 INTERNATIONAL OIL POLLUTION COMPENSATION FUNDS	Agenda item: 5		IOPC/OCT11/5/6/1		
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	1992 Fund Assembly		92A16	•	
	1992 Fund Executive Committee		92EC53		
	Supplementary Fund Assembly		SA7		
	1971 Fund Administrative Council		71AC27		

2010 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 (1992 FUND)

Note by the Director

Summary:	As indicated in document IOPC/OCT11/5/6, the 1992 Fund Financial Statements and the Auditor's Report and Opinion are set out.
Action to be taken:	<u>1992 Fund Assembly:</u> Approval of 2010 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 2010. 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 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 2010. The Auditor's Report is at Annex III.
- 5 Under Financial Regulation 14.16 the External Auditor shall express an opinion on the financial statements on which he is reporting. This Opinion is at Annex IV.
- 6 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.
- 7 The 2010 Financial Statements have, for the first time, been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) as prescribed by Financial Regulation 12.1, adopted by the Administrative Council, acting on behalf of the Assembly at its session in October 2009 effective 1 January 2010.

8 The certified Financial Statements for the financial period 1 January to 31 December 2010 are at Annex V and consist of the following:

- Statement I Statement of Financial Position at 31 December 2010
- Statement II Statement of Financial Performance for the year ended 31 December 2010
- Statement III Statement of Changes in Net Assets for the year ended 31 December 2010
- Statement IV Statement of Cashflow for the year ended 31 December 2010
- Statement V Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2010

9 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 are attached.

10 **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 2010.

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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 2010

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 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 (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 2010 corresponded to £133 million and £201 million respectively, include the sum actually paid by the shipowner or his insurer (Protection and Indemnity Club – P&I Club).
- 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.
- 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

<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.

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 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.
- 1.7 By the end of 2010, 104 States were Members of the 1992 Fund (cf Attachment I).
- 1.8 The 2010 Financial Statements have, for the first time, been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) as prescribed by Financial Regulation 12.1, adopted by the Administrative Council, acting on behalf of the Assembly at its session in October 2009 effective 1 January 2010.

2 Secretariat

- 2.1 The 1992 Fund, the 1971 Fund and the Supplementary Fund together are referred to as the IOPC Funds. The IOPC Funds have a joint Secretariat, based in London, headed by one Director. The 1992 Fund administers the joint Secretariat. As at 31 December 2010 the Secretariat had 33 established posts.
- 2.2 Key management personnel consist of the Director, the Legal Counsel, the Heads of Departments (Claims Department, Finance and Administration Department and External Relations and Conference Department) and the Technical Adviser/Claims Manager. Related party disclosures in line with IPSAS requirements are included in the notes to the Financial Statements.
- 2.3 The Director, Mr Willem Oosterveen, has been on medical absence since 15 September 2010. The 1992 Fund Administrative Council, acting on behalf of the 1992 Fund Assembly, decided at its session in October 2010, to appoint Mr José Maura (Head of Claims Department) as Acting Director with full responsibilities and powers as set out in Article 29 of the 1992 Fund Convention (and of the 1971 Fund Convention and Article 16.2 of the Supplementary Fund Protocol). More recently at its March 2011 session it was decided to continue the interim arrangements up until the October 2011 sessions of the governing bodies or until the Director returns to perform his duties, whichever comes first. It was also decided that the Acting Director should *ex officio*, also be the Acting Director of the 1971 Fund and Acting Director of the Supplementary Fund.
- 2.4 The Funds use external consultants to provide advice on legal and technical matters as well as on matters relating to management.
- 2.5 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. Memorandum of Understanding (MoU) is entered into with the insurer detailing the obligation and liabilities of each party.
- 2.6 Local claims offices were in operation in 2010 with respect to the *Erika*, *Prestige* and *Hebei Spirit* incidents which ensured smooth communication between the Fund and the claimants, technical experts and lawyers with respect to the claims.

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 2010 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 2010 they met in February, May, September and December.

5 IPSAS Implementation

5.1 The IOPC Funds are not part of the United Nations (UN) system and therefore not obliged to follow the UN accounting standards in the preparation of its financial statements. However, each of the IOPC Funds governing bodies in the past have approved the use of the UN accounting standards, where appropriate, for the preparation of its Financial Statements.

5.2 The UN System Accounting Standards (UNSAS) were developed during the early 1990s to provide clear and consistent guidelines by which financial statements and accounts could be prepared for all organisations in the UN system. However, it has become increasingly apparent that maintaining a separate system of UN accounting standards would not be practical and would leave the UN system accounts out of step in format, content and accounting treatment with those applied elsewhere in the world in the profit and non-profit sectors.

5.3 The UN Task Force was given the responsibility to determine what accounting standards would be appropriate for the UN system and the Task Force recommended that IPSAS should replace UNSAS for all UN system organisations from 1 January 2010.

5.4 At its October 2007 session, the Assembly noted that the representative of the External Auditor in his Report on the 2006 Financial Statements had recommended that the Secretariat should submit a proposal to the Assembly, by its 2008 regular session, seeking the adoption, in principle, of International Public Sector Accounting Standards (IPSAS) by the IOPC Funds from the financial year 2010. The Assembly also noted that the move to IPSAS would result in changes to the format and content of the accounts of the IOPC Funds and that those changes would necessitate a review of the IOPC Funds' Financial Regulations, Internal Regulations and accounting policies to ensure compliance where appropriate with IPSAS. At its October 2009 session, the Administrative Council, acting on behalf of the Assembly, approved the adoption of IPSAS by the IOPC Funds from the financial year 2010.

5.5 The 2010 Financial Statements of the International Oil Pollution Compensation Fund 1992 (1992 Fund) have, for the first time, been prepared in accordance with IPSAS as prescribed by the 1992 Fund's Financial Regulation 12.1.

5.6 Several key financial definitions are presented below to enhance the usability and understanding of these financial statements:

- **Assets** are resources controlled by the 1992 Fund as a result of past events in which future economic benefits or service potentials are expected to flow to the 1992 Fund.
- **Liabilities** are present obligations arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.
- **Net assets** are the residual interest in the assets of the 1992 Fund after deducting all its liabilities.

- **Revenue** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.
- **Expenses** are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.
- **Non-exchange transactions** are those transactions for which the 1992 Fund either receives or gives value from or to another entity without directly giving or receiving approximately equal value in exchange.
- **Monetary items** are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency.
- **Surplus for the period** is the excess of all items of revenue over expense recognised in a period.

5.7 The purpose of financial statements under IPSAS is to provide an overview of an organisation's financial position at a point in time and financial performance over a period. They do not seek to analyse every item of expenditure, but rather to provide a higher-level view of the financial health and outlook which an organisation faces. 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. Under UNSAS there were separate income and expenditure accounts for the General Fund and for each Major Claims Fund and under IPSAS this is to be provided in the notes to the financial statements.

5.8 In accordance with IPSAS 1 (Presentation of Financial Statements), comparative information is encouraged to be disclosed in the financial statements of the first year of IPSAS adoption when practicable. The 1992 Fund has presented comparatives in the Statement of Financial Position which are represented by the opening balances at 1 January 2010.

5.9 The indirect method, in compliance with IPSAS 2, has been applied in the presentation of the cash flow statement.

5.10 The requirements of IPSAS 4 for converting foreign currency transactions and balances into the reporting currency have been the accounting policy and practice in the past and will continue.

5.11 Disclosure relating to operating lease commitments has been made in compliance with IPSAS 13.

5.12 In compliance with IPSAS19 (Provisions, Contingent Liabilities, Contingent Assets) a provision is made for all compensation claims approved by the relevant P&I Club and the Fund but not paid at the year-end. IPSAS 14 (Events after Reporting Date) the provision is adjusted by an amount for claims received prior to the year-end but only approved by the relevant P&I Club and the Fund in the period between the end of the financial year and when the final set of financial statements are signed.

5.13 All assets purchased subsequent to the first adoption date of IPSAS are recognised and capitalised in accordance with IPSAS 17.

5.14 Tangible assets held by the 1992 Fund on 1 January 2010, have not been valued taking into account the cost and administrative burden of valuing assets that have little or no commercial value. In order to ensure appropriate control and stewardship over the Property, Plant and Equipment purchased prior to the first date of adoption of IPSAS, which are still in use but not capitalised, records will continue to be maintained of these tangible assets and will continue to be made available to the External Auditor.

5.15 Related party disclosures in line with IPSAS 20 are included in the notes to the financial statements.

- 5.16 Under IPSAS, the accrual basis of accounting, revenues and expenses are recognised in the financial statements in the period in which they relate to. Contribution income is recognised as revenue when it falls due, typically on the 1 March of the financial year for which the assessment is made in accordance with IPSAS 23 (Revenue from Non-Exchange Transactions) and expenses are recognised when goods or services are delivered. The excess of revenue over expenses results in a surplus which is carried forward to the accumulated fund balances. These fund balances represent the unexpended portion of contributions to be utilised in future operational requirements of the Organisation.
- 5.17 Under IPSAS, the matching principle of revenue and expense does not apply for non-exchange transactions. The focus of IPSAS is the financial position which is evidenced by the recognition of assets when there is sufficient control and of liabilities when the criteria to recognise liabilities exists.
- 5.18 IPSAS 24 requires a comparison of budget amounts and the actual amounts arising from execution of the budget and also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts which are provided in the notes to the financial statements. Outstanding commitments for administration of the joint secretariat raised against accumulated fund balances do not meet the recognition criteria of expenses under the accrual principle outlined above. These commitments, from a budgetary point of view, are addressed through the provision of Financial Regulation 6.4 which allows the transfer of budget for committed items into the following financial year.
- 5.19 Accounting and disclosure for employee benefits have been made in line with IPSAS 25. Inclusion in the form of a provision in the financial statements is also made of accrued annual leave and repatriation costs for existing staff in compliance with IPSAS19 (Provisions, Contingent Liabilities, Contingent Assets).

6 Financial Risk Management

- 6.1 The IOPC Funds' risk register consists of the five areas of risk which have been identified, namely: reputation risk, claims handling process, financial risk, human resource management and business continuity. The sub-risks, the process and procedures for management of these risks have been mapped, assessed and documented. This exercise allows the IOPC Funds to prioritise the key risks and to ensure that these risks have been adequately mitigated and managed. Annual review is conducted by the management of the IOPC Funds' risk register and by the Audit Body of the Key Risk Register.
- 6.2 The 1992 Fund has established a framework of internal control as set out in the Statement of Internal Control (Annex II).
- 6.3 The 1992 Fund's risk management policies focus on securing the Fund's assets, maintaining sufficient liquid funds for the operation of the Fund, avoiding undue currency risks and obtaining a reasonable return. Financial risk is managed using the Internal Investment and Hedging Guidelines approved by the Director which has been developed in accordance with advice from the joint Investment Advisory Body. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of derivative financial instruments, and the investing of excess liquid funds.
- 6.4 At 31 December 2010, the majority of cash, cash equivalent and investments were denominated in Pound sterling. Euros were held in respect of the *Erika* and *Prestige* incidents and Korean Won in respect of the *Hebei Spirit* incident.
- 6.5 Non-Deliverable Forwards were used as an hedging instrument in 2010 with respect to requirement of Korean Won for the *Hebei Spirit* incident.
- 6.6 The 1992 Fund's credit risk is spread widely and its investment policy limits the amount of credit exposure to any one counterparty and includes minimum credit quality guidelines.
- 6.7 The investment guidelines on liquidity, states that the working capital, set by the Assembly in October

2004 at £22 million, should be available within three months to support operational requirements.

