 INTERNATIONAL OIL POLLUTION COMPENSATION FUNDS	Agenda item: 5	IOPC/OCT11/5/6/3	
	Original: ENGLISH	8 July 2011	
	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 1971 (1971 FUND)

Note by the Director

Summary:	As indicated in document IOPC/OCT11/5/6, the 1971 Fund Financial Statements and the Auditor's Report and Opinion are set out.
Action to be taken:	<u>1971 Fund Administrative Council:</u> Approval of 2010 Financial Statements.

- 1 In accordance with Article 29.2(f) of the 1971 Fund Convention, the Director has prepared the Financial Statements of the 1971 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 1971 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 1971 Fund Administrative Council, through its Chairman, his Report on the audit of the Financial Statements of the 1971 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 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 at its session in October 2009 effective 1 January 2010.
- 7 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

8 In addition to the Financial Statements submitted, such notes as may be necessary for a better understanding of the Financial Statements, including a statement of the significant accounting policies are attached.

9 **Action to be taken**

1971 Fund Administrative Council

The 1971 Fund Administrative Council 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.

* * *

ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

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 International Oil Pollution Compensation Fund 1992 (1992 Fund) was set up under the 1992 Fund Convention. The 1971 Fund Convention ceased to be in force on 24 May 2002 and does not apply to incidents occurring after that date. However, before the 1971 Fund can be wound up, all pending claims arising from incidents occurring before that date in 1971 Fund Member States will have to be settled and paid and any remaining assets distributed among contributors.
- 1.2 A Protocol to the 1992 Fund Convention adopted in 2003 resulted in the establishment of the International Oil Pollution Compensation Supplementary Fund (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 1969 and the 1971 Conventions for any one incident is 60 million Special Drawing Rights (SDR)^{<1>}. This amount includes the sum actually paid by the shipowner or his insurer (Protection and Indemnity Club – P&I Club), which at 31 December 2010 corresponded to £59.4 million.
- 1.4 The 1971 Fund has an Administrative Council composed of all States which at any time were Members of that Fund. The Administrative Council deals with both administrative and incident-related matters and is responsible for the winding up of the Organisation.
- 1.5 The 1971 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 former Member States.

2 Secretariat

- 2.1 The 1971 Fund, the 1992 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 and administered by the 1992 Fund.

^{<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.

- 2.2 The Director of the 1992 Fund is *ex-officio*, also the Director of the 1971 Fund. He is assisted by a Management Team which has the authority and responsibility for planning, directing and controlling the activities of the 1971 Fund for the day to day running of the joint Secretariat.
- 2.3 The Funds use external consultants to provide advice on legal and technical matters as well as on matters relating to management.
- 2.4 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 is entered into with the insurer detailing the obligation and liabilities of each party.

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 United Nations 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 United Nations 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 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 approved the adoption of IPSAS by the IOPC Funds from the financial year 2010.

5.5 The 2010 Financial Statements of the 1971 Fund have, for the first time, been prepared in accordance with IPSAS as prescribed by the 1971 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 1971 Fund as a result of past events in which future economic benefits or service potentials are expected to flow to the 1971 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 1971 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 1971 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 1971 Fund's expenses for the administration, including the 1971 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 1 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 1971 Fund exceeds 1 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 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 1971 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 In compliance with IPSAS 19 (Provisions, Contingent Liabilities, Contingent Assets) a provision is made for contributions and interest on overdue contributions receivable from the former Union of Soviet Socialist Republics (USSR) and the former Socialist Federal Republic of Yugoslavia.

5.11 Related party disclosures in line with IPSAS 20 requirements are included in the notes to the Financial Statements

5.12 Under 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.

- 5.13 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 exist.
- 5.14 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 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.

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 1971 Fund has established a framework of internal control as set out in the Statement of Internal Control (**Annex II**).
- 6.3 The 1971 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, all cash, cash equivalent and investments were denominated in Pound sterling.
- 6.5 The 1971 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.

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 **£284 543** 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. Liability for non-recovery of contributions and interest on overdue

contributions receivable from contributors in the former Socialist Federal Republic of Yugoslavia and former USSR were provided for the first time.

(c) The following adjustments were made:

- Provision of **£0.63 million** was created to cover the possibility of non-recoverability of contributions and interest on overdue contributions receivable from the contributors in the former Socialist Federal Republic of Yugoslavia and former USSR.
- Accruals and Prepayments were created with a net accrual of some **£53 000** mainly in relation to claims related expenditure in respect of the *Plate Princess* incident.
- Interest on contributions overdue (£399 000) and interest income from investments (some £2 400) were included in interest earned in the financial period and therefore receivables were increased proportionately by some **£0.4 million**.

