



INTERNATIONAL
OIL POLLUTION
COMPENSATION
FUND 1992

ASSEMBLY
2nd session
Agenda item 8

92FUND/A.2/6
20 July 1997

Original: ENGLISH

FINANCIAL STATEMENTS AND AUDITOR'S OPINION

Note by the Director

1 In accordance with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the financial statements of the 1992 Fund for the first Financial Period 30 May to 31 December 1996. In view of the limited financial activities of the 1992 Fund for that financial period, the External Auditor has decided not to produce any Report on the accounts for that period.

2 The Director has prepared comments on the financial statements. These comments are at Annex I.

3 Under Financial Regulation 13.15 the External Auditor shall express an opinion on the financial statements on which he is reporting. This Opinion is at Annex II.

4 The certified financial statements for the financial period 30 May to 31 December 1996 are at Annex III.

Action to be taken by the Assembly

5 The Assembly is invited to consider the External Auditor's Opinion and to approve the accounts.

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ANNEX I

**DIRECTOR'S COMMENTS ON THE
FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD
30 MAY TO 31 DECEMBER 1996**

1 INTRODUCTION

1.1 Financial Regulation 12.3 provides that the financial statements to be prepared and submitted to the Assembly by the Director in accordance with Article 29.2(f) of the 1992 Fund Convention, and on which the External Auditor will report in accordance with Regulation 13.15 of the Financial Regulations, shall comprise:

- (a)
 - (i) a Statement of Appropriations and Obligations Incurred;
 - (ii) Income and Expenditure Accounts for all funds;
 - (iii) a Balance Sheet;
 - (iv) a Cash Flow Statement
- (b) such notes as may be necessary for a better understanding of the financial statements, including a statement of the significant accounting policies and details of contingent liabilities.

1.2 The following financial statements for the period 30 May - 31 December 1996 are submitted herewith:

Statement I	Statement of Budget Appropriations and Obligations Incurred in respect of the General Fund for the Financial Period 30 May - 31 December 1996
Statement II	Income and Expenditure Account in respect of the General Fund for the Financial Period 30 May - 31 December 1996
Statement III	Balance Sheet of the 1992 Fund as at 31 December 1996

1.3 In addition to the financial statements submitted, the following report is attached:

Schedule	Details of Contingent Liabilities of the 1992 Fund as at 31 December 1996.
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2 COMMENTS ON THE RESPECTIVE FINANCIAL STATEMENTS

2.1 **Statement of Budget Appropriations and Obligations incurred in respect of the General Fund for the Financial Period 30 May - 31 December 1996 (Statement I)**

This Statement follows the layout of the 1992 Fund Budget for 1996 (document 92FUND/A.1/26). It should be noted that the 1971 Fund Assembly and the 1992 Fund Assembly, at their 2nd extraordinary session and 1st session, respectively, decided that the cost of running the joint Secretariat should, for the period 30 May to 31 December 1996, be distributed with 3/4 to be paid by the 1971 Fund and 1/4 by the 1992 Fund (document 71 FUND/A/ES.2/22, paragraph 9.1 and document 92FUND/A.1/34, paragraph 11.1). The only exception was the appropriation for meetings (Chapter III) which was calculated on the basis of the expected duration of the respective meetings of the 1992 Fund and the 1971 Fund. Statement I shows, therefore, the total obligation incurred by the 1992 Fund after the split between the Funds.

In addition to the joint administration costs, a separate chapter relating only to expenditure of the 1992 Fund was created (Chapter VII - Expenditure relating only to the 1992 Fund) and includes an

appropriation of £70,000 in respect of expenses incurred by the 1971 Fund prior to the entry into force of the 1992 Fund Convention, and a further appropriation of £50,000 for the period 30 May to 31 December 1996.

For a better understanding, this Statement should be read in conjunction with the Director's comments on the 1971 Fund Financial Statement I (document 71FUND/A.20/6). The total expenses charged to the 1992 Fund by the 1971 Fund amounted to £171,133, as compared with an appropriation of £218,508. The total obligations incurred, including expenditure relating only to the 1992 Fund, amount to £242,123 as compared with the total appropriation of £338,508, resulting in a saving of £96,385.