7 Financial Overview

7.1 Restatement of 2009 Financial Statements

- (a) Adoption of new accounting policies in the first set of financial statements to be prepared in accordance with IPSAS have resulted in changes to the assets and liabilities recognised in the Statement of Financial Position (previously Balance Sheet). The last audited Statement of Financial Position (Balance Sheet), dated 31 December 2009, has been restated and described in these financial statements as the Opening Balance 1.1.2010 (Restated) and the resulting changes are reported in Statement of Changes in Net Assets (**Statement III**).
- (b) The net effect of the changes in the Statement of Financial Position due to the adoption of IPSAS was a decrease in total net assets of some **£6.5 million** on 1 January 2010. Expenditure for 2009 was restated to include all expenditure relating to goods and services received in the financial year and income was restated to include all income earned in the financial year resulting in accruals, prepayments and receivables. Liabilities for employee benefits and compensation claims were provided for the first time.
- (c) The following adjustments were made:
- Accruals net of prepayments were created of some **£3 million** mainly in relation to claims related expenditure in respect of the *Hebei Spirit* incident (£2.6 million) and the *Prestige* incident (£0.2 million).
 - Initial recognition of Provision for Compensation amounting to some **£3.56 million** (£3.36 million for the *Erika* incident and some £0.2 million for the *Prestige* incident) was created.
 - Initial recognition of Employee Benefits amounted to some **£0.3 million**.
 - Interest income from investments (some £0.32 million) and interest on contributions overdue (£0.04 million) were included in interest earned in the financial period and therefore receivables were increased proportionately by some **£0.36 million**.

7.2 2010 Financial Statements – Statement of Financial Position (Statement I)

Assets and Liabilities

- (a) The 1992 Fund's cash assets at the end of the 2010 financial period amounting, to some £136.2 million, was held in Pounds sterling (57%), Euro (28%) and Korean Won (15%).
- (b) Outstanding contributions due to the 1992 Fund as at 31 December 2010 totalled £1 259 504 representing 0.30% of the total amount levied over the years (£421.6 million).
- (c) At its first session the 1992 Fund Assembly instructed the Director to carry out the tasks necessary for the setting up of the International Hazardous and Noxious Substances Fund (HNS Fund) as requested by the HNS Diplomatic Conference (document 92FUND/A.1/34, paragraph 31.1-31.3) on the basis that any related expenses would be treated as loans from the 1992 Fund. An amount of £181 545 (including interest) is due from the HNS Fund. This amount includes a loan of £8 214 from the General Fund made during the financial period 2010 mainly in relation to an update of the HNS brochure.
- (d) Other receivables include taxes recoverable from the United Kingdom Government and the French and Spanish Governments, reimbursement of which has been received in 2011.
- (e) Miscellaneous receivables mainly comprise of amounts to be reimbursed by the P&I Clubs for joint costs in relation to the *Prestige* and *Hebei Spirit* incidents.

- (f) Provision for compensation claims have been made for claims received before 31 December 2010, assessed and approved but not paid by 31 December 2010. Provisions have been made with respect to the *Erika* incident of some £3.07 million and some £163 000 for the *Prestige* incident.
- (g) Provision for employee benefits of some £340 000 has been made for accrued annual leave and separation benefits.
- (h) Contributors' account has a balance of £178 055 made up of net overpayments by contributors and reimbursement of contributions in accordance with the governing body's decisions.
- (i) The Staff Provident Fund Account had a balance of £2 530 554 on the accounts of staff members as at 31 December 2010. This balance reflects contributions to the Provident Fund during the financial year, withdrawals and repayments of housing loans, withdrawals on separation and interest earned (£77 408) on the investment of the assets of the Provident Fund (cf Note 16 to the financial statements).
- (j) The net assets position presented in Statement I shows a closing net balance position of £128 846 087, a decrease of £10 537 350 from the restated opening balance on 1 January 2010 of £139 383 437.

7.3

2010 Financial Statements – Statement of Financial Performance (Statement II)

Revenue and Expenses

- (a) As regards 2009 contributions, payable in 2010, the Administrative Council, acting on behalf of the Assembly, decided, at its session in October 2009, not to levy contributions to the General Fund and the *Erika* Major Claims Fund. In July 2010 the Director decided not to make any 2009 deferred levies[↔] authorised by the Administrative Council in October 2009, with respect to the *Prestige* and *Hebei Spirit* Major Claims Funds of £3.0 million and £52 million, respectively. The 2009 deferred levy to the *Volgoneft 139* Major Claims Fund was subject to the Executive Committee's decision authorising payments of compensation with respect to that incident. Since such a decision was not made in 2010 by the Executive Committee there was no 2009 deferred levy made with respect to the *Volgoneft 139* Major Claims Fund.
- (b) Contributions-in-kind is the reimbursement received from the United Kingdom Government of 80% of the rent of the Secretariat offices.
- (c) Sundry income (Note 20) includes £70 611 received in respect of distribution of the limitation fund set up for the N^o7 *Kwang Min* incident.
- (d) Compensation payments and claims-related expenditure during 2010 amounted to some £9 million (mainly claims-related expenditure). The payments related mainly to the following three incidents:

<i>Erika</i>	(£0.5 million) – Mainly claims-related expenditure.
<i>Prestige</i>	(£1.9 million) – Mainly claims-related expenditure.
<i>Hebei Spirit</i>	(£6.3 million) – Claims-related expenditure only
- (e) The total administrative expenses for 2010 in the Statement of Financial Performance is

[↔] The 1992 Fund operates a deferred invoicing system. Under that system the Assembly or Administrative Council, acting on behalf of the Assembly, 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.

£4 106 397 made up of staff and other personnel costs (£2 344 001), other administrative costs (£1 759 616) and depreciation and amortisation (£2 780). Included in the administrative costs presented in the Statement of Financial Performance is the portion of accommodation costs which has been reimbursed by the United Kingdom Government and a provision for employee benefits. Purchase costs of fixed assets are excluded, however, depreciation and amortisation (cost related to usage during the year) is included.

- (f) The budget of the joint Secretariat is prepared on a commitment basis, net of the accommodation costs reimbursable by the United Kingdom Government and the provision for employee benefits but including the cost of fixed assets and the External Auditor fees of £10 300 for the 1971 Fund and £3 600 for the Supplementary Fund, the total joint Secretariat expenses on a comparable basis to the budget amounts to **£3 722 654** (see paragraph (g) below). This amount is 7% less than the 2010 budget appropriation of **£4 019 450**.

	Chapter I Personnel £	Chapter II-VI Administrative costs £
Statement II (Statement of Financial Performance)	2 344 001	1 759 616
Accommodation costs reimbursed		(381 200)
Purchase of Fixed Assets		21 667
Adjustment to Provision for employee benefits (Note 13)	(35 330)	
External Auditor's fees -1971 Fund and Supplementary Fund		13 900
Statement V(Statement of Comparison of Budget and Actual Amounts)	2 308 671	1 413 983

- (g) Expenses for running the joint Secretariat were made under six Chapters as set out in the table below:

Any excess expenditure resulting in revised budget appropriations have been met by budgetary transfers, as provided in Financial Regulation 6.3. One transfer with respect to the Audit Body did not fall within the Director's authority under Financial Regulation 6.3 but was authorised by the 1992 Fund Administrative Council, acting on behalf of the Assembly, at its October 2010 session.

Chapter	2010 budget appropriations £	2010 revised budget appropriations £	2010 Budget Out-Turn £	Underspend /(Overspend) in %
I Personnel	2 504 150	2 477 004	2 308 671	7.8
II General services	744 900	744 900	716 899	3.8
III Meetings	150 000	150 000	130 219	13.2
I Travel	150 000	150 000	95 397	36.4
V				
V Miscellaneous expenditure	410 400	457 205	457 205	(11.4)
V Unforeseen				
I expenditure	60 000	40 341	14 263	76.2
Total	4 019 450	4 019 450	3 722 654	

I Personnel

Expenditure under Personnel covers salaries, separation and recruitment and staff benefits/allowances and training and accounts for 62% of the total administrative expenditure. The provision for employee benefits amounting to £340 189 (Statement II) is not included in the budget out-turn figure.

II *General services*

Of the expenses under this Chapter some 42% relates to Office accommodation and some 31% to Public Information. The Secretariat office premises are subject to an operating lease which expires on 24 March 2015. The United Kingdom Government meets 80% of the costs related to the rental of the offices. Expenditure incurred under Public Information included development work on the Decisions Database and on the pilot Online Oil Reporting System plus costs associated with the IOPC Funds' publications.

The budget out-turn includes the cost of purchase of fixed assets and software amounting to £21 667 whereas the Statement of Financial Performance (**Statement II**) includes only the depreciation and amortisation cost of £2 780 in line with IPSAS.

Costs under this Chapter make up 19% of the total administrative expenditure.

III *Meetings*

The IOPC Funds governing bodies held eight days of meetings in 2010. The meeting scheduled to be held in April 2010 was cancelled due to global travel disruptions due to volcanic ash emanating from Iceland. However, as the meeting was cancelled with relatively short notice the costs related to the April 2010 meeting ie interpreters, translators, printing and posting documents were incurred.

IV *Travel*

Where possible, travel cost to various conferences and seminars and to hold workshops on claims handling is shared with travel in relation to incidents. 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.

V *Miscellaneous expenditure*

Expenses incurred in relation to the Audit Body under this heading (£171 459) exceeded the budget appropriation (£138 000) due mainly to an increase in travel costs for members of the Audit Body. Some of the overspend was met with a transfer from Chapter VI (Unforeseen).

VI *Unforeseen expenditure*

The expenses under this heading relate to the consultancy costs associated with the study on the definition of the ship which was approved by the 1992 Fund Administrative Council at its session in October 2010 but not included in the budget.

7.4 General Fund and Major Claims Funds' Balances

The General Fund balance at the balance sheet date was £24 974 554, which is higher than the working capital of £22 million set by the Assembly at its October 2004 session.

The balances on the three Major Claims Funds set up for the three incidents involving the 1992 Fund are as follows:

	£
<i>Erika</i> Major Claims Fund	45 585 017
<i>Prestige</i> Major Claims Fund	19 795 253
<i>Hebei Spirit</i> Major Claims Fund	38 491 263

7.5 The contingent liabilities as at 31 December 2010 were estimated at over £187.3 million in respect of six incidents as detailed in **Note 27**.

7.6 Sustainability


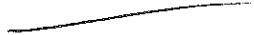
The 1992 Fund Convention provides the Assembly the authority to levy contributions that may be required to balance the payments to be made by the 1992 Fund. It also places an obligation on the contributors to make payment by a due date or bear interest on any arrears.

Based on the net assets held at the end of the period and the generally high percentage of receipt of the contributions levied by the due date, the going concern basis has been adopted in preparing the 1992 Fund's Financial Statements.

7.7 External Auditor's Recommendations from previous financial years and for 2010

The External Auditor's recommendations for the 2010 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.



Jose Maura
Acting Director
24 June 2011

* * *

Attachment I

**States Parties to both the
1992 Civil Liability Convention and the 1992 Fund Convention
as at 31 December 2010 (104 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 Administrative Region) ^{<1>}	Latvia	Slovenia
Colombia	Liberia	South Africa
Comoros	Lithuania	Spain
Congo	Luxembourg	Sri Lanka
Cook Islands	Madagascar	Sweden
Croatia	Malaysia	Switzerland
Cyprus	Maldives	Syrian Arab Republic
Denmark	Malta	Tonga
Djibouti	Marshall Islands	Trinidad and Tobago
Dominica	Mauritius	Tunisia
Dominican Republic	Mexico	Turkey
Ecuador	Monaco	Tuvalu
Estonia	Morocco	United Arab Emirates
Fiji	Mozambique	United Kingdom
Finland	Namibia	United Republic of Tanzania
France	Netherlands	Uruguay
Gabon	New Zealand	Vanuatu
	Nigeria	Venezuela

**1 State which has deposited an instrument of accession, but for which
the 1992 Fund Convention did not enter into force until date indicated**

Benin

5 February 2011

<1> The 1992 Fund Convention applies to the Hong Kong Special Administrative Region only.