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

Assets and Liabilities

- (a) The 1971 Fund's cash assets at the end of the 2010 financial period amounting to some £7.4 million was held in Pounds sterling.
- (b) Outstanding contributions due to the 1971 Fund as at 31 December 2010 totalled £310 369 representing 0.08% of the total amount levied over the years (£386 million).
- (c) Contributions and accrued interest on contributions due from the former Socialist Federal Republic of Yugoslavia and the former USSR amounts to some £640 000. Although the Secretariat continues to further pursue the matter of outstanding contributions, a liability has been created to provide for the event of non-recoverability of the amount.
- (d) Contributors' account has a balance of £437 577 made up of net overpayments by contributors and reimbursement of contributions in accordance with the Administrative Council's decisions.
- (e) The net assets position presented in Statement I shows a closing net balance position of £7 113 463, a decrease of £325 359 from the restated opening balance on 1 January 2010 of £7 438 822.

7.3 2010 Financial Statements – Statement of Financial Performance (Statement II)

Revenue and Expenses

- (a) Since the 1971 Fund Convention ceased to be in force it is no longer possible to levy contributions to the 1971 Fund's General Fund. At its session in October 2009 the 1971 Fund Administrative Council decided that there should be no levy of 2009 contributions payable in 2010 in respect of the *Nissos Amorgos* and *Vistabella* Major Claims Funds.
- (b) Claims-related expenditure during 2010 amounted to some £154 948. The payments related mainly to the *Plate Princess* incident (£77 240).
- (c) The joint Secretariat's administrative expenses for 2010 amounted to £3 722 654, including the External Auditor fees paid in 2010 for the audit of the 2009 Financial Statements for the three Funds. The amount for the External Auditor's fees of £48 500 for the 1992 Fund, £10 300 for the 1971 Fund and £3 600 for the Supplementary Fund are paid directly by each organisation. The total obligations incurred in 2010 was 7% less than the 2010 budget appropriation of £4 019 450. Director's comments on the expenses for running the joint Secretariat are in the 2010 Financial Statements of the 1992 Fund (Annex I).

- (d) At their October 2009 sessions the 1971 Fund Administrative Council and the 1992 Fund Administrative Council, acting on behalf of the Assembly, decided that the 1971 Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat in 2010. The management fee was set based on the estimated number of working days that the entire Secretariat would have to spend on 1971 Fund matters. The fee for 2010 was set at £225 000 (15 days).
- (e) The expenditure relating to the 1971 Fund's share of the costs of running the joint Secretariat, consultants' fees and the External Auditor's fees amounted to £235 300 in 2010 compared to the total appropriation of £490 300. The under-spend related mainly to the costs in respect of the winding up of the 1971 Fund (£250 000). A breakdown of the 1971 Fund expenditure is set out below:

Expenditure relating only to 1971 Fund	2010 Budget appropriations £	2010 Budget out-turn		Balance of appropriations £
		£	%	
(a) Management fee payable to 1992 Fund	225 000	225 000	95.62	-
(b) Costs of winding up of the 1971 Fund	250 000	-	0.00	250 000
(c) Administrative costs including External Audit fees	15 300	10 300	4.38	5 000
TOTAL	490 300	235 300	100.00	255 000

7.4 General Fund and Major Claims Funds Balances

The General Fund balance on 31 December 2010 was £3 795 861, which is lower than the working capital of £5 million set by the Administrative Council at its October 2002 session.

The balances due to the two Major Claims Funds at the balance sheet date were as follows:

	£
<i>Nissos Amorgos</i> Major Claims Fund	3 302 454
<i>Vistabella</i> Major Claims Fund	15 148

- 7.5 The contingent liabilities as at 31 December 2010 were estimated at over £102.5 million in respect of five incidents as detailed in Note 15.

7.6 Sustainability

The 1971 Fund Convention provides the Administrative Council the authority to levy contributions that may be required to balance the payments by Major Claims Funds to be made by the 1971 Fund. It also places an obligation on the contributors to make payment by due date or bear interest on any arrears.

It has not been possible to levy further contributions to the General Fund since the 1971 Fund Convention ceased to be in force on 24 May 2002. However, surplus on the General Fund should be sufficient to cover incident related expenses payable by the General Fund and the administrative expenditure until the 1971 Fund is wound up.

Based on the net assets held at the end of the period and the generally high percentage of receipt of the contributions levied by due date, the going concern basis has been adopted in preparing the 1971 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 the Attachment to this Annex.