I Personnel

The total expenditure on Personnel charged to the 1992 Fund was £102,022, as compared with the appropriation of £114,878, resulting in a saving of £12,856.

II General services

The total expenditure charged to the 1992 Fund for General Services was £38,428 as compared with the appropriation of £47,023, resulting in a saving of £8,595.

III Meetings

The total expenditure on Meetings was £9,433 as compared with the appropriation of £18,718, resulting in a saving of £9,285.

The appropriation of £4,215 for the autumn session of the Assembly was exceeded by £304 which was met by savings within this chapter. No Intersessional Working Group meeting was held. Costs relating to the 1st session of the 1992 Fund Assembly held in June 1996 amounted to £4,914, resulting in a saving of £5,624 out of an appropriation of £10,538.

IV Conferences and travel

The total costs charged to the 1992 Fund by the 1971 Fund amounted to £3,508 as compared with an appropriation of £5,902, resulting in a saving of £2,394.

V Miscellaneous expenditure

The total cost charged to the 1992 Fund under this head was £17,742, as compared with the appropriation of £24,610, resulting in a saving of £6,868.

VI Unforeseen expenditure

No expenditure falling within this chapter was charged to the 1992 Fund.

VII Expenses incurred only by 1992 Fund

For expenses prior to 30 May 1996 the total obligation incurred amounted to £68,117 as compared with the appropriation of £70,000, resulting in a saving of £1,883. For expenses from 30 May to 31 December 1996, the total obligation incurred amounted to £2,873. The very substantial surplus of £47,127 was due to the fact that the appropriation of £50,000 was based on the expectation that further services of consultants would be required during the second half of 1996. In the event, these services were not required.

2.2 Income and Expenditure Account in respect of the General Fund for the Financial Period 30 May 1996 - 31 December 1996 (Statement II)

I Income

The levy of 1996 annual contributions of £4 million for the General Fund decided by the Assembly is due on 1 February 1997. Therefore, no income from contributions was received in 1996.

There was no other income during 1996.

II Expenditure

The total expenditure was £242,123 representing the 1992 Fund's proportion of the total obligations incurred in respect of the costs of running the joint Secretariat (£171,133) and the expenditure relating to only the 1992 Fund (£70,990).

III Excess/(shortfall) of income over expenditure

A shortfall of £242,123 was recorded for the financial period ended 31 December 1996. However, as decided by the Assembly at its 1st session, the shortfall in respect of the administrative expenditure was met by a loan from the 1971 Fund, pending receipt by the 1992 Fund of the 1996 contributions in 1997 (document 92FUND/A.1/34, paragraph 28.3).

2.3 Balance Sheet as at 31 December 1996 (Statement III)

I Due to 1971 Fund

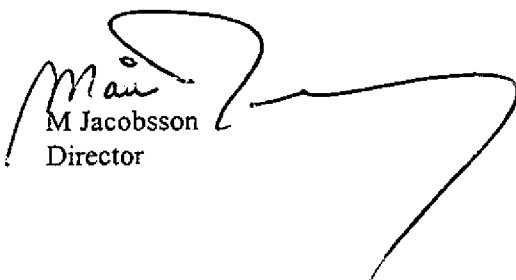
An amount of £237,898 is due to the 1971 Fund. This amount will be repaid in 1997 on receipt by the 1992 Fund of the 1996 General Fund contributions.

II Prepaid contributions

The amount of £4,225 represents 1996 annual contributions which were received in 1996 (ie before the due date of 1 February 1997).

III General Fund Balance

The figure of £242,123 represents the excess of Expenditure over Income in respect of the General Fund.


M Jacobsson
Director

ANNEX II

**FINANCIAL STATEMENTS OF THE INTERNATIONAL
OIL POLLUTION COMPENSATION FUND 1992 FOR
THE YEAR ENDED 31 DECEMBER 1996**

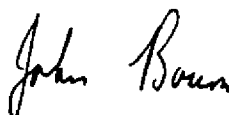
OPINION OF THE EXTERNAL AUDITOR

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

I have examined the appended financial statements, comprising Statements I to III, the Schedule and Notes, of the International Oil Pollution Compensation Fund 1992 for the year ended 31 December 1996 in accordance with generally accepted common auditing standards. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

S. In my opinion the financial statements present fairly the financial position as at 31 December 1996 and the results of the year then ended; that they were prepared in accordance with the 1992 Fund's stated accounting policies; and that the transactions were in accordance with the Financial Regulations and legislative authority.

