	*14 845*	77 985	*135 155*
V	MISCELLANEOUS EXPENDITURE									
a	External Audit (1992 Fund, Supplementary Fund and 1971 Fund) *		62 400	*62 000*	62 400	*60 500*	62 400	*60 500*	-	-
b	Consultants' fees	2	150 000	*150 000*	135 147	*192 040*	135 147	*192 040*	-	-
c	Audit Body	2	120 000	*110 000*	150 120	*121 594*	150 120	*121 594*	-	-
d	Investment Advisory Body		45 000	*37 500*	45 000	*37 500*	45 000	*37 500*	-	-
			377 400	*359 500*	392 667	*411 634*	392 667	*411 634*	-	-
VI	UNFORESEEN EXPENDITURE	2	60 000	*60 000*	56 733	*17 960*	31 925	-	24 808	*17 960*
TOTAL I-VI			3 723 625	*3 646 000*	3 723 625	*3 646 000*	3 416 948	*2 849 042*	306 677	*796 958*
TOTAL OBLIGATIONS 1992 FUND ONLY (ie excluding 1971 Fund and Supplementary Fund External Audit fees)							3 403 048	*2 835 542*		

Note A: This Statement deals only with administrative expenditure. Expenditure in respect of claims is dealt with in Statement II.1 for the General Fund and in Statements II.2, Statements II.3 and II.4 for the *Erika, Prestige* and *Hebei Spirit* Major Claims Funds.

* External Audit fees payable in 2009 in respect of 2008 Financial Statements
1992 Fund - £48 500
1971 Fund - £10 300
Supplementary Fund - £3 600

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 2009

	2009					2009	2008
	General Fund	**Erika MCF**	**Prestige MCF**	**Hebei Spirit MCF**	**Provident Fund**	**Total**	*Total*
INCOME	£	£	£	£	£	£	*£*
Contributions							
Contributions & adjustments to prior years' assessment	9 646 340	-	-	(160 700)	452 491	9 938 131	*52 433 525*
	9 646 340	-	-	**(160 700)**	**452 491**	**9 938 131**	***52 433 525***
Miscellaneous							
Management fee	260 000	-	-	-	-	260 000	*260 000*
Recovery under STOPIA 2006 (*Solar 1* incident)	395 416	-	-	-	-	395 416	*283 359*
Settlement re. *Shosei Maru* incident	494 063	-	-	-	-	494 063	*-*
Sundry income	40	6 584	-	-	-	6 624	*1 410*
Interest on loans to HNS Fund	1 312	-	-	-	-	1 312	*6 542*
Interest on overdue contributions	24 667	-	79 854	91 144	-	195 665	*32 313*
Interest on investments	1 084 322	1 476 042	719 934	1 844 936	149 846	5 275 080	*5 575 953*
	2 259 820	**1 482 626**	799 788	1 936 080	**149 846**	**6 628 160**	***6 159 577***
Total income	**11 906 160**	**1 482 626**	**799 788**	**1 775 380**	**602 337**	**16 566 291**	***58 593 102***
EXPENDITURE							
Secretariat expenses							
Obligations incurred	3 403 048	-	-	-	-	3 403 048	*2 835 542*
Claims							
Compensation	390 508	25 860	253 735	-	-	670 103	*4 626 913*
Claims related expenditure	272 275	503 703	2 213 162	4 923 764	-	7 912 904	*6 391 845*
Less Reimbursement of joint costs from P&I Club	(1 663)	-	(218 703)	(30 575)	-	(250 941)	*(303 525)*
Loans/ withdrawals	-	-	-	-	249 985	249 985	*62 009*
	661 120	**529 563**	**2 248 194**	**4 893 189**	**249 985**	**8 582 051**	***10 777 242***
Total expenditure	**4 064 168**	**529 563**	**2 248 194**	**4 893 189**	**249 985**	**11 985 099**	***13 612 784***
Income less expenditure	**7 841 992**	**953 063**	**(1 448 406)**	**(3 117 809)**	**352 352**		
Exchange adjustment	(436)	(1 833 200)	(706 579)	-	-		
Balance b/f: 1 January	20 621 038	50 320 780	24 192 566	49 083 164	2 154 949		
Balance as at 31 December	**28 462 594**	**49 440 643**	**22 037 581**	**45 965 355**	**2 507 301**		

STATEMENT II.1

GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	Note	2009		*2008*	
INCOME		£	Total £	£	Total £
Contributions (Schedule I)					
Contributions		9 600 968		*2 930 230*	
Adjustment to prior years' assessment	3	45 372		*126 561*	
			9 646 340		*3 056 791*
Miscellaneous					
Management fee	4	260 000		*260 000*	
Recovery under STOPIA 2006 (*Solar 1* incident)	1(e)/5	395 416		*283 359*	
Settlement re. *Shosei Maru* incident	6	494 063		-	
Sundry income		40		*273*	
Interest on loan to HNS Fund	8	1 312		*6 542*	
Interest on overdue contributions	9	24 667		*10 177*	
Interest on investments	10	1 084 322		*1 503 148*	
			2 259 820		*2 063 499*
Total income			11 906 160		*5 120 290*
EXPENDITURE					
Secretariat expenses (Statement I)					
Obligations incurred	11		3 403 048		*2 835 542*
Claims (Schedule II)					
Compensation	1(e)/5		390 508		*4 254 152*
Claims related expenses (Schedule II)					
Fees		241 655		*3 311 860*	
Less Reimbursement of costs from P&I Club- *Solar 1* incident		-		*(120 931)*	
Travel		22 189		*109 891*	
Miscellaneous		8 431		*13 407*	
Less Reimbursement of costs from P&I Club- *Solar 1* incident	12	(1 663)		*(10 925)*	
			270 612		*3 303 302*
Total expenditure			4 064 168		*10 392 996*
(Shortfall)/excess of income over expenditure			7 841 992		*(5 272 706)*
Exchange adjustment			(436)		*142*
Balance b/f: 1 January			20 621 038		*25 893 602*
Balance as at 31 December	23		**28 462 594**		***20 621 038***

STATEMENT II.2

ERIKA MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	Note	2009		*2008*	
INCOME		£	Total £	*£*	Total £
Miscellaneous					
Sundry income	7	6 584		*1 137*	
Interest on investments	10	1 476 042		*2 329 052*	
			1 482 626		*2 330 189*
Total income			1 482 626		*2 330 189*
EXPENDITURE (Schedule II)					
Compensation		25 860		*121 120*	
Fees		501 438		*836 465*	
Travel		1 852		-	
Miscellaneous		413		*952*	
Total expenditure			529 563		*958 537*
Excess/(Shortfall) of income over expenditure			953 063		*1 371 652*
Exchange adjustment	13		(1 833 200)		*5 360 895*
Balance b/f: 1 January			50 320 780		*43 588 233*
Balance as at 31 December	23		**49 440 643**		**50 320 780**