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



José Maura
Acting Director
24 June 2011

* * *

Attachment

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>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>
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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>	

ANNEX II

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

STATEMENT OF INTERNAL CONTROL

Scope of Director's responsibility

Under Article 28.2 of the 1971 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Fund 1971 (1971 Fund). Each Contracting State shall, pursuant to Article 2.2, recognise the Director as the legal representative of the Fund.

Under Article 29.1, the Director shall be the chief administrative officer of the 1971 Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the 1971 Fund's policies, aims and objectives, whilst also safeguarding the 1971 Fund's assets.

As a result of these provisions, the Director has the authority, *vis-à-vis* third parties, to commit the 1971 Fund without restrictions, unless the third party concerned has been informed of any limitation of this authority decided by the 1971 Fund's governing body.

The Director is however bound by any restriction of his authority decided by the 1971 Fund governing body. He may delegate his authority to other officers within the limits laid down by the 1971 Fund Administrative Council.

The 1971 Fund, the International Oil Pollution Compensation Fund 1992 (1992 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 extraordinary 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 1971 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 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 1971 Fund Administrative Council 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 1971 Fund Convention, the Financial Regulations, the Internal Regulations and decisions of the 1971 Fund Administrative Council.

The Administrative Council adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the 1971 Fund.

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 Funds' assets. The Body reports to the 1971 Fund Administrative Council 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.



José Maura
Acting Director
24 June 2011

* * *



June 2011

International Oil Pollution Compensation 1971 Fund

Report on the 2010 Financial Statement audit

The aim of the audit is to provide independent assurance to 1971 Fund Assembly; to add value to the 1971 Fund's financial management and governance; and to support the objectives of the 1971 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 1971 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 1971 Fund is run and provides the basis for improved financial decision making. The audited IPSAS-based financial statements offer the 1971 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 1971 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 1971 Fund.

Overall results of the audit

6 We have audited the financial statements of the 1971 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, in all material respects, the financial statements have been prepared in accordance with the stated accounting policies and the transactions were 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 1971 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 1971 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 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 opening balance adjustments for the inclusion of a provision against outstanding contributions and the accrued interest thereon (£633,000); and the recognition of receivables and accrued expenses for the year (£402,000 and £53,000 respectively).

1.3 In preparing its Statement of Financial Performance the 1971 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 £72,000 of which £57,000 was from the interest earned on investments. This represents all income accrued in 2010, including interest earned up to 31 December 2010 not yet received.

1.5 Total expenses in 2010 were £397,000. This represents the value of goods and services received by the 1971 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 1971 Fund had net assets of £7.1 million (2009: £7.4 million). This was represented by total assets of £8.2 million (2009: £9.1 million) and total liabilities of £1.1 million (2009: £1.70 million).

1.7 Overall, the 1971 Fund currently has sufficient assets to meet its current existing liabilities.

Detailed financial review

Revenue

1.8 The 1971 Fund Council decided not to levy contributions with respect to the *Nissos Amorgos* and *Vistabella* Major Claims Funds and no levies can be raised on the general fund. Contributions of £7,000 were recognised following the receipt of late oil reports from contributors, which allowed the Secretariat to raise invoices for earlier approved levies. The 1971 Fund recognises revenue on late oil reports at the invoice date.

1.9 At 31 December 2010, the 1971 Fund held cash and cash equivalents totalling £7.5 million (2009: £8.4 million). Cash holdings in advance of immediate need are invested on the short-term money market and at the year end such investments totalled £3.6 million. In 2010, investment income of £57,000 was earned.

Expenses

1.10 The Statement of Financial Performance presents total expenses of £397,000 which are disclosed by category of expenditure. Claims related expenses totaled £155,000 and administrative costs were £235,000 to provide a contribution to the Secretariat's running costs and the External Auditors fee. Other expenses related to the increase in the provision for interest due on overdue contributions (£7,000).

Statement of financial position

1.11 At 31 December 2010, the 1971 Fund held assets of £8.2 million (2009: £9.1 million), including £7.5 million cash and cash equivalents and £310,000 for contributions receivable. Total liabilities were £1.1 million (2009: £1.7 million).

1.12 In addition to these liabilities, the 1971 Fund disclosed 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 1971 Fund. At 31 December 2010, the 1971 Fund estimated its contingent liabilities at £102.6 million (2009: £94.9 million). These reflect the maximum amounts the Secretariat believe the 1971 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

1.13 At 31 December 2010, 1971 Fund held cash and cash equivalents of £7.5 million (2009: £8.4 million). All balances were denominated in pounds sterling.

