

MEETING OF ALL FORMER
CONTRACTING STATES TO THE 1971
FUND CONVENTION
Agenda item 3

71FUND/3
10 March 2015
Original: ENGLISH

**2014 FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT AND OPINION**

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971 (1971 FUND)

Note by the Secretary-General

<i>Summary:</i>	The 1971 Fund Financial Statements and the Auditor's Report and Opinion are set out
<i>Action to be taken:</i>	Approval of 2014 Financial Statements

1 Introduction

- 1.1 In accordance with Article 29.2(f) of the 1971 Fund Convention, the Director of the International Oil Pollution Compensation Fund (1971 Fund) has prepared the Financial Statements of the 1971 Fund for the financial year 2014. The Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The Director has also prepared comments on the Financial Statements, which are at Annex I.
- 1.2 The Director has included a Statement on Internal Control, which provides positive confirmation of the internal control framework in place for 2014. This statement is at Annex II.
- 1.3 The Financial Statements of the 1971 Fund are audited by the Comptroller and Auditor General of the United Kingdom. The External Auditor's Report for the financial period ended 31 December 2014 is at Annex III and the External Auditor's Opinion is at Annex IV.
- 1.4 The certified Financial Statements for the financial period 1 January to 31 December 2014 are at Annex V and consist of the following:
 - Statement I Statement of Financial Position at 31 December 2014
 - Statement II Statement of Financial Performance for the year ended 31 December 2014
 - Statement III Statement of Changes in Net Assets for the year ended 31 December 2014
 - Statement IV Statement of Cashflow for the year ended 31 December 2014
 - Statement V Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2014

- 1.5 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.

2 Action to be taken by former Member States of the 1971 Fund

Former 1971 Fund Member States are invited to consider the External Auditor's Report and Opinion and to approve the final set of Financial Statements for the 1971 Fund for the financial period 1 January to 31 December 2014.

ANNEX I

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

DIRECTOR'S COMMENTS ON THE FINAL SET OF FINANCIAL STATEMENTS FOR THE 1971 FUND COVERING THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2014

1 Introduction

- 1.1 The International Oil Pollution Compensation Fund 1971 (1971 Fund) was established in October 1978. It operated within the framework of two international Conventions: the 1969 International Convention on Civil Liability for Oil Pollution Damage (1969 Civil Liability Convention (1969 CLC)) and the 1971 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage (1971 Fund Convention). The 1971 Fund Convention ceased to be in force on 24 May 2002 in accordance with Article 43(1) of the 1971 Fund Convention as amended by Article 2(a) of the Protocol of 2000 to the Convention, and did not apply to incidents occurring after that date. Claims arising from incidents occurring before that date in 1971 Fund Member States have been settled prior to any remaining assets being distributed among contributors.
- 1.2 The 1971 Fund was financed by contributions paid by any person who had 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 was based on reports of oil receipts in respect of individual contributors, which were submitted to the Secretariat by governments of former Member States.
- 1.3 The maximum amount of compensation payable under the 1969 CLC and the 1971 Fund Convention for any one incident was 60 million Special Drawing Rights (SDR)^{<D>}. This amount, which as at 31 December 2014 corresponded to £56 million, included the sum actually paid by the shipowner or his insurer (Protection and Indemnity Club (P&I Club)).
- 1.4 Since the 1971 Fund Convention ceased to be in force in 2002, there were no States that were Members of the 1971 Fund, and the Fund was administered by former Member States. The 1971 Fund had an Administrative Council composed of all States which at any time were Members of that Fund. The Administrative Council dealt with both administrative and incident-related matters and was responsible for the winding up of the Organisation.
- 1.5 At its October 2014 session the 1971 Fund Administrative Council adopted a Resolution that the 1971 Fund be dissolved and its legal personality cease to exist with effect from the expiry of the last day of the financial year 2014 (31 December 2014). The decision was taken by a vote, in which 29 former Member States voted in favour of the Resolution, 14 against and three abstained.
- 1.6 Following the decision of the Administrative Council to dissolve the 1971 Fund at the end of 2014, the Financial Statements for 2014 are the final set of financial statements and have been prepared on a basis other than that of a going concern.