STATEMENT II.3

PRESTIGE MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	Note	2009		*2008*	
INCOME		£	Total £	*£*	Total £
Contributions (Schedule I)					
Adjustment to prior years' assessment		-		*201 451*	
			-		*201 451*
Miscellaneous					
Interest on overdue contributions	9	79 854		-	
Interest on investments	10	719 934		*1 215 117*	
			799 788		*1 215 117*
Total income			799 788		*1 416 568*
EXPENDITURE (Schedule II)					
Compensation		253 735		*251 641*	
Fees		2 209 844		*1 975 340*	
Less Reimbursement of joint costs from P&I Club	12	(218 703)		*(171 669)*	
Travel		962		*1 692*	
Miscellaneous		2 356		*2 039*	
Total expenditure			2 248 194		*2 059 043*
Excess/(Shortfall) of income over expenditure			(1 448 406)		*(642 475)*
Exchange adjustment	13		(706 579)		*1 830 959*
Balance b/f: 1 January			24 192 566		*23 004 082*
Balance as at 31 December	23		**22 037 581**		**24 192 566**

STATEMENT II.4

HEBEI SPIRIT MAJOR CLAIMS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	Note	2009		*2008*	
INCOME		£	Total £	*£*	*Total £*
Contributions (Schedule I)					
Contributions		-		*48 835 352*	
Adjustment to prior years' assessment	3	(160 700)		-	
			(160 700)		*48 835 352*
Miscellaneous					
Interest on overdue contributions	9	91 144		*22 136*	
Interest on investments	10	1 844 936		*365 875*	
			1 936 080		*388 011*
Total income			1 775 380		*49 223 363*
EXPENDITURE (Schedule II)					
Fees		4 814 661		*140 197*	
Less Reimbursement of joint costs from P&I Club	12	(9 320)		-	
Travel		56 795		-	
Miscellaneous		52 308		*2*	
Less Reimbursement of joint costs from P&I Club	12	(21 255)		-	
Total expenditure			4 893 189		*140 199*
Excess/(Shortfall) of income over expenditure			(3 117 809)		*49 083 164*
Balance b/f: 1 January			49 083 164		-
Balance as at 31 December	23		**45 965 355**		***49 083 164***

STATEMENT II.5

STAFF PROVIDENT FUND

RECEIPTS AND PAYMENTS ACCOUNT FOR THE
FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	Note	2009	*2008*
		£	£
Accounts of staff members as at 1 January		2 154 949	*1 714 266*
RECEIPTS			
Contributions of staff members	14	149 719	*113 309*
Voluntary contributions of staff members	14	3 334	*-*
Contributions of IOPC Funds	14	299 438	*226 622*
Interest received	10,14	149 846	*162 761*
		602 337	*502 692*
PAYMENTS			
Housing loans		11 300	*18 000*
Withdrawal on separation		238 685	*44 009*
		249 985	*62 009*
Accounts of staff members as at 31 December		**2 507 301**	***2 154 949***

STATEMENT III

BALANCE SHEET OF THE 1992 FUND AS AT 31 DECEMBER 2009

		2009					2008
	Note	General Fund	Erika MCF	Prestige MCF	Hebei Spirit MCF	Total	*Total*
ASSETS		£	£	£	£	£	*£*
Cash at banks and in hand	15	30 833 505	49 430 746	21 537 034	45 691 848	147 493 133	*141 400 732*
Contributions outstanding	16	91 864	-	226 109	189 945	507 918	*4 305 285*
Interest on overdue contributions outstanding	9	24 693	-	79 854	62 540	167 087	*41 824*
Due from 1971 Fund	19	953	-	-	-	953	*-*
Due from HNS Fund	8	172 208	-	-	-	172 208	*170 163*
Tax recoverable	17	104 218	9 897	152 331	-	266 446	*679 978*
Miscellaneous receivable	18	38 411	-	42 253	21 022	101 686	*128 729*
Due from P&I Club under STOPIA 2006 (*Solar 1* incident)	5	14 341	-	-	-	14 341	*-*
TOTAL ASSETS		31 280 193	49 440 643	22 037 581	45 965 355	**148 723 772**	*146 726 711*
LIABILITIES							
Staff Provident Fund	14	2 507 301	-	-	-	2 507 301	*2 154 949*
Due to P&I Club under STOPIA 2006 (*Solar 1* incident)	5	4 044	-	-	-	4 044	*78*
Due to 1971 Fund		-	-	-	-	-	*4 492*
Due to Supplementary Fund		-	-	-	-	-	*6 464*
Accounts payable	20	8 573	-	-	-	8 573	*5 889*
Unliquidated obligations	21	91 835	-	-	-	91 835	*100 790*
Prepaid contributions		-	-	-	-	-	*72 510*
Contributors' account	22	205 846	-	-	-	205 846	*163 991*
TOTAL LIABILITIES		2 817 599	-	-	-	2 817 599	*2 509 163*
FUNDS' BALANCES							
Working capital		22 000 000	-	-	-	22 000 000	*22 000 000*
Surplus / (Deficit)		6 462 594	49 440 643	22 037 581	45 965 355	123 906 173	*122 217 548*
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES	23	28 462 594	49 440 643	22 037 581	45 965 355	**145 906 173**	*144 217 548*
TOTAL LIABILITIES, GENERAL FUND AND MCFs BALANCES		31 280 193	49 440 643	22 037 581	45 965 355	**148 723 772**	*146 726 711*

STATEMENT IV

CASH FLOW STATEMENT OF THE 1992 FUND
FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

	2009		***2008***	
	£	£	*£*	*£*
Cash as at 1 January		141 400 732		*94 025 283*
OPERATING ACTIVITIES				
Operating Deficit	(3 436 609)		46 318 439	
Decrease/(Increase) in Debtors	4 095 340		(4 232 093)	
Increase/(Decrease) in Creditors	156 853		(320 542)	
Net cash flow from operating activities		815 584		*41 765 804*
RETURNS ON INVESTMENTS				
Interest on investments	5 276 817		5 609 645	
Net cash inflow from returns on investments		5 276 817		*5 609 645*
Cash as at 31 December		**147 493 133**		***141 400 732***

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.

Expenses up to 4 million SDR 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 the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006 expenses in respect of any one incident are to be charged to the General Fund up to 4 million SDR, after having taken into account any reimbursements made by the shipowner/P&I Club for part of the compensation payable by the 1992 Fund under the 1992 Fund Convention. Expenses over that amount will be charged to the Major Claims Fund.

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 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 purposes, 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 2009 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 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 31 December 2009 (the last banking day of 2009) as published in the London Financial Times.