Statement V – Comparison of budget and actual amounts

1.14 The Financial Regulations require the 1971 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 1971 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.

1.15 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 £255,000 underspend against budget. This was predominantly due to the budget including a provision of £250,000 for the winding-up of the Fund. This was not utilised in 2010.

Cases of fraud or presumptive fraud

1.16 Responsibility for the prevention and detection of fraud rests with the management of the 1971 Fund. Under the terms of reference governing the External Audit we are required to bring to the notice of the 1971 Fund Assembly any cases of fraud or presumptive fraud reported to us by management of the 1971 Fund.

1.17 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 adjustment to provide against the non-recoverability of contributions and interest thereon from contributors in the former USSR and Yugoslavia of £633,000.

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 section of the report details the 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 1971 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 1971 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 14 details the segmental financial reporting for the distinguishable streams of activity, these are:

- the **General Fund** includes the 1971 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 1 million Special Drawing Rights per incident. It also includes the working capital fund;
- the **Nissos Amorgos Major Claims Fund** was established in 2001 to account for the revenues and expenses related to the claims for compensation against the *Nissos Amorgos* incident in Venezuela; and

- the *Vistabella Major Claims Fund* was established in 1994 to account for the revenues and expenses related to the claims for compensation against the *Vistabella* incident in the Caribbean.

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 receivables of £402,000 related to the accrued interest on overdue contributions;
- the recognition of additional liabilities of £53,000 where goods and services had been delivered by 31 December 2009;
- the recognition of a provision for non-recoverability of contributions and interest thereon from contributors in the former USSR and Yugoslavia of £633,000.

2.10 Overall the restatement of opening balances has resulted in a decrease of £285,000 to the reserves balance at 1 January 2010, from £7.7 million to £7.4 million.

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; and
- expenses related to the cost, or estimated cost, of all goods and services received in any year are reported in the Statement of Financial Performance.

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.

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 1971 Fund; and
- Segmental Reporting – the Secretariat should consider whether the current segments will remain the most appropriate for the 1971 Fund in future years and whether they provide the most relevant information possible to the users of the financial statements.

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.

Follow up to audit recommendations for 2009

3.1 In our previous report, we made a number of recommendations on financial management and governance. 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 both recommendations were 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 C E Morse

Comptroller and Auditor General, United Kingdom
External Auditor

20 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.

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.

**INDEPENDENT AUDITOR'S OPINION AND REPORT TO THE ADMINISTRATIVE
COUNCIL OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971**

I have audited the financial statements of the International Oil Pollution Compensation Fund 1971 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 – Administrative 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 Administrative Council. 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 1971'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 Administrative Council 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 1971 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 Administrative Council.

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 Administrative Council 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 1971'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



June 2011

ANNEX V

FINANCIAL STATEMENTS

OF THE

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

FOR THE FINANCIAL YEAR

ENDED 31 DECEMBER 2010

(1971)
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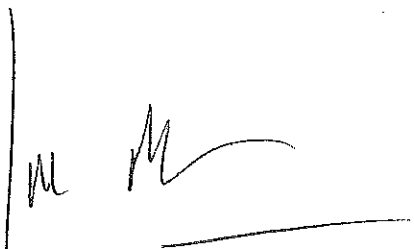
FINANCIAL STATEMENTS

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Statement V	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2010	8

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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 1971 at 31 December 2010.



Handwritten signature of José Maura, consisting of a stylized 'M' followed by a horizontal line.

José Maura
Acting Director



Handwritten signature of Ranjit S P Pillai, featuring a large, looping initial 'R' followed by 'S P Pillai'.

Ranjit S P Pillai
Head Finance & Administration Department

24 June 2011

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971
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	4	7 451 115	8 382 380
Contributions Receivable	5	310 369	310 058
Other Receivables	6	455 335	439 720
Total Current Assets		8 216 819	9 132 158
TOTAL ASSETS		8 216 819	9 132 158
LIABILITIES			
Current Liabilities			
Payables and Accruals	7	25 630	53 835
Total Current Liabilities		25 630	53 835
Non-Current Liabilities			
Provision for contributions and interest on overdue contributions	8	640 149	633 258
Contributors' account	9	437 577	1 006 243
Total Non-Current Liabilities		1 077 726	1 639 501
TOTAL LIABILITIES		1 103 356	1 693 336
NET ASSETS		7 113 463	7 438 822
FUNDS' BALANCES			
Balance b/f. 1 January		7 438 822	7 907 180
Surplus / (Deficit)		(325 359)	(468 358)
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES		7 113 463	7 438 822