2 Freezing injunction against the assets of the 1971 Fund

- 2.1 On 7 May 2014, the High Court in London allowed a freezing order over the assets of the 1971 Fund brought by Assuranceforeningen Gard (the 'Gard P&I Club') in respect of the *Nissos Amorgos* incident. The effect of the freezing order did not prevent the 1971 Fund from dealing with its assets in the ordinary course of its business, including making compensation payments under the 1971 Fund Convention and paying its ordinary expenses, or from spending reasonably on legal representation.

<D> 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 and a number of other intergovernmental organisations.

The freezing order was subject to appeal by the 1971 Fund to challenge the jurisdiction of the English Courts.

- 2.2 On 17 October 2014 in a judgment handed down by the High Court in London over compensation payments for the *Nissos Amorgos* incident, the judge ruled that the 1971 Fund had no contract with Gard Club under which it was required to reimburse the Club in respect of the compensation claimed by the Bolivarian Republic of Venezuela above the shipowners' limitation amount. The judge also concluded that the 1971 Fund had immunity from jurisdiction of the English Courts in respect of the claim brought against it by Gard Club in London over the *Nissos Amorgos* incident.
- 2.3 On 21 October 2014, Gard Club was also denied leave to appeal the judgment of 17 October 2014. The 1971 Fund was also awarded all costs against the Club.
- 2.4 On 12 November 2014 the freezing order over the assets of the 1971 Fund was discharged.
- 2.5 In December 2014 all litigation in respect of this case ended.

3 Decision to dissolve the 1971 Fund

- 3.1 At its October 2013 session, the 1971 Fund Administrative Council with a view to deciding to dissolve the 1971 Fund at its October 2014 session instructed the Director to resolve as many of the outstanding issues as possible and to study the legal and procedural issues relating to the winding up of the 1971 Fund.
- 3.2 At its May 2014 session, the 1971 Fund Administrative Council decided to confirm its intention to dissolve the 1971 Fund at its October 2014 session. At the same session the 1971 Fund Administrative Council adopted Resolution N°17 on the Preparation for the Dissolution of the International Oil Pollution Compensation Fund (1971 Fund). The Council also instructed the Director to submit to the October 2014 session of the 1971 Fund Administrative Council Resolution N°18 on the Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) with effect from the expiry of the last day of the financial year 2014 (31 December 2014).
- 3.3 At its session in October 2014 the Council decided that the 1971 Fund be dissolved and its legal personality would cease to exist from 31 December 2014 by adopting Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund).
- 3.4 Operative paragraph 3 of Resolution N°18 authorised the Director, in consultation with the Chairman of the 1971 Fund Administrative Council, to take any necessary and reasonable steps to implement paragraphs 6 and 7 of Resolution N°17 of 9 May 2014 dealing with reimbursing surplus amounts on dissolution of the 1971 Fund from the General Fund and the *Nissos Amorgos* Major Claims Fund to the respective contributors. Resolution N°18 further authorised the Director, in consultation with the Chairman of the 1971 Fund Administrative Council, to take any necessary and reasonable steps to give any remaining monies not so distributed, to the World Maritime University, the International Maritime Law Institute and the International Maritime Safety, Security and Environment Academy in equal shares.

4 Administration of the 1971 Fund

- 4.1 The 1971 Fund was administered by the International Oil Pollution Compensation Fund 1992 (1992 Fund) and a management fee was paid annually by the 1971 Fund to the 1992 Fund.
- 4.2 The Director of the 1992 Fund was *ex-officio*, also the Director of the 1971 Fund. He was assisted by a Management Team in the day-to-day running of the joint Secretariat. The 1971 Fund used external consultants to provide advice on legal and technical matters as well as on matters relating to management.