2 Revised budget appropriations

The Director's Comments on **Statement I** notify the Assembly of any excess expenditure resulting in revised budget appropriations which are met by budgetary transfers, as provided in Financial Regulation 6.3. Within the authority given to the Director under that Regulation, six transfers were made in 2009, namely:

- Four transfers within Chapters

Chapter	Transfer from appropriation	Transfer to appropriation	Amount £
I	Staff benefits, allowances and training	Salaries	6 209
I	Staff benefits, allowances and training	Separation and recruitment	8 007
II	Furniture and other office equipment	Office machines	7 982
V	Consultants' fees	Audit Body	14 853

- Two transfers between Chapters

Chapter	Transfer from appropriation	Chapter	Transfer to appropriation	Amount £
II	Public information	III	Meetings	7 246
IV	Travel	V	Audit Body	12 000

One transfer was made, which was authorised by the 1992 Fund Administrative Council, acting on behalf of the 1992 Fund Assembly, at its 2009 session (document 92FUND/AC.5/A/ES.14/9, paragraph 6) since that transfer did not fall within the Director's authority under Financial Regulation 6.3, namely:

Chapter	Transfer from appropriation	Chapter	Transfer to appropriation	Amount £
VI	Unforeseen expenditure	V	Audit Body	3 267

3 Adjustments to prior years' assessments

Adjustments made in 2009 in respect of previous years assessments, based on contributing oil reports received late and amendments to oil reports previously submitted, are set out in the following table:

	Applicable Oil receipt year	Contributions levied General Fund £	Contributions levied *Hebei Spirit* MCF £
Argentina			
General Fund 2004	2003	6 049	-
General Fund 2006	2005	25 747	-
India			
General Fund 2007	2006	(11 059)	-
Hebei Spirit MCF	2006	-	(184 307)
Jamaica			
General Fund 2006	2005	772	-
Kenya			
General Fund 2006	2005	981	-
General Fund 2007	2006	634	-
Hebei Spirit MCF	2006	-	10 573
Malaysia			
General Fund 2006	2005	949	-
General Fund 2007	2006	782	-
Hebei Spirit MCF	2006	-	13 034
United Kingdom			
General Fund 2006	2005	20 517	-
Total		**45 372**	**(160 700)**

4 Management fee

At their October 2008 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 £210 000 for the period 1 January to 31 December 2009 (documents 92FUND/A.13/25, paragraph 21.3 and Annex and 71FUND/AC.23/18, paragraph 18.3 and Annex).

At the same 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 £50 000 for the period 1 January to 31 December 2009 (documents 92FUND/A.13/25, paragraph 21.3 and Annex and SUPPFUND/A/4/21, paragraph 20.3 and Annex).

In the 2009 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.

5 **Recovery from the P&I Club under STOPIA 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.

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

Of the Managers' Cheques (Bankers Drafts) issued in 2009, cheques for a total Philippine Peso 289 504 (£4 044) were cancelled mainly due to non collection of the cheques by claimants. This amount has been included under 'Miscellaneous receivable' in the Balance Sheet. 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 'Due 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 2009 has been adjusted with the value of the cancelled Managers' Cheques.

In 2009 the 1992 Fund invoiced the P&I Club a total amount of £395 416 (comprising of compensation payments - £390 508 and cost of issue of Managers' Cheques - £4 908) in respect of payments made.

6 **Amounts received in relation to settlement in the *Shosei Maru* incident**

In August 2009 the owners of the *Shosei Maru*, the 1992 Fund, Sompo Japan Insurance Inc and the bareboat charterer of the *Trust Busan* reached a settlement agreement, on the basis of which in September 2009 the 1992 Fund received the amount of ¥74 553 897 (£494 063) from the bareboat charterer of the *Trust Busan*, which corresponded to about 43% of the amount of compensation and survey costs paid by the 1992 Fund for the *Shosei Maru* incident.

7 **Sundry income**

Sundry income in **Statement II.2** totalling £6 584 received in respect of the *Erika* Major Claims Fund represents court orders to pay the 1992 Fund for legal costs incurred following settlement of court cases.

8 **Due from the International Hazardous and Noxious Substances 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 £1312 in **Statement II.1** represents interest due on loans totalling £147 180 made by the General Fund to the HNS Fund. This amount includes a loan of £733 from the General Fund made during the financial period 2009 mainly in relation to maintaining the HNS website in 2009. The total amount due from the HNS Fund, including cumulative interest, is £172 208.

9 **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 3.8.

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 totalling £167 087 was receivable as at 31 December 2009.

10 **Interest on investments**

As at 31 December 2009 the 1992 Fund's portfolio of investments comprised of the 1992 Fund's bank deposits in respect of the General Fund, the *Erika, Prestige* and *Hebei Spirit* 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 Euros 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 15.

Interest received in 2009 on the investments amounted to £5 276 817. This amount is distributed as follows:

	£
General Fund	1 084 322
Erika Major Claims Fund	1 476 042
Prestige Major Claims Fund	719 934
Hebei Spirit Major Claims Fund	1 844 936
Staff Provident Fund	149 846
Contributors' account	1 737
	5 276 817

11 **Obligations incurred**

The figure of £3 403 048 represents the cost of running the joint Secretariat (see **Statement I**). This amount includes the External Auditor's fees for the 1992 Fund of £48 500 and excludes the External Auditor's fees for the 1971 Fund of £10 300 and the Supplementary Fund of £3 600.

It should be noted that the United Kingdom Government meets 80% of the costs related to the rental of the Portland House Secretariat offices and storage space. The total rental payments of the Secretariat offices and storage space made for 2009 amounted to £476 500 with the United Kingdom Government's share being £381 200.

12 **Reimbursements of joint costs**

Under the Memorandum of Understanding (MOU) between the P&I Clubs and the 1992 Fund, joint claims-related costs are apportioned between the P&I Clubs and the 1992 Fund based on their respective compensation liability.

In respect of the *Prestige,* the *Solar 1* and the *Hebei Spirit* incidents reimbursements of £218 703, £1 663 and £30 575, respectively were invoiced in 2009 to the Clubs.

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 the *Erika* and *Prestige* incidents have been converted at the rate at which the currency was purchased, on a first in first out basis.

As at 31 December 2009 there was a notional exchange loss of £1 832 115 from currency revaluation of Euros held with respect of the *Erika* Major Claims Fund and a notional exchange loss of £667 137 from currency revaluation of Euros held with respect of the *Prestige* Major Claims Fund. The loss would only materialise if the currency were to be converted back to Sterling. The 1992 Fund has no intention of so doing as this currency is held to meet anticipated claims.

The exchange losses from revaluation of taxes reimbursed and to be reimbursed in Euros by the French and Spanish authorities as at 31 December 2009 were £1 085 and £39 442 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 **Staff Provident Fund (Statement II.5)**

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).