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971
STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010
REVENUE		£
Contributions	11	6 680
Interest on investments		56 948
Other revenue	12	8 152
Total Revenue		71 780
EXPENSES		
Claims related expenses		154 948
Other Administrative costs		235 300
Provision for contributons and interest on overdue contributions	8	6 891
Total Expenses		397 139
DEFICIT FOR THE YEAR		(325 359)

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

STATEMENT III

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

	Note	<i>Accumulated Surpluses/Fund Balances</i>
		£
31 December 2009		7 723 365
Changes in accounting policy and other adjustments to net assets		
Initial recognition of provision for contributions and interest on overdue contributions	17	(633 258)
Adjustments to accruals and prepayments	17	(52 882)
Other adjustments to Fund balances	17	401 597
Total recognized changes in net assets since last published accounts		
	17	(284 543)
Adjusted opening balance 1 January 2010	17	7 438 822
Movements in Fund balances in 2010		
Deficit for the period		(325 359)
Total movement during the year		(325 359)
TOTAL NET ASSETS at 31 December 2010		7 113 463

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

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

	2010
	£
CASH FLOWS FROM OPERATING ACTIVITIES	
Deficit for the period	(382 307)
Increase in Receivables	(15 925)
Decrease in Payables and Accruals	(600 417)
Increase in Provision	6 891
Net cash flow from operating activities	(991 758)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned	60 493
Net cash flow from investing activities	60 493
Net decrease in cash and cash equivalents	(931 265)
Cash and cash equivalents at beginning of the year	8 382 380
Cash and cash equivalents at end of the year	7 451 115

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971
STATEMENT V
GENERAL FUND - ADMINISTRATIVE EXPENDITURE
 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED
 31 DECEMBER 2010

CLASS OF EXPENDITURE		BUDGET APPROPRIATIONS 2010	BUDGET OUT-TURN 2010	BALANCE OF APPROPRIATIONS 2010
		£	£	£
(a)	Management fee payable to 1992 Fund	225 000	225 000	-
(b)	Costs for winding up of the 1971 Fund	250 000	-	250 000
(c)	Administrative costs including External Audit fees	15 300	10 300	5 000
TOTAL		490 300	235 300	255 000

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 1971 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)-(i)).

(a) Basis of preparation

The financial statements of the 1971 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 1971 Fund's Financial Regulations:

1. The financial year is the calendar year.
2. The functional and reporting currency of the 1971 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.

(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 1971 Fund. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.

The 1971 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 1971 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 1 million SDR per incident (Financial Regulation 7.1(c)(i)) converted at the rate applicable on the date of the incident. Working capital is the balance available in the General Fund and is used for the purpose of operational support.

Separate Major Claims Funds are established for incidents where the total amount payable by the 1971 Fund exceeds 1 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 former 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.

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.

(d) Expenses

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.

(e) 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 financial year as published in the London Financial Times.

(f) Cash and Cash Equivalents

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

(g) Provisions and Contingent liabilities

Provisions are made for future liabilities and charges where the 1971 Fund has a present legal or constructive obligation as a result of past events and it is probable that the 1971 Fund will be required to settle the obligation.

1. Compensation Provision

Provision is made for all claims approved by the shipowner's insurer (P&I Club) and the 1971 Fund but not paid, at the amount approved by the 1971 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. 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 1971 Fund.

Estimates of contingent liabilities include all known or likely compensation claims against the 1971 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 1971 Fund Convention, be met from contributions levied by the Administrative Council.

(h) 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.

(i) Budgetary information

The Administrative Council approves the budget for administration costs. Budgets may be subsequently amended by the Administrative Council 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.

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 1971 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 and **Note 17**. The revised Statement of Financial Position is described in these financial statements as the Opening Balance 1.1.2010 (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 **£284 543** on 1 January 2010.

Key amendments under IPSAS

- Provision was created to cover the possible non-recoverability of contributions and interest on overdue contributions from contributors in the former Socialist Federal Republic of Yugoslavia and former USSR of £633 258.
- 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 £52 882.
- 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 £401 597.

Description	Assets	Liabilities	Net Effect on Fund Balances 1.1.2010
	£	£	£
Initial recognition of Provision for contributions and interest on overdue contributions		(633 258)	(633 258)
Adjustment to Accrual and Prepayments		(52 882)	(52 882)
Interest on Overdue Contributions Receivable - adjustments for accrued interest	399 159		399 159
Interest on Investment Receivable - adjustments for accrued interest	2 438		2 438
Total adjustments to fund balances	401 597	(686 140)	(284 543)

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.