Audit Body

- 4.3 The governing bodies of the IOPC Funds established a joint Audit Body for the three Funds composed of seven members elected by the 1992 Fund Assembly: six named individuals nominated by 1992 Fund Member States and one external 'expert' with experience in audit matters nominated by the Chairman of the 1992 Fund Assembly.
- 4.4 In October 2011 the 1992 Fund Assembly decided that the Audit Body would function with five members, including the Chairman, nominated by 1992 Fund Member States and the external 'expert' for the next three-year term. In October 2014 a new Audit Body was elected for a new three-year term made up of the full complement of members. The Audit Body normally meets three times a year. In 2014, it met in March, June and December.

Investment Advisory Body

- 4.5 The governing bodies of the IOPC Funds have established a joint Investment Advisory Body (IAB), 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.
- 4.6 In October 2014 the 1992 Fund Assembly re-elected the IAB members for a further term of three years. The IAB normally meets four times a year. In 2014 it met in March, May, September and November.

Financial risk management

5.1
National Audit Office

The Risk Register consists of two categories of risk, namely operational risk and institutional risk. Under operational risk, five areas of risk were identified i.e contributions/finance, governance/management, compensation, safety/security and communications/publications. The sub-risks in these areas were identified. Processes and procedures for their management were mapped, assessed and documented. This exercise allowed the Secretariat to prioritise the key risks and to ensure that these risks were adequately mitigated and managed. Following the annual review conducted by the Management Team in 2014, a Key Risk Register was prepared which was reviewed by the Audit Body. The potential ramifications of the winding up of the 1971 Fund were included in the 2014 Risk Register as a key risk.

- 5.2 The 1971 Fund established a framework of internal control as set out in the Statement on Internal Control (Annex II).
- 5.3 The 1971 Fund's financial risk management policies focused 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 was managed using the Internal Investment and Hedging Guidelines approved by the Director, which had been developed in accordance with advice from the joint IAB. Established policies covered 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.
- 5.4 As at 31 December 2014, all assets of the 1971 Fund held only in cash, in Pounds sterling, had been distributed in accordance Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund).
- 5.5 The 1971 Fund's credit risk was spread widely and its investment policy limited the amount of credit exposure to any one counterparty and included minimum credit quality guidelines.

6 2014 Financial overview

6.1 2014 Financial Statements – Statement of Financial Position (Statement I)

Assets and Liabilities

- (a) The 1971 Fund's cash assets at the end of the 2014 amounted to Nil compared to some £4.9 million at the end of 2013 which were held in Pounds sterling.
- (b) At its session in October 2014, the 1971 Fund Administrative Council decided to write off contributions due of £43 038 from the Russian Federation in order to facilitate the winding up of the 1971 Fund. This amount represented 0.01% of the total amount levied over the years (£386 million). However, in accordance with Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) (October 2014) a total reimbursement of £547 from the General Fund and the *Nissos Amorgos* Major Claims Fund was due to a contributor in the Russian Federation. The contributions net of the reimbursement amounting to £42 491 and the interest on the overdue contributions were written off in 2014.
- (c) The contributors' account had a balance of £175 545 as at 31 December 2013 made up of net overpayments by contributors and reimbursement of contributions in accordance with the Administrative Council's decisions. During 2014 contributors were either reimbursed or had waived their right to reimbursement.
- (d) Payments relating to the *Vistabella* Major Claims Fund in 2014 continued to be made from the General Fund by way of loans in accordance with the 1971 Fund's Financial Regulations. The deficit of £145 941 on the closure of the *Vistabella* Major Claims Fund in 2014 was transferred to the General Fund.
- (e) After settling all liabilities, the balance of the 1971 Fund's assets was distributed in accordance with Resolution N°17 and Resolution N°18 and the 1971 Fund's Financial Regulations.
- (f) An amount of £29 117 was retained in the 1971 Fund bank account as a contingency in the event of unforeseen expenditure occurring after 8 December 2014 (the date when the contributors were reimbursed).
- (g) Since there were no such expenses and in accordance with Resolution N°18, an amount of £29 117 was paid to the World Maritime University, the International Maritime Law Institute and the International Maritime Safety, Security and Environment Academy in equal shares.
- (h) There were no amounts receivable or payable as at 31 December 2014.
- (i) As at 31 December 2014 the net asset balance on the 1971 Fund was Nil compared with the balance on 31 December 2013 of £4 673 361.