Attachment II

RECOMMENDATIONS MADE BY EXTERNAL AUDITOR IN MAIN REPORT

SUMMARY RECOMMENDATIONS AND RESPONSE

FINANCIAL STATEMENTS 2009

<u>Recommendations from External Auditor</u>	<u>Response from IOPC Funds' Director</u>	<u>Status</u>
<p><u>Recommendation 1:</u> 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.</p>	<p>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.</p>	<p><i>Weekly and monthly meetings of the management team provide assurance to the Director of the presence of an effective internal control system. In consultation with the External Auditor a note to this effect has been included in the Statement of Internal Control.</i></p>
<p><u>Recommendation 2:</u> 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.</p>	<p>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</p>	<p><i>New payroll system in use from January 2011.</i></p>

<p>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.</p>	<p>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.</p>	<p><i>The Audit Body will report to the October 2011 sessions of the governing bodies steps taken by the Secretariat in relation to this matter.</i></p>
<p>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.</p>	<p>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.</p>	<p><i>The Audit Body will report to the October 2011 sessions of the governing bodies steps taken by the Secretariat in relation to this matter.</i></p>

<p><u>Recommendation 4:</u> 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.</p>	<p>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.</p> <p>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.</p>	<p><i>Implemented.</i></p>
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<p><u>Recommendation 5:</u> 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.</p>	<p>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.</p>	<p><i>Implemented.</i></p> <p><i>The first set of IPSAS compliant financial statements were prepared for 2010 with the assistance of the External Auditor and the external expert of Audit Body. The Secretariat will continue to keep the format of financial statements under review.</i></p>
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FINANCIAL STATEMENTS 2010

<u>Recommendations from External Auditor</u>	<u>Response from IOPC Funds' Director</u>	<u>Status</u>
<p><u>Recommendation 1:</u> In advance of each year end, we recommend that the Secretariat formally review its financial statement presentation and accounting policies and present the results of its review for the Audit Body's consideration.</p>	<p>It is normal practice to undertake a review of the financial statements presentation and accounting policies during the financial year and to discuss any matters with the External auditor at the planning meeting. For completeness the process can be formalised and the results presented for review by the Audit Body prior to the commencement of the external audit.</p>	
<p><u>Recommendation 2:</u> The Secretariat should examine and report to the Audit Body on the changes necessary to prepare full accruals based budgets for future financial periods.</p>	<p>In all the preparatory work leading up to the implementation of IPSAS both the Audit Body and governing bodies were notified that the budgets would continue to be prepared on a cash basis.</p> <p>In relation to the joint Secretariat budget this has always been prepared in a modified accrued basis with the cost of the assets purchased shown rather than depreciation and amortization cost of the assets. In addition the portion of accommodation cost which is reimbursed by the United Kingdom Government and the provision for employee benefits are not included. It would be possible to prepare the joint Secretariat budget on an accrued basis and the Secretariat will consider this for future financial periods.</p> <p>In relation to claims and claims related expenses in accordance to the IOPC Funds' Financial Regulations these expenses have always been budgeted on estimates; and assessments made of the income required to meet these estimates. Given the unpredictability of when compensation</p>	

	<p>payments will be made it will be difficult to prepare a full accrual based budget for claims and claims related expenses. Provisions made for compensation will be taken into account in preparing the assessment of contribution required to meet claims and claims related expenses.</p>	
<p><u>Recommendation 3:</u></p> <p>a) the Secretariat should now follow up on the work it performed to establish the compensation provision to improve the audit trail demonstrating the offers made and those not accepted by the claimants; and</p> <p>b) the Secretariat should regularly follow up on claimants responses to resolve outstanding claims.</p>	<p>Having created compensation provisions for both the <i>Erika</i> and <i>Prestige</i> incident the Secretariat shall continue to improve the audit trail as recommended. Both incidents are old and in relation to the <i>Erika</i> incident all the outstanding claims for compensation are either in court or have been settled by third parties. The new web based claims management system (WCMS) not available at the time of the <i>Erika</i> and <i>Prestige</i> incidents will assist in the audit trail for future incidents such as the <i>Hebei Spirit</i> incident.</p> <p>The Secretariat does indeed follow up on outstanding claims. Going forward the claims for which a provision has been made will be actively reviewed by management through the year.</p>	

<p><u>Recommendation 4:</u> The Secretariat should develop an aged claims profile to assist in the monitoring of the compensation provision. Such an aged analysis would assist the Secretariat to monitor the claims due to be time barred and exclude them from the provision.</p>	<p>The WCMS database being used for the <i>Hebei Spirit</i> incident has the facility to develop bespoke reports such as aged claims profile. Reports to manage claims approved by both the shipowner's Club and the Fund, but not paid is already available on the WCMS and will assist with monitoring compensation provision for this incident. Additional reports will be developed in 2011 to facilitate management of compensation provision.</p> <p>In relation to the <i>Erika</i> and <i>Prestige</i> incidents as set out above the schedule of claims provision will be reviewed periodically by management. The reason for exclusion additions from a new schedule will be made available to the External Auditor during the audit.</p>
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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 1992 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.

Interim arrangements for Acting Director in 2010 and 2011

The Director, Mr Willem Oosterveen, has been on medical absence since 15 September 2010. At its session in October 2010, the 1992 Fund Administrative Council, acting on behalf of the 1992 Fund Assembly decided to appoint Mr José Maura as Acting Director with full responsibilities and powers as set out in Article 29 of the 1992 Fund Convention (and of the 1971 Fund Convention and Article 16.2 of the Supplementary Fund Protocol) until the Director returned to perform his duties or the extraordinary session of the 1992 Fund Assembly to be held from 28 March 2011 to 1 April 2011 in Marrakech, Morocco; whichever occurred first. At the same session the 1992 Fund Administrative Council decided that the Acting Director should *ex officio*, also be the Acting Director of the 1971 Fund and Acting Director of the Supplementary Fund.

At its session held in Marrakech, Morocco during the week of 28 March 2011, the 1992 Fund Administrative Council, acting on behalf of the 1992 Fund Assembly, decided to extend the Acting Director's term up until the October 2011 sessions of the governing bodies or until the Director returns to perform his duties,

whichever occurs first. At the same session the 1992 Fund Administrative Council decided that the Acting Director should *ex officio*, also be the Acting Director of the 1971 Fund and Acting Director of the Supplementary Fund.

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 Management Team meets normally on a weekly basis to exchange information and to brief the Director and the rest of the team on matters that may require particular attention. The Management Team also meets on a monthly basis to discuss substantive matters of policy and work. Monthly meetings are minuted and these minutes are held by the Director's Personnel Assistant. Both sets of meetings provide the necessary forum where Management Team members entrusted with specific areas of responsibility can discuss issues including internal control and risks arising in the Organisation. The Director obtains assurance from these meetings that there are sufficient internal controls in place and that the risks are mitigated and managed across the Organisation.

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 the Director, 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 2010 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 made 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 2010.


Jose Maura
Acting Director
24 June 2011

* * *



National Audit Office

June 2011

International Oil Pollution Compensation 1992 Fund

Report on the 2010 Financial Statement audit

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

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. We audit the accounts of all central public sector bodies as well as a number of international organizations. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

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Executive summary

Introduction

1 The External Auditor provided an *unqualified audit opinion* on the 2010 financial statements which present fairly, in all material respects, the financial position of the 1992 Fund as at 31 December 2010 and the results for the year then ended and have been properly prepared in accordance with International Public Sector Accounting Standards and the Financial Regulations authorised by the Fund's Assembly.

2 The 2010 financial statements of the International Oil Pollution Compensation Fund are the first to be prepared using the International Public Sector Accounting Standards (IPSAS) and an unqualified opinion represents the successful culmination of additional effort and commitment by the staff at the Secretariat.

3 The efforts of the Secretariat in successfully moving to an internationally recognised accounting framework represents a change in the way the 1992 Fund is run and provides the basis for improved financial decision making. The audited IPSAS-based financial statements offer the 1992 Fund Assembly and management better financial information to analyse operational results and evaluate financial management. In simple terms, IPSAS provides improved management information.

4 Preparing one set of IPSAS compliant accounts is not the end of the story. The Secretariat will now need to prepare compliant accounts on an annual basis for the 1992 Fund. The disciplines need to be embedded in the routine management functions of the Secretariat.

5 The improved accounting framework will also require a higher level of scrutiny from the Audit Body to provide a robust level of challenge to management on the results of the operations for the year as disclosed in the financial statements and what these mean for the 1992 Fund.

Overall results of the audit

6 We have audited the financial statements of the 1992 Fund in accordance with the Financial Regulations and in compliance with International Standards on Auditing.

7 The audit revealed no weaknesses or errors which we consider material to the accuracy, completeness and validity of the financial statements. The audit opinion confirms that these financial statements present fairly, in all material respects, the

state of the Fund's affairs as at 31 December 2010 and of its deficit, changes in net assets/equity and cash flows for the year then ended.

8 The audit confirms that the financial statements have been prepared in accordance with the stated accounting policies and, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by the Fund's Assembly.

9 The audit included a general review of the 1992 Fund's accounting procedures, an assessment of internal controls that impact on our audit opinion; and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures are designed primarily for the purpose of forming an audit opinion.

10 The audit work did not involve a detailed review of all aspects of the Fund's budgetary and financial information systems, and the results should not be regarded as a comprehensive statement on them. Finally, an examination was carried out to ensure that the financial statements accurately reflected the 1992 Fund's accounting records and were fairly presented.

11 The main observations and recommendations from our audit are set out below. Our recommendations are summarised in **Annex A**. Action taken by management in response to our 2009 recommendations is set out at **Annex B**.

Financial review

Financial overview

1.1 Comparing the 2010 financial statements with those of previous years reveals significant changes and improvements in the presentation of financial information. There are also more subtle changes relating to the recognition and valuation of financial transactions, and other disclosures in the accounts. This shows the extent of improved financial reporting resulting from compliance with IPSAS, which provides more focused, high level management information and analysis which will materially assist the Fund's Assembly in exercising its governance responsibilities.

1.2 Notable changes arising from the implementation of IPSAS include: the presentation of entity financial statements and the inclusion of the liability for compensation awards approved for payment (£3.24 million); the recognition of accrued expenses for the year (£1.57 million); and the recognition of the full liability for employee benefits (£340,000) in the Statement of Financial Position and funded by the General Fund.

1.3 In preparing its Statement of Financial Performance the International Oil Pollution Fund has utilised IPSAS transitional provisions which allow for the omission of comparative information in the first year of accounting under IPSAS.

1.4 Total revenue earned in 2010 was £2.88 million. The most significant element of revenue was assessed contributions of £772,000 and £1.30 million from the interest earned on investments. This represents all income accrued in 2010, including interest earned up to 31 December 2010 not yet received. This demonstrates the real income generated from the assets held.

1.5 Total expenses in 2010 were £13.42 million; this represents the value of goods and services received by the 1992 Fund during 2010 rather than the level of commitments entered into as previously reported. This basis of accounting makes the expenditure year-on-year comparable as it demonstrates the real consumption of resources rather than a combination of the resources consumed and commitments entered into.

1.6 The Statement of Financial Position demonstrates that the 1992 Fund had net assets of £128.85 million (2009: £139.38 million). This was represented by total assets of £138.80 million (2009: £149.18 million) and total liabilities of £9.95 million (2009: £9.80 million).

1.7 Contingent liabilities, which are commitments whose existence will be only confirmed by the occurrence or non-occurrence of one or more uncertain future events, which are not wholly within the control of the 1992 Fund, are disclosed within the notes to the financial statements and not included within liabilities. At 31 December 2010, the 1992 Fund estimated its contingent liabilities at £187.37 million (2009: £378.5million). These reflect the maximum amounts the Secretariat believe the 1992 Fund may need to payout in the future. These liabilities have not yet crystallised and additional levies would be raised to meet these liabilities should they crystallise.

1.8 Overall, the 1992 Fund currently has sufficient assets to meet its current existing liabilities.

Detailed financial review

Revenue - assessed contributions

1.9 The assessed contributions from contributors were £772,000. No levy was approved for collection in 2010, whereas the governing bodies had approved a levy of £10 million for collection in 2009.

1.10 Contributions in 2010 were received following the receipt of late oil reports from contributors, which allowed the Secretariat to raise invoices for earlier approved levies. The 1992 Fund recognises revenue on late oil reports at the invoice date.

Revenue – investment income

1.11 The 1992 Fund holds a significant balance of cash and cash equivalents as the Secretariat aim to manage their cashflow and ensure they have sufficient funds to pay compensation claims and other claims related expenditure as they fall due. The level of demand is difficult to predict as it largely depends on the number of qualifying oil spills. Cash holdings in advance of immediate need are invested on the short-term money market. In 2010, investment income of £1.30 million (2009: £5.3 million) was earned. This significant reduction in investment income is largely explained by the fall in the market rate since 2008 and when the 2009 investments were established.