At its October 2009 session the governing bodies agreed to allow for additional voluntary staff contributions to the Staff Provident Fund of up to 5% of the pensionable remuneration, to be deducted on a monthly basis from the staff member's salary.

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. (cf document FUND/EXC.2/6, item 6). Interest is calculated and fixed monthly by the Director according to investments held during that month.

Housing loans represent loans taken by staff members in accordance with the Staff Rule. The loan shall be repaid in a manner to be agreed between the staff member and the Director. In any event the loan shall be repaid on the staff member's separation from the Fund by means of deduction from the monies payable under the Staff Rule.

15 **Assets**

(a) Cash at bank and in hand

The amount of £147 493 133, which includes a balance of £205 846 on the Contributors' Account and £2 507 301 on the Staff Provident Fund, was held in various financial institutions and accounts as follows:

Time deposit accounts

	£	£
Pounds sterling		
ABN Amro Bank	6 500 000	
Santander UK plc (Alliance & Leicester plc)	14 000 000	
Bank of Scotland	8 750 000	
Barclays Bank plc	6 600 000	
Clydesdale Bank plc	15 000 000	
DBS Bank plc	10 700 000	
Lloyds TSB Bank	2 500 000	
Nationwide Building Society	13 000 000	
Rabobank International	9 500 000	
Royal Bank of Scotland	2 750 000	
Svenska Handelsbanken	12 250 000	
UBS AG	3 750 000	
Ulster Bank Ireland Ltd	7 000 000	
United Overseas Bank	1 500 000	
		113 800 000
Current and call deposits accounts		
Bank of Scotland – Call/ Current a/c	6 147 908	
Barclays Bank plc - Business Premium/ Current a/cs	122 601	
Petty cash imprest a/c	183	
		6 270 692
Foreign Currency Deposits (Pounds sterling equivalent)		
Erika Major Claims Fund		
Euro deposits		
ABN Amro Bank	8 090 586	
Barclays Bank plc	4 471 376	
BNP Paribas	7 107 952	
Euro Current accounts (interest bearing)		
BNP Paribas	1 348 608	
		21 018 522
Prestige Major Claims Fund		
Euro deposits		
Barclays Bank plc	1 776 988	
Ulster Bank (Ireland)	3 998 223	
Euro Current accounts (interest bearing)		
Barclays Bank plc - Business Premium account	615 209	
BNP Paribas	13 499	
		6 403 919
		147 493 133

(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 2009 the purchase value of these supplies and equipment, including furniture and equipment purchased during 2009, amounts to £464 440 made up as follows:

	Office equipment £	Office furniture £	Library £
Balance b/f	305 245	151 657	18 734
Additions in 2009	18 838	5 360	335
Less disposals in 2009	(35 729)	-	-
Balance c/f	288 354	157 017	19 069

16 Contributions outstanding

Outstanding contributions due to the 1992 Fund as at 31 December 2009 totalled £507 918. A report on contributions outstanding is provided in **Schedule I.**

17 Tax recoverable

The amount recoverable of £266 446 is made up as follows:

		€	£
Due from the United Kingdom Government	VAT		100 044
	Insurance Premium Tax / Airport Departure Tax		3 468
Due from the French Government	TVA	70 503	62 641
Due from the Spanish Government	IVA	112 880	100 293
		Total	266 446

18 Miscellaneous receivable

The amount of £101 686 consists mainly of the following:

(a) £22 546 paid for 2010 subscriptions to the health insurance scheme, 50% of which will be recovered from staff members and 50% charged to 2010 expenditure;

(b) £11 301 representing salary advances to be recovered from staff members in 2010 under Staff Rule IV.11;

(c) £4 044 represents balance held with the bank in the Philippines with respect of the cancelled Managers' Cheques (cf Note 5);

(d) £21 022 to be reimbursed by the Club for joint costs in relation to the *Hebei Spirit* incident; and

(e) £42 253 to be reimbursed by the Club for joint costs in relation to the *Prestige* incident.

19 Payment due from 1971 Fund

As at 31 December 2009, an amount of £953 was due from the 1971 Fund to the 1992 Fund. This amount refers to a claims-related payment made on behalf of the 1971 Fund.

20 Accounts payable

The amount of £8 573 consists of the following:

(a) £2 814 payable to the credit card company;

(b) £1 624 payable to staff members in relation to travel undertaken in 2009; and

(c) £4 135 being National Insurance Contributions payable in January 2010.

21 Unliquidated obligations

The figure of £91 835 is made up of obligations incurred in 2009 but unliquidated at 31 December 2009.

The unliquidated obligations consist of the following amounts:

(a) £41 830 for consultants fees;

(b) £29 559 due to the International Maritime Organization (IMO) in respect of rent, rates and service charges for 2009 in respect of the offices retained in the IMO building and medical services in 2009; and

(c) £20 446 for various supplies.

22 Contributors' account

The amount of £205 846 is the balance on the Contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £1 737 credited in 2009 to contributors as provided in Internal Regulation 3.9.

23 Funds' Balances

The figure of £28 462 594 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 2009 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:

	£
Erika Major Claims Fund	49 440 643
Prestige Major Claims Fund	22 037 581
Hebei Spirit Major Claims Fund	45 965 355

24 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 2009 are estimated as follows:

		£
Repatriation		
- travel and removal costs	65 000	
- grant	154 184	
		219 184
Annual leave		85 675
		304 859

25 Financial instruments

Dual Currency Deposits

Since 2002 the 1992 Fund had invested Pounds sterling in the form of Dual Currency Deposits (DCDs) in line with the recommendation of the joint Investment Advisory Body. Thirteen DCDs were placed in 2009.

A DCD is a type of deposit where an amount is placed in Pounds sterling (the base currency) with a financial institution which meets the 1992 Fund's investment criteria for prudent investment at an enhanced rate of interest. In return for this enhanced yield there is a possibility that the principal sum will be repaid by the financial institution in a second predetermined currency (eg Euros) if, at expiry of the deposit, the exchange rate between Pounds sterling and the second currency is below a certain rate (ie a predetermined conversion rate chosen at the time the deposit is placed). The duration of each deposit is selected to satisfy the 1992 Fund's cash flow requirements. The possibility that the principal amount will be converted to Euros at the predetermined conversion rate, known as the strike 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.

A DCD cannot be treated as a hedging instrument as the currency in which the principal amount will be repaid is not certain at the time the deposit is placed. However, the 1992 Fund's hedging position must be considered when deciding whether or not to invest in a DCD as a capital repayment in Euros would increase the 1992 Fund's hedging ratio, and this must not exceed a level deemed appropriate for the 1992 Fund. The interest will always be repaid in Pounds sterling.

In 2009, eight DCDs totalling £21 250 000 matured with the principal sum repaid in Pounds sterling. Net additional interest of £134 842 was earned on these investments. As at 31 December 2009 six DCDs totalling £15 500 000 remain outstanding and will mature in 2010.