6.2 2014 Financial Statements – Statement of Financial Performance (Statement II)

Revenue and expenses

- (a) Revenue for the year was limited mainly to the interest on investments of £18 797.
- (b) The total expenditure for the year 2014 was £4 665 293.
- (c) Compensation/indemnification costs and claims-related expenditure during 2014 amounted to some £1 610 823 and related mainly to the *Iliad* and *Nissos Amorgos* incidents.
 - At its October 2014 session, the 1971 Fund Administrative Council authorised the Director to reach a global settlement with the North of England P&I Club for €1 million (£801 925)

in relation to the *Iliad* incident.

- An amount of some £654 582 was paid in 2014 in respect of the *Nissos Amorgos* incident. Included was an amount of US\$344 090 (£213 047) paid to the Gard P& I Club in settlement of the 1971 Fund's contribution to the joint costs incurred in relation to the incident. Legal fees totaling some £806 443 accounted for a large proportion of the amount paid. This amount was reduced following a court judgement awarding the 1971 Fund £400 000 in respect of recovery of legal fees from the Gard P&I Club.
 - In relation to the *Vistabella* incident and in accordance with the instructions given by the 1971 Fund Administrative Council in October 2013, the Director, for the purpose of the winding up of the 1971 Fund, had reached an out-of-court settlement with the insurer to withdraw the appeal before the Privy Council in the UK so as to close the incident. An amount of £100 000 was paid to the insurer to meet its legal costs.
- (d) At their October 2013 sessions, the 1971 Fund Administrative Council and the 1992 Fund Administrative Council, acting on behalf of the 1992 Fund 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 2014. 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 2014 was set at £240 000 (15 days) based on the joint Secretariat budget for 2014 of £4 165 960.
- (e) At its session in October 2014, the 1971 Fund Administrative Council approved an additional management fee of £240 000 for the calendar year 2014 in recognition of the substantial additional time spent by the Director and Secretariat staff in matters dealing with the winding up of the 1971 Fund and in respect of defending the 1971 Fund against legal action brought by the Gard P&I Club in respect of the *Nissos Amorgos* incident.
- (f) The Council, at the same session, noted the external audit fees for both the 2013 and 2014 Financial Statements, the costs of transferring the 1971 Fund archives into electronic form, the cost payable to IMO for holding a one-day meeting of former 1971 Fund Member States to approve the final Financial Statements of the 1971 Fund and other costs such as legal and travel costs associated with the winding up of the 1971 Fund. Travel costs also included the cost of attendance of the three former Directors of the 1971 Fund at the meeting at IMO.
- (g) The total administrative expenditure for the 1971 Fund in 2014 totalled £674 435 and is summarised in the table below:

Expenditure relating only to 1971 Fund	Revised 2014 Budget appropriations £	2014 Budget out-turn £	Balance of appropriations £
(a) Management fee payable to 1992 Fund for 2014	240 000	240 000	-
(i) Additional management fee payable to 1992 Fund	240 000	240 000	
(b) Costs of winding up of the 1971 Fund	250 000		82 465
(i) Legal and related fees		58 367	
(ii) Cost of transferring 1971 Fund archives		65 081	
(iii) Cost payable to IMO for holding meeting in 2015		17 890	
(iv) Other costs		26 197	
		167 535	
(c) Administrative costs including:			5 400
(i) External audit fees for 2013	32 300	12 900	
(ii) External audit fees for 2014		14 000	
		26 900	
Total	762 300	674 435	87 865

- (h) Following the decision to wind up the 1971 Fund at the end of 2014, reimbursements from the General Fund and *Nissos Amorgos* Major Claims Fund were made in 2014. A total of 213 contributors were identified for reimbursement.