Expenses

1.12 The Statement of Financial Performance presents total expenses of £13.42 million which are disclosed by category of expenditure. This demonstrates the share of staff costs which was previously disclosed within the Secretariat expenses. Salaries and employee benefits in 2010 amounted to £2.34 million which represents 18 per cent of the 1992 Fund's total expenditure and 63 per cent of the running costs (Staff costs, Other Admin costs). The staff costs now include the costs of employee benefits accrued in the year; this amounts to £35,330 for 2010.

1.13 Other expenses which are newly included are:

- the movement on the compensation provision, which is disclosed within the compensation claims. The reduction in the provision amounts was £331,000 in 2010. This reflects the release of the provision in 2010 offset by additional claims approved but not yet paid;
- claims related expenses were previously disclosed on a cash basis and now includes all costs accruing in relation to the management of incident claims;
- the finance cost of £31,000 of a hedging instrument, which represents the cost of the Korean Won Non-Deliverable Forward. This relates to the hedging instrument set up to limit the exposure risk to Korean Won denominated liabilities for the *Hebei Spirit* incident); and
- depreciation and amortization charge for the consumption of non-current assets.

1.14 Total running costs expenditure (Staff and Administration) on an accruals basis, under IPSAS, for 2010 is £4.10 million, this compares with £3.72 million on a modified cash basis under UNSAS (Statement V and Note 24). This demonstrates the additional full annual cost of the 1992 Fund's activities which was not previously visible.

Statement of financial position

1.15 At 31 December 2010, the 1992 Fund held assets of £138.80 million (2009: £149.18 million), including £136.25 million cash and cash equivalents and £1.26 million for contributions receivable. Total liabilities were £9.95 million (2009: £9.80 million). The four most significant liabilities were:

- the provision for compensation of £3.24 million; this reflects the level of claims approved in 2010 but not yet paid;
- pre-paid contributions of £2.10 million against levies of £50 million on the *Hebei Spirit* and levies of £3.8 million for the General Fund. The contributions are due by 1 March 2011 and certain contributors have paid in advance of the due date;
- the balance of the Staff Provident Fund (£2.53 million) which represents the balance of contributions to the Provident Fund, less any withdrawals and housing loans made; and
- other liabilities of £1.67 million which will fall due in 2011 against resources which can be used for settling these liabilities of some £138.80 million.

1.16 In addition to these liabilities, the 1992 Fund has contingent liabilities at 31 December 2010 of £187.3 million (2009: £378.5 million). These reflect the maximum amounts the Secretariat believe the 1992 Fund may need to payout in the future. These liabilities have not yet crystallised and additional levies would be raised to meet these liabilities should they crystallise.

Cash

1.17 At 31 December 2010, 1992 Fund held cash and cash equivalents of £136.25 million (2009: £147.49 million) which generated interest income of £1.30 million (2009: £5.6 million) during the year. This is a comparatively low return compared to the previous year, which is largely explained by the fact that most investment income in 2009 was generated by investments set up in 2008 when the base rate was a lot more favourable, and matured in 2009.

1.18 The joint Investment Advisory Body (IAB) is responsible for providing regular reviews of investment guidelines, including the established limits for investments. The IAB recommends criteria for the Secretariat to follow and provides advice on investments. More specifically, the IAB ranks financial institutions so that the IOPC Funds can know which bank to place deposits into, and monitors the cash and investments of the Funds to ensure they are consistent with the agreed policies. The IAB also monitors the currency requirements. It has established benchmark requirements for each currency and determines whether any investments need to be made to meet currency demands.

1.19 At 31 December 2010, the 1992 Fund had foreign currency exposure of £38.9 million held in Euro (29 per cent of the Fund's cash balance), £20.3 million held in Korean Won (15 per cent of the Fund's cash balance). The current foreign currency exposure does not exceed the limits recommended by the IAB. The Euro holdings represent approximately 50 per cent of the total estimated requirement for that currency and the Korean Won holding represents 20 per cent of the Fund's estimated total requirement for that currency.

1.20 The 1992 Fund reported a foreign currency exchange loss of £615,000 in 2010. This exchange loss was as the result of year-end translation of balances into the Fund's reporting currency (pounds sterling) and it was unrealised at year-end,

Employee benefits

1.21 The 1992 Fund provides benefits for its employees; these are paid on retirement or termination of employment. The right to these benefits is earned once an employee has completed a qualifying period of employment. At 31 December 2010, the 1992 Fund's obligation to make future payments to existing and former staff is £340,000. £111,000 is accrued for annual leave not yet taken by Secretariat staff and £229,000 for separation benefits for eligible staff.

Statement V – Comparison of budget and actual amounts

1.22 The Financial Regulations require the 1992 Fund to report expenditure against its budget appropriation for the year. Where budgets are published, IPSAS requires this to be reported in the annual financial statements. The 1992 Fund prepares an annual budget which is published in the budget document supporting the annual budgets approved by the governing bodies and this has been presented in the financial statements for 2010.

1.23 The Statement of Comparison of Budget and Actual Amounts (Statement V) is a means to measure the Fund's performance against its budget. Overall the 2010 annual budget was not fully utilised, demonstrating a £297,000 underspend against budget.

Cases of fraud or presumptive fraud

1.24 Responsibility for the prevention and detection of fraud rests with the management of the 1992 Fund. Under the terms of reference governing the External Audit we are required to bring to the notice of the 1992 Fund Assembly any cases of fraud or presumptive fraud reported to us by management of the 1992 Fund.

1.25 There are no reported cases of fraud to report.

Implementation of International Public Sector Accounting Standards

Introduction

2.1 The financial statements for the year ended 31 December 2010 are the first to be prepared under the International Public Sector Accounting Standards (IPSAS). The External Auditor provided an *unqualified audit opinion* on this first set of IPSAS compliant financial statements, representing a major achievement for the International Oil Pollution Compensation Fund as one of the early IPSAS adopters. The move to IPSAS represents a significant achievement and is the result of considerable management time and effort.

2.2 The IPSAS framework is more prescriptive than the previous UNSAS reporting framework. This has led to significant changes in the presentation, format, terminology and accounting treatments of certain transactions. The implementation of IPSAS has strengthened the overall quality of financial reporting, providing more comprehensive information and greater transparency over the use of resources. Improved financial information will help the organisation better assess its financial health and help longer-term financial decision making.

Preparation of IPSAS financial statements

2.3 The Secretariat demonstrated commitment to the implementation of IPSAS throughout the process, responding to in-year recommendations of the External Auditor and preparing the restated 2009 balances ahead of the 2010 financial statements. This provided valuable experience for management in preparing IPSAS compliant financial statements to make the year-end close a smoother experience than it would otherwise have been.

2.4 The restated 2009 closing balances were provided for review to the External Auditors in December 2010. Detailed testing of the restated balances identified the need for further adjustments to the compensation provision of £45,852, due to the adjustment to five claims. This has since been corrected by the Secretariat.

2.5 The annual financial statements were presented for audit as scheduled in March 2011. Significant amendments were agreed with the Secretariat during the course of the audit, resulting in enhancements to the format and presentation of the financial statements and supporting notes.

Key changes as a result of IPSAS

Format of the financial statements

2.6 There are key differences between the accounts produced under IPSAS and those previously produced by the Secretariat. The following sections of the report detail key changes, and some of their consequences.

2.7 There are now five primary statements supported by notes to provide further explanations on the policies adopted and to explain the composition of key balances. These are the:

- Statement of Financial Position as at 31 December 2010, which shows all the assets and liabilities of the 1992 Fund;
- Statement of Financial Performance for the year ended 31 December 2010. This statement shows all the revenue and expenses for the year;
- Statement of Changes in Net Assets/Equity for the year ended 31 December 2010, summarising the residual interest in the assets of the 1992 Fund, after deducting all liabilities;
- Statement of Cash Flow, to provide details of how cash resources have been utilised during the year; and
- Statement of Comparison of Budget and Actual Amounts, showing expenditure against budget appropriations on the basis on which the budget was approved.

Segmental reporting

2.8 IPSAS 18, 'Segment Reporting' requires the separate disclosure of distinguishable activity streams of an entity, detailing separate financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. Note 26 details the segmental financial reporting for the distinguishable streams of activity, these are:

- the **General Fund** includes the 1992 Fund's expenses for the administration of the Organisation and for compensation payments and claims-related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million Special Drawing Rights per incident (Financial Regulation 7.1(c)(i)) converted at the rate applicable on the date of the incident. Working capital is maintained within the General Fund;

- the **Erika Major Claims Fund** was established in 2001 to account for the revenues and expenses related to the claims for compensation against the *Erika* incident in France;
- the **Prestige Major Claims Fund** was established in 2003 to account for the revenues and expenses related to the claims for compensation against the *Prestige* incident in Spain; and
- the **Hebei Spirit Major Claims Fund** was established in 2008 to account for the revenues and expenses related to the claims for compensation against the *Hebei Spirit* incident in the Republic of Korea.

Restatement of the opening balances

2.9 IPSAS has required some significant changes to accounting policies; these changes have resulted in the adjustments in the opening balances at 1 January 2010 as reported in Note 2. The significant adjustments include:

- the recognition of the compensation provision of £3.56 million for claims approved for payments but not yet accepted by the claimant, in line with the requirements of IPSAS 19 'Provisions, Contingent Liabilities and Contingent Assets';
- the recognition of the employee benefits liability for separation benefits and annual leave of £305,000 split between the current and non-current elements;
- the adjustment to the investment income to recognise £321,000 for the interest accrued on investments from the investment commencement date up to 31 December 2009;
- the adjustment to the interest receivable on overdue contributions to recognise £44,000 for contributions still outstanding at 31 December 2009;
- the adjustment of Payables and Accruals to remove obligations for which no associated good or service was received in 2009, consistent with the accruals basis of accounting or which do not meet the definition of a liability as set out in IPSAS 1 'Presentation of Financial Statements'; and
- the recognition of prepayment assets of £95,000 for goods and services paid for in 2009 but not received by 31 December 2009.

2.10 Overall the restatement of opening balances has resulted in a decrease of £6.52 million to the reserves balance, from £145.9 million to £139.4 million. This decrease is primarily the result of the first time recognition of liabilities which the 1992 Fund will be required to meet. The positive balance of reserves demonstrates that the 1992 Fund has sufficient total resources to meet its current obligations. Contingent liabilities at 31

14 Implementation of International Public Sector Accounting Standards Report on the 2010 Financial Statement audit

December 2009 amount to £378.5million. These reflect liabilities that have yet to crystallise.

Changes in accounting treatment

2.11 With the implementation of IPSAS and the revisions that have been necessary to the accounting policies, the accounting treatment of many transactions has changed to reflect the accruals basis of accounting. The significant changes are set out below:

- the recognition of contribution income from the date it is actually receivable rather than the 'Due date' stated on the invoice;
- the adjustment to the investment income to recognise the interest accrued on investments to 31 December 2010;
- the adjustment to the interest receivable on overdue contributions to recognise the on-going accruing interest for contributions outstanding at 31 December 2010;
- expenses related to the cost, or estimated cost, of all goods and services received in 2010. Expenditure on Property, Plant and Equipment, intangible assets and inventory is recorded in the Statement of Financial Position and released annually on consumption;
- the recognition of the liabilities arising in the year, in line with the requirements of IPSAS 19 'Provisions, Contingent Liabilities and Contingent Assets';and
- in-kind contributions and expenditure which can be reliably measured are now recognised in the financial statements to reflect the value of goods and services provided to the 1992 Fund for no consideration. The in-kind contributions include the UK Government's subsidy for the London headquarters rent.

2.12 The changes in accounting treatment of the above transactions result in a more transparent set of financial statements which provide the full costs of operations and will be comparable year-on-year. This improved comparability allows the 1992 Fund Assembly and users to judge the overall performance of the 1992 Fund rather than just the performance against the approved budget.