I have not considered it necessary to issue a report on my audit of the 1992 Fund's financial statements.



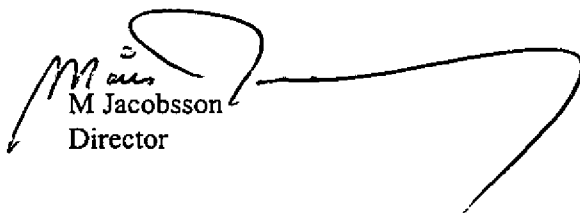
Sir John Bourn 17th July 1997
Comptroller and Auditor General, United Kingdom
External Auditor

ANNEX III

**FINANCIAL STATEMENTS
OF THE INTERNATIONAL OIL
POLLUTION COMPENSATION FUND 1992
FOR THE FINANCIAL PERIOD
30 MAY - 31 DECEMBER 1996**

CERTIFICATION OF THE FINANCIAL STATEMENTS

The appended financial statements numbered I to III and the supporting schedule are certified.


M Jacobsson
Director


S O Nte
Finance Officer

STATEMENT I

GENERAL FUND

STATEMENT OF BUDGET APPROPRIATIONS AND OBLIGATIONS INCURRED FOR THE FINANCIAL PERIOD 30 MAY - 31 DECEMBER 1996

CLASS OF EXPENDITURE		NOTE	BUDGET APPROPRIATIONS		OBLIGATIONS INCURRED		BALANCE OF APPROPRIATIONS	
SECRETARIAT			£		£		£	
I	PERSONNEL			114,878		102,022		12,856
II	GENERAL SERVICES			47,023		38,428		8,595
III	MEETINGS							
a	Assembly October 1996 session		4,215		4,519		(304)	
b	Intersessional Working Group		3,965		-		3,965	
c	Assembly June 1996 session		10,538		4,914		5,624	
				18,718		9,433		9,285
IV	CONFERENCES AND TRAVEL			5,902		3,508		2,394
V	MISCELLANEOUS EXPENDITURE			24,610		17,742		6,868
VI	UNFORESEEN EXPENDITURE			7,377		-		7,377
TOTAL EXPENDITURE I- VI				218,508		171,133		47,375
VII	EXPENDITURE RELATING ONLY TO 1992 FUND							
a	Expenses prior to 30.5.96		70,000		68,117		1,883	
b	Expenses from 30.5.96		50,000		2,873		47,127	
				120,000		70,990		49,010
TOTAL EXPENDITURE I- VII				338,508		242,123		96,385

STATEMENT II**GENERAL FUND**INCOME AND EXPENDITURE ACCOUNT FOR THE
FINANCIAL PERIOD 30 MAY - 31 DECEMBER 1996

	Note	1996	
INCOME		£	£
			NIL
EXPENDITURE			
Secretariat expenses (Statement I)			
Obligations incurred	2		242,123
Balance as at 31 December 1996			(242,123)

STATEMENT III

BALANCE SHEET OF THE 1992 FUND AS AT 31 DECEMBER 1996

	Note	1996
ASSETS		£
TOTAL ASSETS		NIL
LIABILITIES		
Due to 1971 Fund	3	237,898
Prepaid contributions	4	4,225
TOTAL LIABILITIES		242,123
GENERAL FUND BALANCE	5	(242,123)
TOTAL LIABILITIES AND GENERAL FUND BALANCE		NIL

NOTES TO FINANCIAL STATEMENTS

1 Significant Accounting Policies

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

(a) Rules and procedures

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

(b) Basis of Preparation

For the financial period 30 May to 31 December 1996, the accounts were prepared on the basis of a General Fund only.

(c) Accounting convention

The accounts are prepared under the historical cost convention.