- An amount of some £1.53 million was reimbursed to 201 contributors to the *Nissos Amorgos* Major Claims Fund. Reimbursement to the contributors was based on the 1996 oil receipts. The summary of the reimbursement made and the credit per tonne is set out below:

Major Claims Fund	Date of incident	Place of incident	Total of previous levies £	Amount to be credited by 8 December 2014 £	Oil year	Total oil quantity (tonnes)	Credit per tonne £
<i>Nissos Amorgos</i>	28.02.97	Venezuela	13 500 000	1 530 000	1996	1 205 697 482	0.0012690


- An amount of some £850 000 was reimbursed to 183 contributors from the General Fund and the credit per tonne is set out in Note 12 Attachment 1. The mechanism for reimbursement from the General Fund was decided by the 1971 Fund Administrative Council at its 15th session in October 2004. The balance on the General Fund was first distributed between the former Member States on the basis of the percentage of the total contributions made to the General Fund by contributors in the respective former Member State over the years. The amount allocated to a given State was then distributed between the contributors in that State on the basis of the quantities of contributing oil reported as having been received during 1997 by each contributor in that State.

	Amount to be credited by 8 December 2014 £	Oil year	Total oil quantity (tonnes)	Credit per tonne £
General Fund	850 000	1997	1 196 990 752	Dependent on % of total contribution by the former Member State (see Note 12)

6.3 Summary

General Fund/Major Claims Fund (MCF)	Balance as at 31/12/13	Payments made 01/01/14 to 8/12/14	Revenue 01/01/14 to 8/12/14	2014 Reimbursement to contributors 8/12/14	Contingency amount
	(£)	(£)	(£)	(£)	
General Fund	2 532 090	-1 522 544	11 933	-850 005	171 474
<i>Vistabella</i> MCF	-37 809	-108 132	0	0	-145 941
<i>Nissos Amorgos</i> MCF	2 179 080	-654 582	9 116	-1 530 030	3 584
Total	4 673 361	-2 285 258	21 049	-2 380 035	29 117

In accordance with Resolution N°18, an amount of £29 117 was paid to the World Maritime University, the International Maritime Law Institute and the International Maritime Safety, Security and Environment Academy in equal shares.


 José Maura
 Director
 31 December 2014

* * *

ANNEX II

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

STATEMENT ON INTERNAL CONTROL

Scope of Director's responsibility

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

Under Article 29.1 of the 1971 Fund Convention, the Director was the chief administrative officer of the 1971 Fund. As chief administrative officer, the Director had responsibility for maintaining a sound system of internal control that supported 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 had the authority, *vis-à-vis* third parties, to commit the 1971 Fund without restrictions, unless the third party concerned had been informed of any limitation of this authority decided by the 1971 Fund's governing body.

The Director was, however, bound by any restriction of his authority decided by the 1971 Fund's governing body. He could 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 had delegated his authority to other officers by Administrative Instructions.

In 2014, the Director was assisted by a Management Team comprising of the Deputy Director/Head of the Finance and Administration Department, the Legal Counsel, the Head of the External Relations and Conference Department and the Head of the Claims Department for the day to day running of the Secretariat.

The Director's responsibility for the 1971 Fund ceased on the dissolution of the 1971 Fund on 31 December 2014.

Statement on the system of internal control

The Director had the responsibility for maintaining a sound system of internal control that supported the work of the 1971 Fund. The system of internal control was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it could therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control was 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 normally met 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 normally met on a bi-monthly basis to discuss substantive matters of policy and work. The bi-monthly meetings were minuted and these minutes are held in the Director's office. Both sets of meetings provided the necessary forum where Management Team members entrusted with specific areas of responsibility could discuss issues including internal control and risks arising in the Organisation. The Director obtained

assurance from these meetings that there were sufficient internal controls in place and that the risks were mitigated and managed across the Organisation.