Further steps

2.13 The financial statements are considered to be IPSAS compliant but to continue to improve on reporting management should review the financial statements each year to ensure they remain relevant, useful, and apply to the circumstances of the Organization. As a first step of this continual self-review the Secretariat's review should include the consideration of the following areas:

- Accounting Policies – the Secretariat should continually review its adopted accounting policies to ensure that they remain applicable to the circumstances of the 1992 Fund. The Secretariat should also systematically identify the impact of any new transaction streams on its adopted accounting policies;
- Segmental Reporting – the Secretariat should consider whether the current segments will remain the most appropriate for the 1992 Fund in future years and whether they provide the most relevant information possible to the users of the financial statements; and
- Related Parties – the Secretariat should annually review the related party disclosure to ensure that they remain relevant and complete.

Recommendation 1: In advance of each year end, we recommend that the Secretariat formally review its financial statement presentation and accounting policies and present the results of its review for the Audit Body's consideration.

Benefits of IPSAS so far

2.14 The work management has performed in preparing the Funds for IPSAS has led to tangible benefits. The major benefit so far is the more accurate reflection of the compensation activity in the year through the inclusion of the compensation provision.

2.15 Previously, compensation reported in the financial statements would have only included claims approved and paid. The financial statements now reflect all claims approved but not yet paid, which more accurately reflects the level of activity in the year.

Developing the benefits of IPSAS

Introduction

3.1 The transition to the International Public Sector Accounting Standards has provided a transparent set of financial statements which provide the 1992 Fund Assembly and other users with better financial information for decision making. The information is considered to be more reliable as it is based on events which occurred in the year and the resulting benefit or cost to the 1992 Fund.

3.2 The first stage of the implementation of IPSAS is now complete with the successful production of these first set of financial statements. However to realise further benefits the Secretariat should capitalise on the momentum and continue to embed the changes within the 1992 Fund so the Secretariat and 1992 Fund Assembly can use the improved information as a basis for informed decision making.

Budgeting

3.3 At present the budget which the Secretariat is held accountable for is prepared on a modified cash basis. The Secretariat should develop its budget on an accruals basis to align the financial reporting and budgeting processes.

3.4 The benefit of aligning the budgeting and reporting processes will be the transparent link provided for the review of performance of the Funds' utilisation of the resources allocated. In approving the budget on this basis, the governing bodies will be able to hold the Secretariat more accountable for the level of resources required to deliver its programmes.

Recommendation 2: The Secretariat should examine and report to the Audit Body on the changes necessary to prepare full accruals based budgets for future financial periods.

Compensation provision

3.5 As a result of the implementation of IPSAS a significant review of approved claims was performed to identify the level of claims that have been approved for payment by the 1992 Fund but are still awaiting the claimants' responses to accept the offer.

3.6 The Secretariat has recognised a provision of £3.27 million in its financial statements as the balance of unpaid approved claims. It has been difficult for management to verify the validity of these claims due to the age of the claims and the restricted access to files as certain documentation is held overseas, or in archives.

Recommendation 3: a) the Secretariat should now follow up on the work it performed to establish the compensation provision to improve the audit trail demonstrating the offers made and those not accepted by the claimants; and b) the Secretariat should regularly follow up on claimants responses to resolve outstanding claims.

Recommendation 4: The Secretariat should develop an aged claims profile to assist in the monitoring of the compensation provision. Such an aged analysis would assist the Secretariat to monitor the claims due to be time barred, and exclude them from the provision.

Follow up to audit recommendations for 2009

3.7 In our previous report, we made a number of recommendations on financial management, governance and project management. As part of our work we have reviewed the progress that the Secretariat has made in implementing these recommendations and are pleased to report that all recommendations have been, or are in the process of being, implemented. The detailed follow up, including both the response from the Secretariat and our comments thereon, is set out in Annex B.

Acknowledgement

4.1 We wish to record our appreciation for the co-operation and assistance provided by the Director, Acting Director and the Secretariat staff during our audit.


Amyas G E Morse

Comptroller and Auditor General, United Kingdom

External Auditor

30 June 2011

Annex A - summary of audit recommendations for 2010

Recommendation 1: In advance of each year end, we recommend that the Secretariat formally review its financial statement presentation and accounting policies and present the results of its review for the Audit Body's consideration.

Management response: It is normal practice to undertake a review of the financial statements presentation and accounting policies during the financial year and to discuss any matters with the External auditor at the planning meeting. For completeness the process can be formalised and the results presented for review by the Audit Body prior to the commencement of the external audit.

Recommendation 2: The Secretariat should examine and report to the Audit Body on the changes necessary to prepare full accruals based budgets for future financial periods.

Management response: In all the preparatory work leading up to the implementation of IPSAS both the Audit Body and governing bodies were notified that the budgets would continue to be prepared on a cash basis.

In relation to the joint Secretariat budget this has always been prepared in a modified accrued basis with the cost of the assets purchased shown rather than depreciation and amortization cost of the assets. In addition the portion of accommodation cost which is reimbursed by the United Kingdom Government and the provision for employee benefits are not included. It would be possible to prepare the joint Secretariat budget on an accrued basis and the Secretariat will consider this for future financial periods.

In relation to claims and claims related expenses in accordance to the IOPC Funds' Financial Regulations these expenses have always been budgeted on estimates; and assessments made of the income required to meet these estimates. Given the unpredictability of when compensation payments will be made it will be difficult to prepare a full accrual based budget for claims and claims related expenses. Provisions made for compensation will be taken into account in preparing the assessment of contribution required to meet claims and claims related expenses.

Recommendation 3: a) the Secretariat should now follow up on the work it performed to establish the compensation provision to improve the audit trail demonstrating the offers made and those not accepted by the claimants; and b) the Secretariat should regularly follow up on claimants responses to resolve outstanding claims.

Management response: Having created compensation provisions for both the *Erika* and *Prestige* incidents the Secretariat shall continue to improve the audit trail as recommended. Both incidents are old and in relation to the *Erika* incident all the outstanding claims for compensation are either in court or have been settled by third parties. The new web based claims management system (WCMS) not available at the time of the *Erika* and *Prestige* incidents will assist in the audit trail for future incidents such as the *Hebei Spirit* incident.

The Secretariat does indeed follow up on outstanding claims. Going forward the claims for which a provision has been made will be actively reviewed by management through the year.

Recommendation 4: The Secretariat should develop an aged claims profile to assist in the monitoring of the compensation provision. Such an aged analysis would assist the Secretariat to monitor the claims due to be time barred and exclude them from the provision.

Management response: The WCMS database being used for the *Hebei Spirit* incident has the facility to develop bespoke reports such as aged claims profile. Reports to manage claims approved by both the shipowner's Club and the Fund, but not paid is already available on the WCMS and will assist with monitoring compensation provision for this incident. Additional reports will be developed in 2011 to facilitate management of compensation provision.

In relation to the *Erika* and *Prestige* incidents as set out above the schedule of claims provision will be reviewed periodically by management. The reason for exclusion additions from a new schedule will be made available to the External Auditor during the audit.

Annex B - follow-up on prior year recommendations

Follow up on Prior Year Recommendations

Recommendation	Management Response	External Auditors Comment
<p>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.</p>	<p>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.</p>	<p>The SIC has been amended to more clearly reflect the steps taken by the Director to ensure controls are implemented and operating effectively throughout the year.</p>
<p>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.</p>	<p>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</p>	<p>The new payroll system went live in January 2011.</p> <p>No issues were identified.</p>

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.

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.

At its October 2010 session, the Administrative Council requested the Audit Body to look into this matter. The Audit Body would report back on its progress at the next regular session of the governing bodies.

At its April 2010 meeting, the Audit Body presented a strategy paper to consider how best to approach the task given to them by the Administrative Council.

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

The contribution system in Fundman has been enhanced to provide a report for each contributor showing percentage variance of the oil report entered against the last report. The reasons or any queries are noted in the "Notes" narrative. In addition an Activity Listing for each contributor enables correspondence to be scanned against each contributor to make

22 Annex B - follow-up on prior year recommendations Report on the 2010 Financial Statement audit

diminish the possibility of human oversight. The online reporting system presently on trial, if successful, would be designed to include such checks and balances.

follow-up easier – a report of outstanding follow-up activities can be generated to help manage the process.

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.

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.

IPSAS audit has been satisfactorily completed.

ANNEX IV

INDEPENDENT AUDITOR'S OPINION AND REPORT TO THE ASSEMBLY OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

I have audited the financial statements of the International Oil Pollution Compensation Fund 1992 for the year ended 31 December 2010. These comprise the Statement of Financial Position; Statement of Financial Performance; Statement of Changes in Net Assets; Statement of Cash Flow; General Fund – Joint Secretariat Expenditure Statement of Comparison of Budget and Actual Amounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Acting Director's Responsibility for the Financial Statements

The Acting Director is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards and the requirements of the Financial Regulations as authorised by the Fund's Assembly. The Acting Director is also responsible for such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit in accordance with Article 14 of the Financial Regulations. I conducted my audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require me and my staff to comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the International Oil Pollution Compensation Fund 1992's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Acting Director, as well as the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the revenue and expenditure reported in the financial statements have been applied to the purposes intended by the Fund's Assembly and the financial transactions are in accordance with the Financial Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion on financial statements

In my opinion:

- the financial statements present fairly, in all material respects, the financial position of the International Oil Pollution Compensation Fund 1992 as at 31 December 2010 and the results for the year then ended; and
- the financial statements have been properly prepared in accordance with International Public Sector Accounting Standards and the Financial Regulations authorised by the Fund's Assembly.

Opinion on Regularity

In my opinion, in all material respects, the revenue and expenditure have been applied to the purposes intended by the Fund's Assembly and the financial transactions conform to the Financial Regulations.

Matters on which I report by exception

I have nothing to report in respect of the following:

Under the letter of engagement, I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- effective systems of internal control are not in place.

External Auditor's Report

In accordance with Article 14 of the Financial Regulations, I have also issued an External Auditor's Report on my audit of the International Oil Pollution Compensation Fund 1992's financial statements.



Amyas C E Morse

Comptroller and Auditor General

United Kingdom

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

30th June 2011

ANNEX V

FINANCIAL STATEMENTS

OF THE

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

FOR THE FINANCIAL YEAR

ENDED 31 DECEMBER 2010

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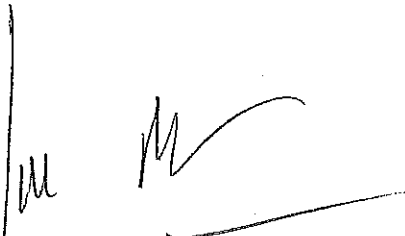
Statement I	Statement of Financial Position at 31 December 2010	4
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NOTES TO FINANCIAL STATEMENTS

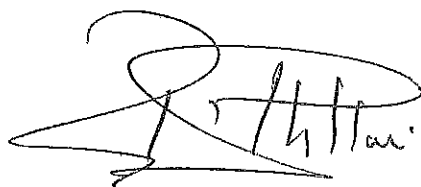
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CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that to the best of our knowledge and information, all transactions during the period have been properly entered in the accounting records and that these transactions together with the appended financial statements numbered I to V and notes, details of which form part of this document, fairly present the financial position of International Oil Pollution Compensation Fund 1992 at 31 December 2010.