Assets and Liabilities

4 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	3 851 115	2 932 380
Term deposits	3 600 000	5 450 000
	7 451 115	8 382 380

5 Contributions Receivable

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

CONTRIBUTIONS RECEIVABLE				
State	Previous levies General Fund £	Previous levies <i>Nissos Amorgos</i> Major Claims Fund £	Previous levies <i>Vistabella</i> Major Claims Fund £	Total £
Panama	311.97	-	-	311.97
Russian Federation	39 685.86	2 720.67	632.22	43 038.75
Former Socialist Federal Republic of Yugoslavia (Bosnia and Serbia)	127 293.40	-	3 260.41	130 553.81
Former USSR (Azerbaijan, Georgia and Turkmenistan)	133 207.80	-	3 257.39	136 465.19
	300 499.03	2720.67	7 150.02	310 369.72

Amounts receivable under the General Fund include contributions due to Major Claims Fund which have been closed and where balances if any have been transferred to the General Fund.

Contributors with outstanding contributions (£267 019) previously located in the former Socialist Federal Republic of Yugoslavia are now located in States of Bosnia and Serbia and contributors in the former USSR are located in the States of Azerbaijan, Georgia and Turkmenistan. This amount forms part of the provision (Note 8) made for non-recoverability of amounts due from them.

6 Other Receivables

	£
Tax recoverable	3 368
Accrued interest on investments	8 237
Interest on overdue contributions	443 730
Total	455 335

- (a) Tax recoverable relates to the VAT due from the United Kingdom Government.
- (b) Interest on overdue contributions includes £373 130 relating to interest due from the former Socialist Federal Republic of Yugoslavia (Bosnia and Serbia) and former USSR (Azerbaijan, Georgia and Turkmenistan) on the overdue contributions. This amount forms part of the provision (Note 8) made for non-recoverability of amounts due from them.

7 Payables and Accruals

	£
Payable to Lawyers and Experts	25 609
Due to the 1992 Fund	21
Total	25 630

8 Provision for contributions and interest on contributions

The total provision of £640 149 (**Statement I**) is made up of contributions receivable (£267 019) and the interest on overdue contributions (£373 130) due from contributors in the former Socialist Federal Republic of Yugoslavia and former USSR.

An increase of £6 891 (**Statement II**) has been made to the provision to reflect the interest due in 2010 on the overdue contributions from contributors in the former Socialist Federal Republic of Yugoslavia and former USSR.

9 Contributors Account

The amount of £437 577 is the balance on the Contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £3 545 credited in 2010 to contributors.

10 Working Capital

A working capital of £5 million was decided by the Administrative Council at its October 2002 session. The working capital was established to ensure that the 1971 Fund was in a position to meet compensation and claims related expenses which occur between the regular sessions of the Administrative Council.

Since the 1971 Fund Convention ceased to be in force on 24 May 2002, contributions can no longer be levied in respect of the General Fund to meet the working capital requirement. The General Fund balance (£3 795 861) is lower than the working capital.

Revenue and Expenditure

11 Contributions

At its session in October 2009, the 1971 Fund Administrative Council decided not to levy contributions (2009 contributions) with respect to the *Nissos Amorgos* and *Vistabella* Major Claims Funds. As mentioned in **Note 10** above no contributions can be levied with respect to the General Fund.

Assessment of initial contributions was made in 2010, based on contributing oil reports received late from Panama amounting to £6 680.

12 Other Revenue

	£
Interest on Overdue Contributions	8 002
Sundry income	150
Total	8 152

Sundry income of £150 relates to the write-off of credit balance on a contributor's account, which has ceased to exist.

13 Statement of Comparison of Budget and Actual Amounts

The 1971 Fund's budget and accounts are prepared using different basis. 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, timing and entity differences.

There are no reconciling items 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.

14 Segment reporting

Segment reporting has been made on the basis that the 1971 Fund classifies its activities into the General Fund and Major Claims Funds.

The General Fund covers the 1971 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 1 million SDR per incident.

Two Major Claims Funds were established for incidents where the total amount payable by the 1971 Fund exceeded 1 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).

- *Nissos Amorgos* Major Claims Fund was set up in 2001 for the incident in Venezuela (1997).
- *Vistabella* Major Claims Fund was set up in 1994 for the incident in the Caribbean (1991).