The joint Audit Body established by the IOPC Funds' governing bodies met formally three times in 2014. The Audit Body had the mandate to review the adequacy and effectiveness of the Organisation regarding key issues of management and financial systems, financial reporting, internal controls, operational procedures and risk management, to review the Organisation's Financial Statements and reports, and to consider all relevant reports by the External Auditor including reports on the Organisation's Financial Statements. This additional oversight provided further assurance to the Director, as well as the governing bodies, that appropriate internal controls were in place.

Capability to handle risk

In close cooperation with the Audit Body and the External Auditor two categories of risk had been identified, namely: operational risk and institutional risk. Under operational risk five areas of risk had been identified which were contributions/finance, governance/management, compensation, safety/security and communications/publications.

In 2014 under these areas, the sub-risks had been mapped and assessed, following which the process and procedures for management of these risks had been documented. This exercise allowed the IOPC Funds to prioritise the key risks and to ensure that these risks had been adequately mitigated. The Audit Body and the External Auditor have made valuable contributions to the work in this field.

During 2014, the Director continued a review of the IOPC Funds' risk register. The Audit Body was 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 was 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 adopted the Financial Regulations and Internal Regulations necessary for the proper functioning of the 1971 Fund.

The joint Investment Advisory Body (IAB) established by the IOPC Funds' governing bodies advised the Director on relevant procedures for investment and cash management controls. The IAB monitored, on an ongoing basis, the credit ratings of financial institutions and reviewed the credit ratings of institutions which met the IOPC Funds' investment criteria. The guidelines also included market and capital strength measures in addition to the credit rating provided by the three rating agencies. A list of approved counterparty institutions was provided on a quarterly basis. The IAB also reviewed the 1971 Funds' investments and foreign exchange requirements to ensure that reasonable investment returns were achieved without compromising the IOPC Funds' assets.

Key risk in 2014

At its May 2014 session, the 1971 Fund Administrative Council decided to confirm its intention to dissolve the 1971 Fund at its October 2014 session. At its October 2014 session, the Administrative Council adopted Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) (October 2014) by a majority vote by the former Member States. The effect of the adoption of Resolution N°18 was that with effect from the expiry of the last day of the financial year 2014 (31 December 2014), the 1971 Fund would be dissolved and its legal personality would cease to exist.

The orderly winding up of the 1971 Fund was the key risk. In the months leading up to the dissolution the Director's responsibility included setting a strategy for the orderly dissolution and overseeing the execution of the decisions of the 1971 Fund Administrative Council. Regular meetings were held both internally and with key stakeholders during 2014 to ensure the orderly winding up of the 1971 Fund. Meetings were held

with the External Auditor to consult and provide updates on the progress in the dissolution process. The Audit Body and the IAB were briefed by the Director at their regular meetings of developments and steps being taken towards the orderly winding up of the 1971 Fund.

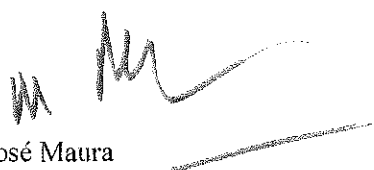
The two main sub-risks related to winding up of the 1971 Fund were as follows.

- a) On 7 May 2014 the High Court in London allowed a freezing order over the assets of the 1971 Fund brought by the Gard P&I Club. Although it did not prevent the 1971 Fund from dealing with its assets in the ordinary course of its business, it prevented the 1971 Fund from making reimbursements to contributors. The freezing order was subject to appeal. The 1971 Fund notified the banks where its assets were held and copies of invoices were provided to the banks to substantiate each disbursement to ensure compliance with the Court order. A legal team was engaged to assist the 1971 Fund in its appeal. On 12 November 2014 the freezing order over the assets of the 1971 Fund was discharged.
- b) Following the October 2014 meeting of the 1971 Fund Administrative Council, notice was issued to creditors to inform them of the dissolution of the 1971 Fund. When all liabilities of the 1971 Fund were settled the remaining assets were reimbursed in accordance with Resolution N°18. The contributors due reimbursements were identified, notified of the dissolution, credit notes issued and bank details were received. The reimbursements were made by bank transfers on 8 December 2014 and confirmations were received from the contributors of receipt of the reimbursement. The former Member States were kept informed through the process and copies of credit notes were provided for their records.