José Maura
Acting Director



Ranjit S P Pillai
Head Finance & Administration Department

24 June 2011

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

		2010	<i>Opening Balance 1.1.10 (Restated)</i>
	Note	£	£
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	136 254 299	147 493 133
Contributions Receivable	6	1 259 504	507 918
Due from Hazardous and Noxious Substances Fund (HNS Fund)	7	181 545	172 208
Other Receivables	8	1 085 765	1 010 247
Total Current Assets		138 781 113	149 183 506
Non-Current Assets			
Property, Plant and Equipment	9	14 072	-
Intangible Assets	10	4 815	-
Total Non-Current Assets		18 887	-
TOTAL ASSETS		138 800 000	149 183 506
LIABILITIES			
Current Liabilities			
Payables and Accruals	11	1 568 167	3 213 835
Provision for Compensation	12	3 236 955	3 568 228
Provision for Employee Benefits (Short term)	13	110 681	85 675
Prepaid Contributions	14	2 099 993	-
Total Current Liabilities		7 015 796	6 867 738
Non-Current Liabilities			
Contributors' account	15	178 055	205 846
Staff Provident Fund	16	2 530 554	2 507 301
Provision for Employee Benefits (Long term)	13	229 508	219 184
Total Non-Current Liabilities		2 938 117	2 932 331
TOTAL LIABILITIES		9 953 913	9 800 069
NET ASSETS		128 846 087	139 383 437
FUNDS' BALANCES			
Balance b/f: 1 January		117 383 437	122 217 548
Working capital	17	22 000 000	22 000 000
Surplus / (Deficit)		(10 537 350)	(4 834 111)
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES		128 846 087	139 383 437

INTERNATIONAL OIL POLLUTION COMPENSATION FUND
STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010
REVENUE		£
Contributions	18	772 335
Contributions-in kind	19	381 200
Interest on investments		1 304 312
Income from hedging instrument		29 307
Other revenue	20	395 780
Total Revenue		2 882 934
EXPENSES		
Compensation claims	21	(248 836)
Claims related expenses		9 051 504
Reimbursement of joint costs from P&I Clubs	22	(134 288)
Finance cost of hedging instrument		30 709
Staff and other personnel costs	23	2 344 001
Other Administrative costs	23	1 759 616
Depreciation and amortization		2 780
Currency exchange differences	25	614 798
Total Expenses		13 420 284
DEFICIT FOR THE YEAR		(10 537 350)

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT III

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Accumulated Surpluses/Fund Balances
		£
31 December 2009		145 906 173
Changes in accounting policy and other adjustments to net assets		
Initial recognition of employee liabilities		(304 859)
Initial recognition of provision for compensation		(3 568 228)
Adjustments to accruals and prepayments		(3 014 869)
Other adjustments to Fund balances	30	365 220
Total recognized changes in net assets since last published accounts		
	30	(6 522 736)
Adjusted opening balance 1 January 2010	30	139 383 437
Movements in Fund balances in 2010		
Deficit for the period		(10 537 350)
Total movement during the year		(10 537 350)
TOTAL NET ASSETS at 31 December 2010		128 846 087

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT IV
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010
	£
CASH FLOWS FROM OPERATING ACTIVITIES	
Deficit for the period	(11 841 662)
Increase in Receivables	(836 441)
Decrease in Payables and Accruals	(1 673 459)
Decrease in Provisions	(295 943)
Decrease in Provident Fund	(54 155)
Increase in Depreciation and amortization	2 780
Increase in Prepaid contributions	2 099 993
Net cash flow from operating activities	(12 598 887)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned	1 381 720
Increase in Property, Plant and Equipment	(15 674)
Increase in Intangible Assets	(5 993)
Net cash flow from investing activities	1 360 053
Net decrease in cash and cash equivalents	(11 238 834)
Cash and cash equivalents at beginning of the year	147 493 133
Cash and cash equivalents at end of the year	136 254 299

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

STATEMENT V

GENERAL FUND - JOINT SECRETARIAT EXPENDITURE

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010

CLASS OF EXPENDITURE		NOTE	BUDGET APPROPRIATIONS	REVISED BUDGET APPROPRIATIONS	BUDGET OUT-TURN	BALANCE OF APPROPRIATIONS
			2010	2010	2010	2010
SECRETARIAT			£	£	£	£
I	PERSONNEL					
a	Salaries		1 742 200	1 715 054	1 594 077	120 977
b	Separation and recruitment		35 000	180 058	180 058	-
c	Staff benefits, allowances and training		726 950	581 892	534 536	47 356
			2 504 150	2 477 004	2 308 671	168 333
II	GENERAL SERVICES					
a	Office accommodation		320 800	310 989	301 140	9 849
b	Office machines		72 300	72 300	65 891	6 409
c	Furniture and other office equipment		25 000	25 000	15 600	9 400
d	Office stationery and supplies		22 000	22 000	20 287	1 713
e	Communications		69 800	52 293	52 293	-
f	Other supplies and services		35 000	23 576	23 576	-
g	Hospitality		25 000	14 707	14 077	630
h	Public information		175 000	224 035	224 035	-
			744 900	744 980	716 899	28 001
III	MEETINGS		150 000	150 000	130 219	19 781
IV	TRAVEL					
	Conferences, seminars and missions		150 000	150 000	95 397	54 603
V	MISCELLANEOUS EXPENDITURE					
a	External Audit (1992 Fund, Supplementary Fund and 1971 Fund) *		62 400	62 400	62 400	-
b	Consultants' fees		150 000	162 846	162 846	-
c	Audit Body		138 000	171 459	171 459	-
d	Investment Advisory Body		60 000	60 500	60 500	-
			410 400	457 205	457 205	-
VI	UNFORESEEN EXPENDITURE		60 000	40 341	14 263	26 078
TOTAL - VI		24	4 019 450	4 019 450	3 722 654	296 796

- * External Audit fees payable in 2010 in respect of 2009 Financial Statements
1992 Fund - £48 500
1971 Fund - £10 300
Supplementary Fund - £3 600

NOTES TO FINANCIAL STATEMENTS

1 Accounting Policies

These financial statements have been prepared in accordance with Financial Regulation 12.3 of the International Oil Pollution Compensation Fund 1992 (1992 Fund) and in compliance with International Public Sector Accounting Standards (IPSAS). The principal accounting policies followed in arriving at the financial information given in the respective statements are set out below ((a)-(n)).

(a) Basis of preparation

The financial statements of the 1992 Fund have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention.

In accordance with the 1992 Fund's Financial Regulations:

1. The financial year is the calendar year.
2. The functional and reporting currency of the 1992 Fund is Pound sterling.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Funds' accounting policies, management has made the following judgements.

1. The Cash Flow Statement is prepared using the indirect method.
2. Expenditure for goods and services are net of taxes.

The management has made estimations for the following which have the most significant effect on the amounts recognised in the financial statements:

1. Compensation provision.
2. Employee benefit provision.

(b) Fund Accounting and Segment Reporting

The financial statements are prepared on the entity basis, showing at the end of the period the consolidated position of all funds controlled by the 1992 Fund. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.

The 1992 Fund classifies its fund activities into segments on the basis of a General Fund and Major Claims Funds, as laid down in Financial Regulation 7. Fund balances represent the accumulated residual of revenue and expenses.

The General Fund covers the 1992 Fund's expenses for the administration of the Organisation and for compensation payments and claims-related expenditure up to a maximum amount of the Pounds sterling equivalent of 4 million SDR per incident (Financial Regulation 7.1(c)(i)) converted at the rate applicable on the date of the incident. Working capital is maintained within the General Fund.

Separate Major Claims Funds are established for incidents where the total amount payable by the 1992 Fund exceeds 4 million SDR (Financial Regulation 7.2(d)).

Inter-fund loans

Interest on any loan made between the General Fund and Major Claims Funds is calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate.

(c) Revenue

1. Contributions

Income from contributions is treated as revenue from non-exchange transactions and is based on levies approved by the governing body as due in the financial period. Such income from contributions is recognised only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States.

In case of contributions relating to previous levies based on late or amended oil reports submitted, the amount is recognised as income on the date of the invoice.

No fair value adjustments are made for late receipts of contributions since the percentage of contributions received by due date has always been very high.

2. Interest on investments

Interest income on deposits is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable on a straight line basis over the period of the investment.

The interest earned on investments of assets in currencies other than Pounds sterling are translated into Pounds sterling using the United Nations Operational Rates of Exchange (UNORE).

3. Interest on overdue contributions

Income from interest on contributions comprises of interest accrued on all contributions overdue at the end of the reporting period. No interest is charged on overdue interest.

4. Interest on loans to the (Hazardous and Noxious Substances Fund) HNS Fund

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

(d) Expenses

1. Foreign currency transactions

Payments for compensation claims, claims-related and administration expenses made in foreign currencies are converted into Pound sterling at the rate of exchange obtained from the bank on the date of transaction.

However, payments for compensation claims made in foreign currency bought for Pounds sterling and invested are converted at the rate at which the currency was purchased, on a first in first out basis.

2. Joint Secretariat's administrative expenses

The cost of running the joint Secretariat is borne by the 1992 Fund except the External Auditor's fees for the 1971 Fund and the Supplementary Fund, which are paid for by the respective Funds.

The 1992 Fund receives a flat management fee decided by the governing bodies towards the joint Secretariat's administrative cost for the reporting period.

3. Leases

Expenditure incurred under an operating lease, where the substantial risks and rewards of ownership are retained by the lessor, is charged on a straight-line basis over the life of the lease.

(e) STOPIA Reimbursements

For incidents that fall under the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006, reimbursements due from the shipowner's insurance (P&I Club - Protection & Indemnity insurance) of the compensation paid by the 1992 Fund is presented as revenue and corresponding expense under the compensation claims expense.

(f) Currency exchange differences

For the translation of all monetary items held at end of the reporting period in currencies other than Pounds sterling, the rate applied is the rate of exchange for the Pound sterling against various currencies on the last banking day of the financial year as published in the London Financial Times.

(g) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash at banks and term deposits.

(h) Financial Instruments

Financial instruments held in Pound sterling to maturity and where the interest is also received in Pound sterling, have been treated at the year-end as normal term deposits as such are stated at value of the investment made (historic cost) and interest accrued as normal.

Amounts either paid to or received from financial institutions in respect of hedging instruments are treated as 'Finance Cost from hedging instrument' or 'Income from hedging instrument', respectively.

(i) Property, Plant and Equipment

Purchased assets which exceed an agreed value threshold, currently £500, are capitalised at cost in accordance with Financial Regulation 11.4. The cost of all assets acquired not exceeding that threshold is immediately charged as an expense. An asset is capitalised at cost and depreciated to its residual value over its useful economic life using the straight-line method. The cost of an asset includes the purchase price, shipping and set-up charges. A residual value of zero is used. Depreciation is charged on an annual basis, with a full month's charge in the month of purchase and no charge in the month of disposal.

Class of asset	Useful Life
Computer equipment	3-5 years
Office fixtures and fittings	5 years

(j) Intangible assets

Purchased computer software is capitalised at cost, and amortised over its useful life. Software licences are expensed over the period of their validity and those extending beyond the current financial year are included in prepayments.

(k) Provisions and contingent liabilities

Provisions are made for future liabilities and charges where the 1992 Fund has a present legal or constructive obligation as a result of past events and it is probable that the 1992 Fund will be required to settle the obligation.

1. Compensation provision

Provision is made for all claims approved by the relevant P&I Club and the 1992 Fund but not paid, at the amount approved by the 1992 Fund, which reflects management's best estimate at that time. Where approved claims have been pro-rated because there is uncertainty as to whether funds will be sufficient to allow further payments, no provision is made for such claims over and above the level of pro-rating, but the maximum of such amount is disclosed separately in the financial statements as a contingent liability.

2. Provision for employee benefits

The following employee benefits are provided for:

Short-term employee benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service and long-term employee benefits not expected to be settled within twelve months.

Benefits in particular are:

Provision for annual leave accrued

Provision classified as short term provision is made annually on the basis of unused annual leave with changes in the provision from the start of the year being charged as an expense to the current financial period.

Provision for separation costs

Under the Staff Regulations and Rules, some staff members are entitled to certain benefits upon separation from service consisting of a repatriation grant lump sum, and travel of the staff member and eligible dependants and shipment of their personal effects. Separation costs are provided for at the management's best estimate.

3. Contingent liabilities

Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the 1992 Fund.

Estimates of contingent liabilities include all known or likely compensation claims against the 1992 Fund. All these claims may not necessarily mature. In the case of fees (claims related costs), 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.

(l) Contributors' account

Net overpayments by contributors and reimbursement of contributions in accordance with the governing body's decision are held in the 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.

(m) Staff Provident Fund

Staff Provident Fund in accordance with Staff Rule VIII.5 represents the balance on the accounts of staff members made up of contributions to the Provident Fund by staff members and the 1992 Fund, withdrawals and repayments of housing loans and interest earned on the investment of the assets of the Provident Fund.

(n) Budgetary information

The Assembly approves the budget which includes budgeted amounts for Secretariat administration costs and fixed assets. Budgets may be subsequently amended by the governing bodies or through the exercise of delegated authority. Statement V: Comparison of Budget and Actual Amounts, compares the final budget to actual amounts calculated on the same basis (modified cash basis) as the corresponding budgetary amounts. As the bases used to prepare the budget and financial statements differ, reconciliation between the amounts presented in Statement V and Statement II (Statement of Financial Performance) is provided in a note.