* * *

SCHEDULE I

REPORT ON CONTRIBUTIONS DURING THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009 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 SDR 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 SDR, 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 As at 31 December 2009, 103 States were members of the 1992 Fund.

4 At its session in October 2008 the Assembly decided to levy contributions (2008 contributions) with respect to the General Fund of £10 million for payment by 1 March 2009.

5 The Assembly also decided to raise 2008 contributions to the *Prestige* and *Hebei Spirit* Major Claims Funds of £2.0 million and £33.5 million, respectively, but that the entire levies should be deferred. In addition, subject to a decision by the Executive Committee of the 1992 Fund authorising him to make payments of compensation with respect to the *Volgoneft 139* incident, the Assembly decided to raise 2008 contributions to the *Volgoneft 139* Major Claims Fund of £50.0 million, with the entire levy deferred for payment during the second half of 2009, if and to the extent required.

6 The Director decided not to invoice any deferred levy as part of the 2008 annual contributions.

7 A comprehensive report on the payment of contributions as at 18 September 2009 was submitted to the Assembly at its 14th session (document IOPC/OCT09/5/2/1). The report contained in this schedule is a comprehensive update of the earlier reports. An amount of £ 507 918 or 0.12% of the total amount levied over the years (£421.6 million) remains outstanding as at 31 December 2009, as set out below:

OUTSTANDING CONTRIBUTIONS			
State	**General Fund 2008 £ (Due date 01.03.09)**	**Previous levies Total £**	**Total £**
Argentina	-	5 775.86	5 775.86
Ghana	4 683.48	23 423.01	28 106.49
Jamaica	-	771.39	771.39
Mauritius	-	10 239.31	10 239.31
Panama	-	10 441.41	10 441.41
Russian Federation	31 092.50	404 992.09	436 084.59
United Kingdom	-	16 499.62	16 499.62
	35 775.98	472 142.69	507 918.67

GENERAL FUND AS AT 31.12.2009
2008 CONTRIBUTIONS DUE BY 1 MARCH 2009
(BASED ON 2007 OIL RECEIPTS)

Member State	Assessment £	Receipt £	Outstanding £	% Paid
<1> Albania	-	-	-	-
Algeria	3 774.23	3 774.23	0.00	100.00
Angola	11 827.41	11 827.41	0.00	100.00
<1> Antigua and Barbuda	-	-	-	-
Argentina	116 795.04	116 795.04	0.00	100.00
Australia	196 155.19	196 155.19	0.00	100.00
Bahamas	68 378.69	68 378.69	0.00	100.00
<1> Bahrain	-	-	-	-
Barbados	1 748.21	1 748.21	0.00	100.00
Belgium	34 036.36	34 036.36	0.00	100.00
<2> Belize	-	-	-	-
<1> Brunei Darussalam	-	-	-	-
Bulgaria	45 943.82	45 943.82	0.00	100.00
<2> Cambodia	-	-	-	-
Cameroon	9 673.10	9 673.10	0.00	100.00
Canada	475 703.00	475 703.00	0.00	100.00
<1> Cape Verde	-	-	-	-
China (HKSAR)	46 303.27	46 303.27	0.00	100.00
Colombia	3 342.00	3 342.00	0.00	100.00
<2> Comoros	-	-	-	-
<2> Congo	-	-	-	-
<2> Cook Islands	-	-	-	-
Croatia	25 545.49	25 545.49	0.00	100.00
Cyprus	7 515.60	7 515.60	0.00	100.00
Denmark	36 477.59	36 477.59	0.00	100.00
<2> Djibouti	-	-	-	-
<1> Dominica	-	-	-	-
<2> Dominican Republic	-	-	-	-
<2> Ecuador	-	-	-	-
Estonia	1 458.51	1 458.51	0.00	100.00
<1> Fiji	-	-	-	-
Finland	83 239.08	83 239.08	0.00	100.00
France	634 833.21	634 833.21	0.00	100.00
<1> Gabon	-	-	-	-
<1> Georgia	-	-	-	-
Germany	259 643.31	259 643.31	0.00	100.00
Ghana	12 811.78	8 128.30	4 683.48	63.44
Greece	155 233.95	155 233.95	0.00	100.00
<2> Grenada	-	-	-	-
<2> Guinea	-	-	-	-
<2> Hungary	-	-	-	-
<1> Iceland	-	-	-	-
India	794 882.22	794 882.22	0.00	100.00
Ireland	25 209.53	25 209.53	0.00	100.00
Israel	77 132.89	77 132.89	0.00	100.00
Italy	871 416.57	871 416.57	0.00	100.00
Jamaica	18 422.86	18 422.86	0.00	100.00
Japan	1 613 848.59	1 613 848.59	0.00	100.00
<2> Kenya	-	-	-	-
<2> Kiribati	-	-	-	-
<1> Latvia	-	-	-	-

Member State	Assessment £	Receipt £	Outstanding £	% Paid
<1> Liberia	-	-	-	-
Lithuania	29 688.59	29 688.59	0.00	100.00
<1> Luxembourg	-	-	-	-
<1> Madagascar	-	-	-	-
Malaysia	198 208.54	198 208.54	0.00	100.00
<2> Maldives	-	-	-	-
Malta	21 022.31	21 022.31	0.00	100.00
<1> Marshall Islands	-	-	-	-
<3> Mauritius	-	-	-	-
Mexico	57 217.90	57 217.90	0.00	100.00
<1> Monaco	-	-	-	-
Morocco	40 661.87	40 661.87	0.00	100.00
<1> Mozambique	-	-	-	-
<1> Namibia	-	-	-	-
<4> Netherlands	655 771.28	655 771.28	0.00	100.00
<2> Netherlands Antilles	-	-	-	-
<2> Netherlands Aruba	-	-	-	-
New Zealand	29 060.20	29 060.20	0.00	100.00
<2> Nigeria	-	-	-	-
Norway	106 091.76	106 091.76	0.00	100.00
<2> Oman	-	-	-	-
Panama	24 505.95	24 505.95	0.00	100.00
<2> Papua New Guinea	-	-	-	-
Philippines	71 921.61	71 921.61	0.00	100.00
Poland	8 689.76	8 689.76	0.00	100.00
Portugal	90 424.57	90 424.57	0.00	100.00
<1> Qatar	-	-	-	-
Republic of Korea	786 412.51	786 412.51	0.00	100.00
Russian Federation	31 092.50	0.00	31 092.50	0.00
<2> Saint Kitts and Nevis	-	-	-	-
<2> Saint Lucia	-	-	-	-
<1> Saint Vincent and the Grenadines	-	-	-	-
<1> Samoa	-	-	-	-
<1> Seychelles	-	-	-	-
<1> Sierra Leone	-	-	-	-
Singapore	552 252.11	552 252.11	0.00	100.00
<1> Slovenia	-	-	-	-
<2> South Africa	-	-	-	-
Spain	408 977.84	408 977.84	0.00	100.00
Sri Lanka	13 820.98	13 820.98	0.00	100.00
Sweden	139 359.98	139 359.98	0.00	100.00
<1> Switzerland	-	-	-	-
<2> Tanzania	-	-	-	-
<1> Tonga	-	-	-	-
Trinidad and Tobago	31 251.54	31 251.54	0.00	100.00
Tunisia	23 413.57	23 413.57	0.00	100.00
Turkey	171 440.28	171 440.28	0.00	100.00
<2> Tuvalu	-	-	-	-
<1> United Arab Emirates	-	-	-	-
<4> United Kingdom	468 199.13	468 199.13	0.00	100.00
Uruguay	10 131.29	10 131.29	0.00	100.00
<1> Vanuatu	-	-	-	-
<2> Venezuela	-	-	-	-
Total	**9 600 967.57**	**9 565 191.59**	**35 775.98**	**99.63**