Review of effectiveness

The review of the effectiveness of the system of internal control was 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 were considered and a plan to address any identified weakness and to ensure continuous improvement of the current system was agreed. All recommendations made by the External Auditor in his management letter and report on prior years' Financial Statements have been addressed.

I conclude that there existed an effective system of internal control until the dissolution of the 1971 Fund on 31 December 2014.


José Maura
Director

31 December 2014

* * *



National Audit Office

February 2015

International Oil Pollution Compensation Fund 1971

Report on the 2014 Financial Statements audit

The aim of the external audit is to provide independent assurance.

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.

Contents

Executive summary	4
Introduction	4
Overall results of the audit	4
Winding up of the 1971 Fund	5
Financial Review	6
Overview of the 1971 Fund	8
Acknowledgement	9
Annex A - follow-up on prior period recommendation	10

Executive summary

Introduction

1 The External Auditor has provided an **unqualified audit opinion** on the 2014 financial statements confirming that they fairly present, in all material respects, the financial position, financial performance and cash flows for the period. Our audit revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and validity of the financial statements and that the transactions of the Fund were in accordance with Fund's Regulations. Without qualifying his opinion, the External Auditor draws attention to Notes 1 and 2 of the financial statements which set out the progress made towards the winding up of the International Oil Compensation Fund 1971 (1971 Fund) and its dissolution from 31 December 2014.

Overall results of the audit

2 The financial statements of the 1971 Fund were audited in accordance with the Financial Regulations and in compliance with International Standards on Auditing. The audit included a general review of the 1971 Fund's accounting procedures, an assessment of internal controls relevant to the preparation and fair presentation of the financial statements; 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.

3 The audit did not involve a detailed review of all aspects of the 1971 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.

4 This report provides:

- a commentary on the winding up of the 1971 Fund;
- a brief financial review of 2014; and
- an overview of the 1971 Fund's operation.

The main observations from our audit are set out below.

Winding up of the 1971 Fund

1.1 The 1971 Fund Convention ceased to be in force on 24 May 2002, however the termination of the 1971 Fund Convention did not result in the immediate winding up of the 1971 Fund. In accordance with Article 44 of the Convention, the 1971 Fund continued to meet its obligations in respect of the incidents which occurred before the Convention ceased to be in force.

1.2 In October 2012, the 1971 Fund Administrative Council established a Consultation Group, composed of a small number of delegates from former 1971 Fund Member States, to examine the remaining outstanding issues with the Director and make recommendations to facilitate the process of winding up the 1971 Fund. The Consultation Group presented its report to the October 2013 Administrative Council meeting.

1.3 At its October 2013 meeting, the Administrative Council decided that the 1971 Fund should be wound up as soon as possible. It also instructed the Director to study the legal and procedural issues relating to the winding up of the Fund.

1.4 Following extensive management actions, the Administrative Council considered the outstanding issues were addressed and made the decision to wind up the Fund by 31 December 2014 and adopted Resolution 18 at its October 2014 session to facilitate this.

1.5 To prepare for the winding up the remaining Major Claims Funds were closed and the Secretariat reimbursed the surplus on the Nissos Amorgos Major Claims Fund to the contributors in accordance with the resolution. A total of £1,530,030 was reimbursed. The General Fund was reimbursed to contributors in accordance with the resolution, with a total of £805,005 reimbursed.

1.6 On making arrangements to reimburse contributors a residual sum remained which management were unable to distribute, totalling £29,117. The Director consulted with the Chair of the Administrative Council and it was agreed there was no further business outstanding. The remaining sums were disbursed to three maritime learning institutions in accordance with the Resolution 18. Our audit confirms that the expenditures incurred in winding-up the Fund were in accordance with Council decisions.