2 First time adoption of IPSAS

These are the first set of financial statements to be prepared in accordance with IPSAS. The adoption of IPSAS has required changes to be made to the accounting policies previously followed by the 1992 Fund. The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognised in the Statement of Financial Position. Accordingly, the last audited Statement of Financial Position, dated 31 December 2009, has been restated and the resulting changes are reported in Statement of Changes in Net Assets (Statement III) and Note 30. The revised Statement of Financial Position is described in these financial statements as the Opening Balance 1 January 2010 (Restated). The net effect of the changes brought about by the adoption of IPSAS in the Statement of Financial Position amounted to a decrease in total net assets of **£6.5 million** on 1 January 2010.

Key amendments under IPSAS

- Expenditure for 2009 was restated to include all expenditure relating to goods and services received in the financial year and consequently accruals and prepayments were created with net accrual of over £3 million.
- Interest income from investments and interest on contributions overdue are included in interest earned in the financial period and therefore receivables were increased proportionately by £365 220.
- Provision for claims compensation and employee benefits were included under IPSAS restated financial statements resulting in a reduction in net assets by some £3.86 million.

Description	Assets	Liabilities	Net Effect on Fund Balances 1.1.2010
	£	£	£
Initial Recognition of Employee Benefits		(304 859)	(304 859)
Initial Recognition of Provision for Compensation		(3 568 228)	(3 568 228)
Adjustment to Accrual and Prepayments	94 514	(3 109 383)	(3 014 869)
Interest on Overdue Contributions Receivable - adjustments for accrued interest	44 089		44 089
Interest on Investment Receivable - adjustments for accrued interest	321 131		321 131
Total adjustments to fund balances	459 734	(6 982 470)	(6 522 736)

3 Transitional provision under IPSAS

As permitted under the transitional provision on the initial adoption of IPSAS, no comparative information has been provided in the Statements of Financial Performance and Cash Flow.

Initial recognition of property, plant and equipment as prescribed by IPSAS 17 has not been complied with in the financial statements. In this regard fixed assets purchased before 1 January 2010 are not capitalised since the cost and administrative burden of revaluing the assets will be disproportionate to the value, given the age of the assets (both tangible and intangible) and in the view of the management the financial impact of not capitalising would be minimal. The uncapitalised tangible assets and intangible assets include furniture and computers which are old and the bespoke accounting package (Fundman) upgraded in 2006 and the bespoke claims management system (WCMS) which has been in use since 2008.

4 IPSAS 25 (Employee Benefits) has been adopted prior to its required implementation date.

Assets and Liabilities

5 Cash and Cash Equivalents

Cash and cash equivalents included in the Cash Flow Statement and the Statement of Financial Position comprise of the following amounts:

	<u>2010</u>	<u>2009</u>
Cash on hand and balances with banks	10 581 888	8 248 008
Term deposits	125 672 411	139 245 125
	136 254 299	147 493 133

6 Contributions Receivable

The situation as regards outstanding contributions is as set out below.

CONTRIBUTIONS RECEIVABLE				
State	Previous levies General Fund £	Previous levies Prestige Major Claims Fund £	Previous levies Hebei Spirit Major Claims Fund £	Total £
Ghana	4 683.48	-	23 423.01	28 106.49
Panama	9 843.48	-	-	9 843.48
Russian Federation	69 855.58	225 511.39	140 717.62	436 084.59
South Africa	194 350.81	-	574 619.10	768 969.91
United Kingdom	933.97	-	15 565.65	16 499.62
	279 667.32	225 511.39	754 325.38	1 259 504.09

7 Due from HNS Fund

At its first session the 1992 Fund Assembly instructed the Director to carry out the tasks necessary for the setting up of the HNS Fund, as requested by the HNS Diplomatic Conference (document 92FUND/A.1/34, paragraph 31.1-31.3) on the basis that all expenses would be repaid by the HNS Fund. 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.

An amount of £181 545 (including interest) is due from the HNS Fund.

8 Other Receivables

	£
Tax recoverable	352 783
Accrued interest on investments	420 381
Interest on overdue contributions	114 077
Prepayments	130 431
Advances to staff	23 611
Due from 1971 Fund	21
Miscellaneous receivables	44 461
Total	1 085 765

- (a) Taxes recoverable are VAT, airport tax, insurance premium tax and environment tax recoverable from the United Kingdom Government and VAT recoverable from the French and Spanish Government under the Articles of the Convention.
- (b) Prepayments are payments in advance of goods and service delivery.
- (c) Advances to staff are for travel season ticket and subscriptions to the health insurance scheme.
- (d) Miscellaneous receivables include amounts to be reimbursed by the Club for joint costs in relation to incidents.

9 Property, Plant and Equipment

	£		
	Computer equipment	Office fixtures and fittings	Total
<u>Cost</u>			
Opening Balance 1.1.2010	-	-	-
Additions	12 729	2 945	15 674
Disposals	-	-	-
Closing Balance 31.12.2010	12 729	2 945	15 674
Accumulated Depreciation 1.1.2010	-	-	-
Depreciation on Disposals	-	-	-
Depreciation charge for the year	1 542	60	1 602
Closing Balance 31.12.2010	1 542	60	1 602
<u>Net Book Value</u>			
Opening Balance 1.1.2010	-	-	-
Closing Balance 31.12.2010	11 187	2 885	14 072

10 Intangible Assets

	£
	Purchased Software
<u>Cost</u>	
Opening Balance 1.1.2010	-
Additions	5 993
Disposals	-
Closing Balance 31.12.2010	5 993
Accumulated Amortisation charge 1.1.2010	-
Amortisation charge on Disposals	-
Amortisation charge for the year	(1 178)
Closing Balance 31.12.2010	(1 178)
<u>Net Book Value</u>	
Opening Balance 1.1.2010	-
Closing Balance 31.12.2010	4 815

11 Payables and Accruals

	£
Payable to Lawyers and Experts	1 385 660
Accruals for administrative expenses	174 625
Miscellaneous payable	7 882
Total	1 568 167

12 Provision for compensation

	€	€	€	£ @ year end FT rate
	<i>Erika MCF</i>	<i>Prestige MCF</i>	Total	Total
Opening provision (31.12.09)	3 775 118	240 922	4 016 040	3 568 228 (@1.1255)
Utilised (Paid in 2010)	(3 105)	(63 943)		
Removed (Lapsed claims)	(185 032)	(15 682)		
Added (Approved in 2010)	-	29 572		
Closing provision (31.12.10)	3 586 981	190 869	3 777 850	3 236 955 (@1.1671)

Provision is made for all compensation claims as follows:

Fund	Total Provision 2010 £	Total Provision 2009 £	Increase/(Decrease) in Provision £
<i>Erika MCF</i>	3 073 413	3 354 170	(280 757)
<i>Prestige MCF</i>	163 542	214 058	(50 516)
Total	3 236 955	3 568 228	(331 273)

The 2010 decrease in the provisions is reflected in the compensation claims expenditure (cf Note 21).

13 Provision for employee benefits

	Total Provision 2010 £	Total Provision 2009 £	Increase/(Decrease) in Provision £
Short-term	110 681	85 675	25 006
Long-term	229 508	219 184	10 324
Total	340 189	304 859	35 330

14 Prepaid contributions

The amount of £2 099 993 represents levy of contributions decided by the 1992 Fund Administrative Council, acting on behalf of the Assembly, as due not later than 1 March 2011 but received in 2010.

15 Contributors Account

The amount of £178 055 is the balance on the Contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £945 credited in 2010 to contributors.

16 Staff Provident Fund

	£
Accounts of staff members as at 1 January	2 507 301
RECEIPTS	
Contributions of staff members	152 107
Voluntary contributions of staff members	30 652
Contributions of IOPC Funds	304 214
Interest received	77 408
	564 381
PAYMENTS	
Withdrawal on separation	198 328
Housing loans	342 800
	541 128
Accounts of staff members as at 31 December	2 530 554

17 Working Capital

The working capital is £22 million, as decided by the Assembly at its October 2004 session. The working capital is established to ensure that the 1992 Fund is in a position to meet compensation and claims related expenses which may occur between the regular sessions of the governing bodies.

Revenue and Expenses

18 Contributions

At its session in October 2009, the 1992 Fund Administrative Council, acting on behalf of the Assembly, decided not to levy contributions (2009 contributions) with respect to the General Fund.

The Administrative Council decided to raise 2009 contributions to the *Prestige* and *Hebei Spirit* Major Claims Funds of £3.0 million and £52 million, respectively, but that the entire levies should be deferred. In addition, subject to a decision by the 1992 Fund Executive Committee authorising the Director to make payments of compensation with respect to the *Volgoneft 139* incident, the Assembly decided to raise 2009 contributions to the *Volgoneft 139* Major Claims Fund of £40.0 million, with the entire levy deferred for payment during the second half of 2010, if and to the extent required. The Director decided not to invoice any deferred levy as part of the 2009 annual contributions.

Contributions invoiced in 2010 are based on contributing oil reports received late and amendments to oil reports previously submitted.

19 Contributions-in-kind

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 2010 amounted to £476 500 with the United Kingdom Government's share being £381 200 (cf Note 23).

20 Other Revenue

	Total £
Management fee	277 500
Interest on overdue contributions	20 480
Interest on loan to HNS Fund	1 123
Income under STOPIA 2006	17 807
Sundry income	78 870
Total	395 780

(a) Management fee

The fee was set in the budget at £225 000 and £52 500 for the 1971 Fund and the Supplementary Fund, respectively for the period 1 January to 31 December 2010 (document IOPC/OCT09/11/1, paragraph 9.1.4)

(b) Income under STOPIA 2006

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

21 Compensation Claims

Fund	Compensation claims paid in 2010 £	Movement in provision in 2010 (Note 12) £	Compensation claims (Statement II) £
General Fund	17 798	-	17 798
<i>Erika</i> MCF	2 193	(280 757)	(278 564)
<i>Prestige</i> MCF	62 446	(50 516)	11 930
Total	82 437	(331 273)	(248 836)

22 Reimbursements of joint costs

Under the Memorandum of Understanding (MoU) between the P&I Clubs (shipowner's insurers) 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 2010 an amount of £134 288 was invoiced under the MoU to the following P&I Clubs:

- The Shipowners' Mutual Protection and Indemnity Association (Luxembourg) – *Solar 1* incident
- Assuranceforeningen SKULD (Gjensidig) - *Hebei Spirit* incident
- The London Steam-ship Owner's Mutual Insurance Association Limited - *Prestige* incident

23 Staff, other personnel and administrative costs

Expenses were made under six Chapters as set out in the table below:

Chapter	Expenses 2010 Statement II £
I Personnel	2 344 001
II General services	1 076 432
III Meetings	130 219
IV Travel	95 397
V Miscellaneous expenditure	443 305
VI Unforeseen expenditure	14 263
Total	4 103 617

General Services includes the portion of accommodation costs which has been reimbursed by the United Kingdom Government.

24 Statement of Comparison of Budget and Actual Amounts

The 1992 Fund's budget and financial statements are prepared using different bases. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts (**Statement V**) is prepared on a commitment accounting basis.

As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, presentation, entity and timing differences.

Basis differences occur when the approved budget is prepared on a basis other than the accounting basis. For 1992 Fund, the budget is prepared on the commitment basis and the financial statements are prepared on the accrual basis.

Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Cash Flow and Statement of Comparison of Budget and Actual Amounts.

Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared. The budget relates only to the joint Secretariat's administrative expenses.

Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for 1992 Fund for purposes of comparison of budget and actual amounts.

Reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (**Statement V**) and the actual amounts in the Statement of Financial Performance (**Statement II**) for the year ended 31 December 2010 is presented below:

	Chapter I Personnel £	Chapter II-VI Administrative costs £
Statement V	2 308 671	1 413 983
Contribution-in-kind		381 200
Purchase of Fixed Assets		(21 667)
Adjustment to Provision for employee benefits (Note 13)	35 330	
External Auditor's fees -1971 Fund and Supplementary Fund		(13 900)
Statement II	2 344 001	1 759 616

25 Currency Exchange Differences

As at 31 December 2010 there was a notional exchange loss of £606 411 from currency revaluation and an exchange loss of £8 387 from revaluation of taxes reimbursed and to be reimbursed.