<1> No liability for 2008 contributions to the General Fund.
<2> Reports on contributing oil receipts in 2007 not submitted by 31.12.09.
<3> Reports on contributing oil receipts in 2007 submitted late, invoiced but due 5.3.10.
<4> Reports on contributing oil receipts in 2007 for some contributors not submitted by 31.12.09.

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CONTRIBUTIONS OUTSTANDING FOR PREVIOUS FINANCIAL PERIODS AS AT 31.12.2009

General Fund and Major Claims Funds

Member State (Total number of contributors)	Fund (Number of contributors in arrears)	Assessment £	Receipt £	Outstanding £	Contribution due date
Argentina (1)	General Fund 2006 (1)	**25 746.53**	**19 970.67**	**5 775.86**	02/11/2009
Ghana (3)	*Hebei Spirit* Major Claims Fund (1)	**56 193.72**	**32 770.71**	**23 423.01**	01/11/2008
Jamaica (4)	General Fund 2006 (1)	**4 915.43**	**4 144.04**	**771.39**	05/10/2009
Mauritius (2)	*Hebei Spirit* Major Claims Fund (1)	**16 761.79**	**6 522.48**	**10 239.31**	01/11/2008
Panama (7)	General Fund 2006 (1)	16 926.78	7 083.30	9 843.48	01/03/2007
	Prestige Major Claims Fund 2004 (1)	73 225.88	72 627.95	597.93	01/03/2005
		90 152.66	**79 711.25**	**10 441.41**	
Russian Federation (3)	General Fund 2001 (1)	6 158.35	4 625.95	1 532.40	01/03/2002
	General Fund 2002 (1)	7 156.85	5 874.33	1 282.52	01/03/2004
	General Fund 2003 (2)	19 747.25	0.00	19 747.25	01/08/2008 & 01/03/2004
	General Fund 2004 (1)	13 520.40	12 049.91	1 470.49	01/03/2005
	General Fund 2006 (2)	6 287.04	0.00	6 287.04	01/08/2008
	General Fund 2007 (2)	8 443.38	0.00	8 443.38	01/08/2008
	Prestige Major Claims Fund 2003 (2)	170 410.65	19 921.84	150 488.81	01/08/2008 & 01/03/2004
	Prestige Major Claims Fund 2004 (2)	75 022.58	0.00	75 022.58	01/08/2008 & 01/03/2005
	Hebei Spirit Major Claims Fund (2)	140 717.62	0.00	140 717.62	01/11/2008
		447 464.12	**42 472.03**	**404 992.09**	
United Kingdom (27)	General Fund 2007 (1)	141 595.00	140 661.03	933.97	01/08/2008
	Hebei Spirit Major Claims Fund (1)	2 359 825.67	2 344 260.02	15 565.65	01/11/2008
		2 501 420.67	**2 484 921.05**	**16 499.62**	
Total		**3 069 429.04**	**2 597 884.28**	**472 142.69**	

**CONTRIBUTIONS FOR PREVIOUS YEARS NOT ASSESSED AS AT 31 DECEMBER 2009
DUE TO NON-SUBMISSION OF REPORTS ON CONTRIBUTING OIL RECEIPTS FOR RELEVANT YEAR
BY MEMBER STATES FOR ANY CONTRIBUTORS IN THE STATE**

		Contribution Year	Applicable Oil receipt year
Belize	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
Cambodia	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	Prestige Major Claims Fund	2004 & 2003	2001
Comoros	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	Prestige Major Claims Fund	2004 & 2003	2001
Congo	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
Djibouti	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
Dominican Republic	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	General Fund	2001	2000
	General Fund	2000	1999
	Prestige Major Claims Fund	2004 & 2003	2001
Grenada	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
	General Fund	2004	2003
	General Fund	2003	2002
	General Fund	2002	2001
	Prestige Major Claims Fund	2004 & 2003	2001
Guinea	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
	General Fund	2004	2003
	General Fund	2003	2002
Maldives	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
Nigeria	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006

		Contribution Year	Applicable Oil receipt year
Oman	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
Papua New Guinea	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
Saint Kitts and Nevis	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
Saint Lucia	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
South Africa	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
United Republic of Tanzania	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005
	General Fund	2004	2003
	General Fund	2003	2002
Tuvalu	*Hebei Spirit* Major Claims Fund	2007	2006
	General Fund	2007	2006
	General Fund	2006	2005

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SCHEDULE II
REPORT ON PAYMENT OF CLAIMS FOR THE FINANCIAL PERIOD 1 JANUARY - 31 DECEMBER 2009

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 2009 in respect of various incidents amounted to £8 332 066 and is made up as follows:

	£
General Fund (cf paragraph 3)	661 120
Erika Major Claims Fund	529 563
Prestige Major Claims Fund (cf Note 12 to financial statements)	2 248 194
Hebei Spirit Major Claims Fund (cf Note 12 to financial statements)	4 893 189
	8 332 066

3 The General Fund covers compensation payments and claims-related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDR per incident converted at the rate applicable on the date of the incident. During 2009 payments from the General Fund were made in respect of six incidents. The major portion of the claims and claims-related expenditure from the General Fund relates to the *Solar 1* incident (£414 591)) and the *Volgoneft 139* incident (£135 197).

4 In general, the position as at 31 December 2009 can be summarised as follows:

Incident	Year	Compensation £	Fees and related costs £	Other costs £	Total £
1 *Erika*	2009	25 860	501 438	2 265	529 563
	2008	121 120	836 465	952	958 537
	2007	1 389 031	1 066 945	4 345	2 460 321
(Recovered)<1>	2007	(379 287)	-	-	(379 287)
	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	77 021 437	21 381 353	216 481	98 619 271

<1> Monies recovered as a result of the decision of the Court of Appeal.