(a) Statement of Financial Position by segment

	2010 General Fund	2010 <i>Nissos Amorgos</i> MCF	2010 <i>Vistabella</i> MCF	2010 TOTAL
	£	£	£	£
ASSETS				
Current Assets				
Cash and Cash Equivalents	4 141 332	3 295 530	14 253	7 451 115
Contributions Receivable	300 499	2 720	7 150	310 369
Other Receivables	447 396	5 143	2 796	455 335
Total Current Assets	4 889 227	3 303 393	24 199	8 216 819
TOTAL ASSETS	4 889 227	3 303 393	24 199	8 216 819
LIABILITIES				
Current Liabilities				
Payables and Accruals	24 691	939	-	25 630
Total Current Liabilities	24 691	939	-	25 630
Non-Current Liabilities				
Provision for contributions and interest on overdue contributions	631 098	-	9 051	640 149
Contributors' account	437 577	-	-	437 577
Total Non-Current Liabilities	1 068 675	-	9 051	1 077 726
TOTAL LIABILITIES	1 093 366	939	9 051	1 103 356
NET ASSETS	3 795 861	3 302 454	15 148	7 113 463
FUNDS' BALANCES				
Balance b/f: 1 January	4 096 194	3 307 043	35 585	7 438 822
Deficit for the year	(300 333)	(4 589)	(20 437)	(325 359)
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES	3 795 861	3 302 454	15 148	7 113 463

(b) Statement of Financial Performance by segment

	2010 General Fund	2010 <i>Nissos Amorgos</i> MCF	2010 <i>Vistabella</i> MCF	2010 TOTAL
REVENUE	£	£	£	£
Contributions	6 680	-	-	6 680
Interest on investments	30 853	25 899	196	56 948
Other revenue	7 897	70	185	8 152
Total Revenue	45 430	25 969	381	71 780
EXPENSES				
Claims related expenses	103 740	30 558	20 650	154 948
Administrative costs	235 300	-	-	235 300
Provision for contributions and interest on overdue contributions	6 723	-	168	6 891
Total Expenses	345 763	30 558	20 818	397 139
DEFICIT FOR THE YEAR	(300 333)	(4 589)	(20 437)	(325 359)

15 Contingent Liabilities

The figures are based on information available up to 30 April 2011.

It should be noted that any estimate in this document of amounts to be paid by the 1971 Fund in compensation has been made solely for the purpose of assessment of contingent liabilities, without prejudice to the position of the 1971 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 1971 Fund estimated at £102 575 000 in respect of five 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/ Indemnification £	Other costs £	Total £
1	<i>Vistabella</i>	07.03.91	-	25 000	25 000
2	<i>Aegean Sea</i>	03.12.92	-	25 000	25 000
3	<i>Iliad</i>	09.10.93	6 000 000	50 000	6 050 000
4	<i>Nissos Amorgos</i>	28.02.97	38 000 000	25 000	38 025 000
5	<i>Plate Princess</i>	27.05.97	58 300 000	150 000	58 450 000
TOTAL			102 300 000	275 000	102 575 000

Vistabella

The insurer of the *Vistabella* was ordered by the competent Court of First Instance to reimburse the 1971 Fund the FFr8.2 million or €1.25 million (£1.21 million) paid by the Fund in compensation, plus interest. The insurer appealed against the judgement. In 2004 the Court of Appeal confirmed the judgement. The insurer did not appeal to the Court of Cassation. The 1971 Fund commenced summary proceedings against the insurer to enforce the judgement in Trinidad and Tobago, where the insurer is based. In March 2008, the Court delivered a judgement in the 1971 Fund's favour. The insurer has appealed against this judgement to the Court of Appeal. In July 2010, the Court had indicated that it wished to hear further submissions from the parties and the 1971 Fund.

The Fund's contingent liability relates only to legal costs estimated at £25 000.

Aegean Sea

A global settlement was reached between the 1971 Fund and the Spanish State whereby the Spanish State will pay any amounts awarded by the Courts against the 1971 Fund. The Spanish Courts have taken the view that this settlement is only an agreement between the parties and does not affect the legal rights of claimants against the 1971 Fund. Since the 1971 Fund is a defendant in these proceedings, it has to defend its position in respect of each claim.

The 1971 Fund's contingent liability relates to costs only, estimated at £25 000.

Iliad

In March 1994 the shipowner's liability insurer established a limitation fund amounting to Drs 1 497 million or €4.4 million (£3.9 million) with the court in Nafplion by the deposit of a bank guarantee. The shipowner and his insurer have taken legal action to prevent their rights to reimbursement from the 1971 Fund for any compensation payments in excess of the limitation amount applicable to the *Iliad*, as well as their right to indemnification, from becoming time-barred. The owner of a fish farm with a claim of Drs 1 044 million or €3 million (£2.6 million) has also interrupted the time-bar period and taken legal action against the 1971 Fund. Although all other claims (a further €6 million (£5.3 million)) have become time-barred *vis-à-vis* the 1971 Fund there is a possibility that the claimants will contest this.