(d) Contingent liabilities

In accordance with Financial Regulation 12.3(b), details of contingent liabilities are given in the Schedule. These contingent liabilities represent all known or likely claims against the 1992 Fund. All these claims may not necessarily mature. In the case of fees, these are calculated for the coming year only, due to the difficulties of predicting the length and costs of legal proceedings or of negotiations for reaching out-of-court settlements. Those liabilities which mature will, under the 1992 Fund Convention, be met from contributions levied by the Assembly.

(e) Income

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

Income from contributions is included only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States.

(f) Translation of currencies

For the translation of currencies, the rate applied is the rate of exchange for the pound against the German currency on 31 December 1996 as published in the Financial Times, i.e. D-Mark 2.6373 = £1.

2 Obligations incurred

In accordance with the 1971 and the 1992 Fund Assemblies' decisions, the cost of running the joint Secretariat for the period 30 May - 31 December 1996 was to be distributed with 3/4 to be paid by the 1971 Fund and 1/4 to be paid by the 1992 Fund (document 71FUND/A/ES.2/22, paragraph 9.1 and document 92Fund/A.1/34, paragraph 11.1). The only exception was the appropriation for meetings (Chapter III) which was calculated on the basis of the expected duration of the meetings of the 1971 and the 1992 Funds, respectively. The expenditure under this chapter charged to the 1992 Fund was as follows:

- 20% of the costs of the October 1996 sessions
- 50% of the costs of the Assembly sessions held in June 1996

There was also some expenditure attributable to only the 1992 Fund which includes costs prior to the 1992 Fund Convention entering into force on 30 May 1996.

The total obligation of £242,123 is made up as follows:

	£	£
Proportion of joint Secretariat costs		171,133
Expenditure relating only to the 1992 Fund:		
Up to 30 May 1996	68,117	
From 30 May 1996	2,873	
		<u>70,990</u>
		<u>242,123</u>

3 Loan due to 1971 Fund

An amount of £237,898 is due to the 1971 Fund on receipt of General Fund contributions in early 1997. No interest has been applied to this loan.

4 Prepaid Contributions

The figure of £4,225 represents 1996 annual contributions to the General Fund received as at 31 December 1996, in advance of the due date of 1 February 1997. The sum is made up of receipts as follows:

	£	£
Australia	1,595	
Germany	1,749	
Japan	<u>881</u>	
		<u>4,225</u>

5 General Fund Balance

The figure of £242,123 represents the excess of Expenditure over Income in respect of the General Fund.

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SCHEDULE

DETAILS OF CONTINGENT LIABILITIES OF THE 1992 FUND AS AT 31 DECEMBER 1996

1 There are contingent liabilities of the 1992 Fund estimated at £1,085,860 with respect to one incident as at 31 December 1996.

2 Details of the contingent liabilities, given in rounded figures, are as follows:

<i>Incident in Germany (20.6.1996)</i>	£
<u>Compensation</u>	
Claims (DM 2.6 million)	985,860
Lawyers' and Surveyors' fees	<u>100,000</u>
	1,085,860

3 Out of these contingent liabilities, nothing has been liquidated as at 30 April 1997.

4 On 20 June 1996 crude oil was found to have polluted a number of German islands close to the border with Denmark in the North Sea. Investigations by the German authorities resulted in their suspecting that the oil originated from the Russian tanker *Kuzbass*. The German authorities intend to claim compensation from the owner of the *Kuzbass*. The limitation amount applicable to the *Kuzbass* is estimated at 38 million Special Drawing Rights (£32 million). The German authorities have stated, however, that if these attempts were to be unsuccessful, they would claim against the 1992 Fund. If the German authorities were to pursue a claim against the 1992 Fund, the question arises of whether they could prove that the damage resulted from an incident involving one or more ships as defined in the 1992 Civil Liability Convention.

EVENTS AFTER THE END OF THE FINANCIAL PERIOD

On 2 January 1997, a major pollution incident involving the Russian tanker *Nakhodka* occurred in the Sea of Japan causing serious pollution damage in Japan. This incident is expected to give rise to claims significantly exceeding the maximum amount of compensation available under the 1969 Civil Liability Convention and the 1971 Fund Convention. It is anticipated, therefore, that there will be claims for significant amounts against the 1992 Fund.