Incident	Year	Compensation	Fees and related costs	Other costs	Total
		£	£	£	£
2 *Al Jaziah 1*	2009	-	957	8	965
(NB-Joint incident -	2008	-	6 077	22	6 099
50% 1971 Fund)	2007	-	12 797	13	12 810
	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	111 020	7 754	684 940
3 ***Prestige***	2009	253 735	2 209 844	3 318	2 466 897
(Reimbursement from P&I Club)	2009	-	(218 703)	-	(218 703)
	2008	251 641	1 975 340	3 731	2 230 712
(Reimbursement from P&I Club)	2008	-	(171 669)	-	(171 669)
	2007	1 109 424	1 934 927	8 488	3 052 839
(Reimbursement from P&I Club)	2007	-	(20 153)	-	(20 153)
	2006	40 537 569	2 463 784	23 225	43 024 578
(Reimbursement from P&I Club)	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	82 812 138	15 446 167	490 228	98 748 533
4 ***N°7 Kwang Min***	2009	-	15 927	10	15 937
	2008	-	10 607	11	10 618
	2007	-	25 899	55	25 954
	2006	1 164 982	177 986	22	1 342 990
	Total to date	1 164 982	230 419	98	1 395 499
5 ***Solar I***	2009	390 508	18 608	7 138	416 254
(Reimbursement from P&I Club)	2009	-	-	(1 663)	(1 663)
	2008	281 908	-	10 990	292 898
(Reimbursement from P&I Club)	2008	-	(120 931)	(10 925)	(131 856)
	2007	3 835 532	127 335	67 167	4 030 034
(NB – Covered by STOPIA 2006)	2006	1 965 877	248	39 069	2 005 194
	Total to date	6 473 825	25 260	111 776	6 610 861
6 ***Shosei Maru***	2009	-	40 984	6	40 990
	2008	754 823	52 254	455	807 532
	2007	-	-	11 941	11 941
	Total to date	754 823	93 238	12 402	860 463

Incident	Year	Compensation £	Fees and related costs £	Other costs £	Total £
7 ***Hebei Spirit***	2009	-	4 814 661	109 103	4 923 764
(Reimbursement from P&I Club)	2009	-	(9 320)	(21 255)	(30 575)
	2008	-	3 151 656	96 682	3 248 338
	2007	-	-	1 989	1 989
	Total to date	-	7 956 997	186 519	8 143 516
8 ***Volgoneft 139***	2009	-	120 950	14 247	135 197
	2008	-	187 570	14 991	202 561
	Total to date	-	308 520	29 238	337 758
9 **Incident in Argentina**	2009	-	44 230	9 210	53 440
	2008	-	300	126	426
	Total to date	-	44 530	9 336	53 866

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SCHEDULE III

DETAILS OF CONTINGENT LIABILITIES OF THE 1992 FUND AS AT 31 DECEMBER 2009

1 Contingent liabilities represent all known or likely claims against the 1992 Fund as at 31 December 2009 as well as an estimate of fees and other costs for 2010 (Note 1(f)) to the financial statements). The figures are based on information available up to 30 April 2010.

2 It should be noted that any estimate in this document of amounts to be paid by the 1992 Fund in compensation has been made solely for the purpose of assessment of contingent liabilities, without prejudice to the position of the 1992 Fund in respect of the claims.

3 For the translation of all liabilities, the rate applied is the rate of exchange for the Pound sterling against various currencies on 31 December 2009 (the last banking day of 2009) as published in the London Financial Times.

4 There are contingent liabilities of the 1992 Fund estimated at £378 580 000 in respect of eight incidents as at 31 December 2009.

5 Details of the contingent liabilities, given in rounded figures, are set out below:

Incident		Date	Contingent liabilities at 31.12.09		
			Compensation £	Other costs £	Total £
1	*Erika*	12.12.99	49 000 000	1 000 000	**50 000 000**
2	*Al Jaziah 1*	24.01.00	-	5 000	**5 000**
3	*Prestige*	13.11.02	25 000 000	2 000 000	**27 000 000**
4	*N°7 Kwang Min*	24.11.05	-	10 000	**10 000**
5	*Solar I*	11.08.06	-	15 000	**15 000**
6	*Volgoneft 139*	11.11.07	197 000 000	500 000	**197 500 000**
7	*Hebei Spirit*	07.12.07	96 000 000	8 000 000	**104 000 000**
8	Incident in Argentina	26.12.07	-	50 000	**50 000**
TOTAL			**367 000 000**	**11 580 000**	**378 580 000**

6 Of these contingent liabilities, some £1.89 million had been liquidated as at 30 April 2010, mainly in respect of the *Hebei Spirit* (£1 172 000) and *Prestige* (£572 000) incidents.

7 The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, ie for 2010. High amounts of lawyers' and surveyors' fees have been included in the contingent liabilities in respect of the *Erika*, *Prestige* and *Hebei Spirit* incidents. The amounts have been assessed on the basis of the likely volume of work to be carried out in 2010.

8 Information about the incidents involving the IOPC Funds can be obtained from the IOPC Funds' Annual Report 2009 and on the Funds' website at www.iopcfund.org.

Erika

9 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 FFr1 211 966 811 or €184 763 149). The limitation amount applicable to the *Erika* under the 1992 Civil Liability Convention (1992 CLC) is FFr84 247 733 or €12 843 484. The 1992 Fund's liability would therefore be FFr1 127 719 148 (€171 919 676). The 1992 Fund had, as at 31 December 2009, paid €116.9 million in compensation.

The balance payable by the 1992 Fund in compensation is €55 million (£49 million). Fees and other costs are estimated at £1 million for 2010.

Al Jaziah 1

10 The *Al Jaziah 1* incident occurred in the United Arab Emirates, which at the time of the incident was a member of both the 1971 Fund and the 1992 Fund. The 1971 Fund Administrative Council and the 1992 Fund Executive Committee 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 1971 Fund took recourse action against the owner of the *Al Jaziah 1*. In a judgement rendered in March 2008 the Court ordered the shipowner to pay the Funds an amount of Dhs 6 402 282. According to the investigation carried out by the Funds' lawyers, the shipowner was in serious financial difficulties and had no other financial resources to pay the judgement. Therefore it appears that it would be very difficult to execute the judgement against the shipowner. As instructed by the governing bodies of the 1971 and 1992 Funds at their October 2008 sessions, the Funds, through their lawyers in the United Arab Emirates, had approached the shipowner to discuss a settlement, taking into account his financial situation but no progress has been made.

At its October 2009 session the governing bodies noted the Director's intention to write off the debt if the costs were to exceed the recoverable amount since a matter of principle was not involved.

The Fund's contingent liability as regards legal costs is estimated at £5 000.