The Fund's contingent liability in respect of compensation payments and indemnification is £6 million and other costs, mostly legal, are estimated at £50 000.

Nissos Amorgos

The *Nissos Amorgos* incident has given rise to claims which by far exceed the maximum amount available for compensation, 60 million SDR. In the 1971 Fund's view, the major part of these claims is inadmissible under the 1969 Civil Liability Convention (1969 CLC) and the 1971 Fund Convention. However, the contingent liabilities have been calculated on the basis of the 1971 Fund paying compensation up to its limit and indemnification to the shipowner as follows:

	US\$
60 million SDR	83 221 800<1>
less shipowner's limitation amount	<u>7 274 268<1></u>
	75 947 532
less compensation already paid by Fund	<u>18 325 924</u>
	57 621 608
plus indemnification of the shipowner	<u>1 804 894</u>
	59 426 502
	<u>£37 955 229</u>

<1> Conversion into US dollars in accordance with court judgement.

The Fund's contingent liability as regards costs is estimated at £25 000.

Plate Princess

At the October 2005 session of the 1971 Fund Administrative Council, the Venezuelan delegation stated that the claims arising from this incident in the opinion of their legal advisers were not time-barred although the 1971 Fund considered them to be. The Administrative Council considered the claims in February/March 2006 and in May 2006 and decided that they were time-barred.

In 2009, the Maritime Court of Appeal of Caracas dismissed the appeal by the Master, shipowner and 1971 Fund and ordered the defendants to pay compensation to the fishermen affected by the oil spill to be quantified by three Court Experts to be appointed. At its October 2009 session, the 1971 Fund Administrative Council decided that the 1971 Fund should appeal against the decision by the Maritime Court of Appeal before the Supreme Court.

In January 2011, the experts appointed by the Maritime Court of First Instance concluded that the losses suffered by the claimants amounted to BsF 769 892 085.34 (£111.6 million), including interest. Since the total amount available for compensation under the 1969 CLC and the 1971 Fund Convention (60 million SDR) was equivalent to BsF 403 473 004.80 (£58.7 million) and the Maritime Court of Appeal had fixed the limit of liability of the shipowner as BsF 2 884 982.95 (£420 000), they calculated that the compensation payable by the 1971 Fund should be BsF 400 628 021.85 (£58.3 million).

At its March 2011 session, the 1971 Fund Administrative Council decided to instruct the Director not to make any payments in respect of the *Plate Princess* incident and to keep the Administrative Council advised of developments in the legal proceedings in the Venezuelan Courts.

Based on the court judgement the contingent liability for compensation has been stated at £58.3 million and costs are estimated at £150 000.

16 Related Parties and Key Management Personnel

The 1992 Fund administers the 1971 Fund thereby they are related parties in accordance with IPSAS 20. The Director of the 1992 Fund is *ex-officio*, also the Director of the 1971 Fund. The Director is assisted by a Management Team which has the authority and responsibility for planning, directing and controlling the activities of the IOPC Funds in the day to day running of the joint Secretariat.

The aggregate remuneration paid to key management personnel of the 1992 Fund is in Note 29 to the 2010 Financial Statements of the 1992 Fund.

Related Parties

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, Thomas Miller and Meana Green Maura & Co in 2010.

17 Change in Accounting Policy and other adjustments to Net Assests

Adjustments to Fund balances decreased the net assets by £284 543 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 and recognition of provision for contributions and interest on overdue contributions.

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)
	GBP		
ASSETS			
Current assets			
Cash and Cash Equivalents	8 382 380	-	8 382 380
Contributions outstanding	310 058	-	310 058
Other Receivables	38 123	401 597	439 720
Total current assets	8 730 561	401 597	9 132 158
TOTAL ASSETS	8 730 561	401 597	9 132 158
LIABILITIES			
Current liabilities			
Payables and Accruals	953	52 882	53 835
Provision for contributions and interest on overdue contributions	-	633 258	633 258
Total current liabilities	953	686 140	687 093
Non-current liabilities			
Contributors' account	1 006 243	-	1 006 243
Total non-current liabilities	1 006 243	-	1 006 243
TOTAL LIABILITIES	1 007 196	686 140	1 693 336
NET ASSETS	7 723 365	(284 543)	7 438 822
TOTAL FUNDS' BALANCES	7 723 365	(284 543)	7 438 822

18 Events after Reporting Date

The 1971 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 reporting date and the date when the financial statements have been authorised for issue that would have impacted these statements.