26 Segment reporting

Segment reporting has been made on the basis that the 1992 Fund classifies its activities into the General Fund and Major Claims Funds.

The General Fund covers the 1992 Fund's expenses for the administration of the Organisation and for compensation payments and claims-related expenditure for minor incidents, up to a maximum amount of the Pounds sterling equivalent of 4 million SDR per incident and includes the working capital.

Three Major Claims Funds were established for incidents where the total amount payable by the 1992 Fund exceeded 4 million SDR. Levies of contributions are made for a Major Claims Fund from which amounts are expensed for that incident (compensation and claims-related expenses):

- *Erika* Major Claims Fund was set up in 2001 for the incident in France (1999);
- *Prestige* Major Claims Fund was set up in 2003 for the incident in Spain (2002); and
- *Hebei Spirit* Major Claims Fund was set up in 2008 for the incident in Republic of Korea (2007).

(a) Statement of Financial Position by segment

	2010 General Fund	2010 Erika MCF	2010 Prestige MCF	2010 Hebei Spirit MCF	2010 TOTAL
	£	£	£	£	£
ASSETS					
Current Assets					
Cash and Cash Equivalents	27 523 241	48 554 890	19 730 103	40 446 065	136 254 299
Contributions Receivable	279 667	-	225 512	754 325	1 259 504
Due from HNS Fund	181 545	-	-	-	181 545
Other Receivables	418 068	167 197	306 497	194 003	1 085 765
Total Current Assets	28 402 521	48 722 087	20 262 112	41 394 393	138 781 113
Non-Current Assets					
Property, Plant and Equipment	14 072	-	-	-	14 072
Intangible Assets	4 815	-	-	-	4 815
Total Non-Current Assets	18 887	-	-	-	18 887
TOTAL ASSETS	28 421 408	48 722 087	20 262 112	41 394 393	138 800 000
LIABILITIES					
Current Liabilities					
Payables and Accruals	264 313	63 657	303 317	936 880	1 568 167
Provision for Compensation	-	3 073 413	163 542	-	3 236 955
Provision for Employee Benefits (Short term)	110 681	-	-	-	110 681
Prepaid Contributions	133 743	-	-	1 966 250	2 099 993
Total Current Liabilities	508 737	3 137 070	466 859	2 903 130	7 015 796
Non-Current Liabilities					
Contributors' account	178 055	-	-	-	178 055
Staff Provident Fund	2 530 554	-	-	-	2 530 554
Provision for Employee Benefits (Long term)	229 508	-	-	-	229 508
Total Non-Current Liabilities	2 938 117	-	-	-	2 938 117
TOTAL LIABILITIES	3 446 854	3 137 070	466 859	2 903 130	9 953 913
NET ASSETS	24 974 554	45 585 017	19 795 253	38 491 263	128 846 087
FUNDS' BALANCES					
Balance b/f: 1 January	6 158 838	46 089 695	21 666 839	43 468 065	117 383 437
Working capital	22 000 000	-	-	-	22 000 000
Deficit for the year	(3 184 284)	(504 678)	(1 871 586)	(4 976 802)	(10 537 350)
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES	24 974 554	45 585 017	19 795 253	38 491 263	128 846 087

(b) Statement of Financial Performance by segment

	2010 General Fund	2010 Erika MCF	2010 Prestige MCF	2010 Hebei Spirit MCF	2010 TOTAL
REVENUE	£	£	£	£	£
Contributions	197 716	-	-	574 619	772 335
Contributions-in-kind	381 200	-	-	-	381 200
Interest on investments	284 092	467 363	135 135	417 722	1 304 312
Income from hedging instrument	-	-	-	29 307	29 307
Other revenue	379 464	-	5 824	10 492	395 780
Total Revenue	1 242 472	467 363	140 959	1 032 140	2 882 934
EXPENSES					
<i>Compensation claims paid</i>	17 798	2 193	62 446	-	82 437
<i>Movement in Provision for Compensation</i>	-	(280 757)	(50 516)	-	(331 273)
Total Compensation claims	17 798	(278 564)	11 930	-	(248 836)
Claims related expenses	301 243	499 355	1 935 598	6 315 308	9 051 504
Reimbursement of joint costs from P&I Clubs	(573)	-	(119 399)	(14 316)	(134 288)
Finance cost from hedging instrument	-	-	-	30 709	30 709
Staff and other personnel costs	2 344 001	-	-	-	2 344 001
Other Administrative costs	1 759 616	-	-	-	1 759 616
Depreciation and amortization	2 780	-	-	-	2 780
Currency exchange differences	1 891	751 250	184 416	(322 759)	614 798
Total Expenses	4 426 756	972 041	2 012 545	6 008 942	13 420 284
DEFICIT FOR THE YEAR	(3 184 284)	(504 678)	(1 871 586)	(4 976 802)	(10 537 350)

27 Contingent Liabilities

The figures are based on information available as at 30 April 2011.

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. The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, ie for 2011.

There are contingent liabilities of the 1992 Fund estimated at £187 375 000 in respect of six incidents as at 31 December 2010.

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

Incident	Date	Contingent liabilities at 31.12.10			
		Compensation £	Other costs £	Total £	
1	Erika	12.12.99	44 000 000	1 000 000	45 000 000
2	Prestige	13.11.02	24 000 000	2 000 000	26 000 000
3	Solar I	11.08.06	-	15 000	15 000
4	Volgoneft 139	11.11.07	6 810 000	500 000	7 310 000
5	Hebei Spirit	07.12.07	101 000 000	8 000 000	109 000 000
6	Incident in Argentina	26.12.07	-	50 000	50 000
TOTAL			175 810 000	11 565 000	187 375 000

Erika

The 1992 Fund's liability would be FFr1 127 719 148 (€171 919 676). Compensation paid by the 1992 Fund as at 31 December 2010 was €116.9 million and a provision has been made in the 2010 Financial Statements of €3.5 million for claims approved but yet to be paid. The balance payable by the 1992 Fund in compensation is €51.5 million (£44 million). Fees and other costs are estimated at £1 million for 2011.

Prestige

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 CLC and €148.7 million under the 1992 Fund Convention). By the end of 2010 the 1992 Fund had paid a total of €120.4 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. A provision has been made in the 2010 Financial Statements of €0.2 million for claims approved but yet to be paid. Balance payable by the 1992 Fund in compensation therefore is some €28.1 million (£24 million). Fees and other costs are estimated at £2 million for 2011.

Solar 1

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). For the purpose of the contingent liabilities costs are estimated at £15 000 for 2011.

Volgoneft 139

The shipowner's 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).

Claims totalling Russian Rouble 2 481.1 million (£52 million) were submitted. However, the total established losses have been assessed at Russian Rouble 325.4 (£6.81 million)

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 £6.81 million. Legal and other costs have been estimated at £500 000 for 2011.

Hebei Spirit

The estimated losses arising out of this incident are expected to exceed 203 million SDR, the maximum amount available for compensation under the 1992 Conventions. In March 2011, the Executive Committee decided to make payments at 100% provided a bank guarantee as agreed by the Administrative Council, acting on behalf of the Assembly, was provided by the Government of the Republic of Korea.

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 on a periodic basis.

For the purpose of the contingent liabilities compensation payable is estimated at 113 230 000 SDR or KRW 179 393 685 900 (£101 million) plus costs payable by the 1992 Fund, including legal costs, estimated at £8 million for 2011.

Incident in Argentina

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.

It was also agreed that if it is proved that the oil spill must have come from a tanker other than the *Presidente Illia* but it remains unknown which one, a so-called 'mystery spill', the shipowner and the West of England Club would recover the amounts of compensation paid from the 1992 Fund.

For the purpose of the contingent liabilities fees and other costs for 2011 have been estimated at £50 000.

28 Commitments

The office premises are subject to an operating lease which expires on 24 March 2015. 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 lease for the car park amounts is to be met by the 1992 Fund.

Future minimum lease payments payable by the 1992 Fund:

	Secretariat Office/ Storage space (20%)	Car Park (100 %)
Not later than one year:	£95 300	£4 000
Later than one year and not later than five years:	£309 725	£13 000
Later than five years:	Nil	Nil

29 Related Parties and Key Management Personnel

Key Management Personnel

	Number of individuals	Basic Salary and post adjustment	Entitlements	Provident Fund and health plans	Total remuneration 2010	Outstanding Loans 31.12.2010
		£	£	£	£	£
Key Management Personnel	7	585 402	103 704	123 179	812 285	100

Key management personnel are the Director, Legal Counsel, Head of Claims Department, Head of Finance and Administration Department, Head of External Relations and Conference Department and Technical Adviser/Claims Manager as they have the authority and responsibility for planning, directing and controlling the activities of the 1992 Fund.

The aggregate remuneration paid to key management personnel includes: net salaries, post-adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs, and the Organisation's contribution to the Provident Fund and health insurance.

Key management personnel are also qualified for post-employment benefits at the same level as other employees. These benefits have been estimated by the management.

Related Parties

- (a) Within the meaning of IPSAS 20 (Related Party Disclosures) the Acting Director is related to the Gard (UK) London, Thomas Miller and Meana Green Maura & Co.

There have been no transactions with the Gard (UK) London and Thomas Miller in 2010.

The Acting Director's relative is a partner in Meana Green Maura & Co (lawyers). They provide legal services in respect of the *Prestige* incident. The total amount of transactions in 2010 with Meana Green Maura & Co amounted to £642 542. This business was conducted at arm's length.

- (b) The Director is *ex officio*, also the Director of the 1971 Fund and Director of the Supplementary Fund. The Director is assisted by a Management Team for the day to day running of the Secretariat. The 1992 Fund Secretariat also administers the 1971 Fund and the Supplementary Fund thereby they are related parties in accordance with IPSAS 20.

30 Change in Accounting Policy and other adjustments to Net Assets

Adjustments to Fund balances decreased the net assets by £6 522 736 at 1 January 2010.

Opening balances represent the 2009 audited Statement of Assets, Liabilities and Funds' balances which have then been restated to incorporate adjustments made due to changes in accounting policies and other adjustments made at 1 January 2010.

These adjustments pertain to changes in timing of revenue recognition, recognition of payables and receivables, adjustments relating to employee benefits liabilities and recognition of compensation liabilities.

The nature of the adjustments made to Fund balances, and consequently opening asset and liability positions, is shown below:

Opening Balances Adjustments

	31.12.2009 (Audited)	Adjustments	Opening Balance 01.01.2010 (Restated)
	£		
ASSETS			
Current assets			
Cash and Cash Equivalents	147 493 133	-	147 493 133
Contributions outstanding	507 918	-	507 918
Other Receivables	550 513	459 734	1 010 247
Due from HNS Fund	172 208	-	172 208
Total current assets	148 723 772	459 734	149 183 506
Non-current assets			
Property, plant and equipment	-	-	-
Intangible assets	-	-	-
Total non-current assets	-	-	-
TOTAL ASSETS	148 723 772	459 734	149 183 506
LIABILITIES			
Current liabilities			
Payables and Accruals	104 452	3 109 383	3 213 835
Provision for Compensation	-	3 568 228	3 568 228
Provision for Employee Benefits	-	85 675	85 675
Total current liabilities	104 452	6 763 286	6 867 738
Non-current liabilities			
Contributors' account	205 846	-	205 846
Staff Provident Fund	2 507 301	-	2 507 301
Employee benefits	-	219 184	219 184
Total non-current liabilities	2 713 147	219 184	2 932 331
TOTAL LIABILITIES	2 817 599	6 982 470	9 800 069
NET ASSETS	145 906 173	(6 522 736)	139 383 437
TOTAL FUNDS' BALANCES	145 906 173	(6 522 736)	139 383 437

31 Events after Reporting Date

The 1992 Fund's reporting date is 31 December 2010. On the date of signing of these financial statements, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the Financial Statements have been authorised for issue that would have impacted these statements.