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 (€22.8 million under the 1992 Civil Liability Convention and €148.7 million under the 1992 Fund Convention). By the end of 2009 the 1992 Fund had paid a total of €120.3 million, including €57 555 000 and €56 365 000 paid to the Spanish State in 2003 and 2006, respectively and €328 488 to Portugal in 2006 and €5.5 million in France.

The balance payable by the 1992 Fund in compensation therefore is some €28.4 million (£25 million). Fees and other costs are estimated at £2 million for 2010.

N°7 Kwang Min

12 In December 2005, the 1992 Fund was informed by the Korean Ministry of Maritime Affairs and Fisheries that the *N°7 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 to settle all claims arising from the incident in view of the shipowner not being able to meet his obligations under the 1992 Civil Liability Convention (1992 CLC). Most claims have been settled and paid for KRW 2 032 million. Two claimants did not agree with the settlement of their claims and took legal action.

In August 2008, the Court ordered the owners of the two vessels to pay the losses of two seaweed culturists as assessed by the Limitation Court plus interest. The Limitation Fund would be used to settle the claims by the two seaweed cultivators and then the incident would be considered closed.

For the purpose of the contingent liabilities other costs are estimated at £10 000 for 2010.

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 (£4.4 million). However, the owner of the *Solar 1* was a party to the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006 whereby the limitation amount applicable to the tanker under the Civil Liability Convention was increased, on a voluntary basis, to 20 million SDR (£19.4 million). This is the first incident where STOPIA 2006 has applied and the 1992 Fund is receiving regular reimbursements from the Shipowner's Club.

For the purpose of the contingent liabilities the total amount of compensation payable for this incident will fall under the limitation amount applicable under STOPIA 2006. Costs are estimated at £15 000 for 2010.

Volgoneft 139

14 On 11 November 2007 the Russian-registered tanker *Volgoneft 139* (3 463 GT, built in 1978) broke in two in the Strait of Kerch linking the Sea of Azov and the Black Sea between the Russian Federation and Ukraine. The tanker was allegedly loaded with a cargo of 4 077 tonnes of fuel oil and it is believed that between 1 200 and 2 000 tonnes of fuel oil were spilt at the time of the incident. The ship was owned by JSC Volgotanker which has since been declared bankrupt by the Commercial Court in Moscow. The shipowner was insured for protection and indemnity liability by Ingosstrakh (Russian Federation). It appears that the insurance cover is limited to 3 million SDR (£2.9 million) which is well below the minimum limit under the 1992 CLC of 4.51 million SDR (£4.4 million). There is therefore an 'insurance gap' of some 1.5 million SDR (£1.5 million).

Ingosstrakh is also arguing in court that the incident was caused by 'force majeure' and that therefore the shipowner is exempt from liability under the 1992 CLC. The 1992 Fund has examined the information available and provisionally concluded that the incident was not caused by 'force majeure', in particular since it was not inevitable, in that the vessel should not have been exposed to the storm in the way it was. If the Court were to agree with Ingosstrakh's defence, the 1992 Fund would have to pay all losses arising from the incident from the outset. The vessel was not insured by one of the P&I Clubs belonging to the International Group of P&I Clubs and therefore STOPIA 2006 does not apply. Claims totalling RUB 8 147.4 million (£166 million) have been submitted.

For the purpose of the contingent liabilities, in the event that the 1992 Fund Executive Committee authorises the Director to make payments of claims, compensation payable is estimated at 203 million SDR (£197 million). Legal and other costs have been estimated at £500 000 for 2010.

Hebei Spirit

15 On 7 December 2007 the Hong Kong flag tanker the *Hebei Spirit* (146 848 GT) was struck by the barge *Samsung N°1* while at anchor about five miles off Taean on the west coast of the Republic of Korea. The accident resulted in about 10 500 tonnes of crude oil escaping into the sea from the *Hebei Spirit* and polluting some 375 kilometres of the western coast of the Republic of Korea. The maximum amount of compensation payable in respect of the *Hebei Spirit* incident under the 1992 Fund Convention is 203 million SDR (KRW 321.6 million based on the rate of exchange on 13 March 2008 when the Executive Committee authorised the Director to pay compensation for this incident). The estimated losses arising out of this incident are expected to exceed the limitation amount applicable to the *Hebei Spirit* under the 1992 Fund CLC ie 89.77 million SDR (£84 million). In June 2008, the Executive Committee, in view of the uncertainty as to the total amount of the

admissible claims, decided to limit the level of payments to 35% of the established claims. Most recently in October 2009, the Executive Committee decided to maintain this level of payments at 35%.

The 1992 Fund would be expected to pay compensation once the 1992 CLC limit has been reached. All joint cost expenditure is presently being made by the shipowner's insurer, but the 1992 Fund reimburses them its proportion of the joint costs.

The Executive Committee, at its March 2009 session, endorsed the decision taken by the Director in January 2009 to commence recourse action against Samsung C&T Corporation and Samsung Heavy Industries (SHI) in the Ningbo Maritime Court in China at the same time as the owner and the insurer of the *Hebei Spirit*. The Committee also decided that the 1992 Fund should continue this recourse action.

For the purpose of the contingent liabilities compensation payable is estimated at 113 230 000 SDR or KRW 179 393 685 900 (£96 million) plus costs payable by the 1992 Fund, including legal costs, estimated at £8 million for 2010.

Incident in Argentina

16 A significant quantity of oil impacted the shoreline in Caleta Córdova, Chubut Province, Argentina, on 26 December 2007. Clean-up operations on the shoreline were undertaken by local contractors under the supervision of the provincial government. Claims are expected for clean-up costs, losses in the fisheries and tourism sectors and for environmental damage. An investigation into the cause of the incident was commenced by the Criminal Court of Comodoro Rivadavia (Argentina). The *Presidente Arturo Umberto Illia* (*Presidente Illia*), that had been loading oil at a loading buoy off Caleta Córdova, was detained and an inspection of the ship by the maritime authorities (Prefectura Naval) revealed a fault in its ballast system. The *Presidente Illia* is insured with the West of England Ship Owners Mutual Insurance Association (Luxembourg) (West of England Club). The Criminal Court in Comodoro Rivadavia has reached a preliminary decision that the spill originated from the *Presidente Illia*. The shipowner has appealed against this decision. The limit of liability of the owner of the *Presidente Illia* under the 1992 CLC is estimated to be 24 067 845 SDR (£23.2 million) and it seems likely that the total admissible damage caused by the spill will be within the shipowner's limit. The shipowner and the West of England Club maintain that the *Presidente Illia* did not cause the spill that impacted the coast. If they were successful in their appeal against the Court's decision, but it is established nevertheless that the spill came from a 'ship' as defined in the 1992 Civil Liability and Fund Conventions, the 1992 Fund would have to pay compensation from the outset.

For the purpose of the contingent liabilities, fees and other costs for 2010 have been estimated at £50 000.