1.7 In our 2012 report, we recommended that the Secretariat develop appropriate procedures for the efficient closure of the 1971 Fund in the event of an Administrative Council decision to wind it up. We consider the process outlined above have satisfactorily achieved this. The recommendation, including the responses from the Secretariat is set out in Annex A.

Financial review

Financial overview

2.1 Total revenue in 2014 was £21,000 (2013: £26,000), including interest earned on investments of £19,000 (2013: £25,000). Total expenses were £4,665,000 (2013: £451,000) representing the reimbursement to contributors, administration fees and the costs incurred to resolve the last few incidents.

2.2 The Statement of Financial Position shows that the 1971 Fund had net assets of NIL immediately prior to dissolution (2013: £4.7 million).

Financial performance

Revenue – assessed contributions

2.3 The 1971 Fund Convention ceased to be in force on 24 May 2002. The 1971 Fund's Administrative Council decided that there should be no levy of contributions payable in 2014. No contributions were levied or recognised in 2014 (2013 : NIL).

Investment income

2.4 Cash and cash equivalents held in excess of immediate needs were invested with banks and building societies and these generated investment income of £19,000 (2013: £25,000). Deposits were placed with investment institutions which met the investment criteria laid down by the joint Investment Advisory Body (IAB). The decline in investment income was due to declining cash balances and minimal investment activity to ensure the funds were available for reimbursement.

Expenses

2.5 The Statement of Financial Performance discloses total expenses of £4,665,000 (2013: £451,000). In 2014, contributors were reimbursed £2,380,000, Claims related expenditure totalled £809,000 (2013: £168,000) and Compensation/Indemnification was £802,000 (2013: NIL).

2.6 As per the Administrative Council Resolution 18 and decisions, the sum of £1,530,030 was reimbursed from the Nissos Amorgos Major Claims Fund based on the 1996 oil reports and the sum of £850,005 was reimbursed to contributors from General Fund based on the 1997 oil reports.

2.7 £802,000 (Euro 1,000,000) was paid to the shipowner's insurer on the *Iliad* incident, in a global settlement for possible claims. Claims related expenditure was largely attributable to the legal and technical fees incurred on the *Nissos Amorgos*, incident which amounted to some £655,000.

2.8 Administrative costs for the year totalled £674,000 (2013: £282,000), including £480,000 (2013: £247,500) paid as a management fee to the 1992 Fund towards the cost of running the joint Secretariat. The management fee was increased in 2014, with the approval of the Administrative Council, due to the additional time invested by the Secretariat preparing for winding up and dissolution. Other costs arising due to the dissolution include: £65,000 for archiving of 1971 Fund data and some £58,000 in legal fees. The external audit fee for the 2014 financial statements totalled £14,000 (2013: £12,900).

Statement V – comparison of budget and actual amounts

2.9 The Financial Regulations and IPSAS require the Fund to report expenditure against its budget appropriation for the year. The Statement of Comparison of Budget and Actual Amounts (Statement V) is designed to report the Fund's performance against its budget. Overall the 2014 annual budget was not fully utilised, resulting in an underspend of £88,000 (2013: £231,000 underspend). The main reason for the underspend was that expenditure of £167,535 incurred on the winding up of the 1971 Fund was lower than the full budgeted amount of £250,000.

Cases of fraud or presumptive fraud

2.10 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's Administrative Council any cases of fraud or presumptive fraud reported to us by management of the 1971 Fund. No reported cases of fraud or presumptive fraud were reported to the External Auditor.

Losses, write-offs and ex-gratia payments

2.11 An amount owing of £43,038 was unable to be recovered from contributors in the Russian Federation. The Administrative Council approved the write off of these contributions and the related interest on overdue contributions receivable. There was no impact on the Statement of Position or Performance as this was already fully provided for in prior periods.

2.12 No other losses or ex-gratia payments were made in 2014.

Overview of the 1971 Fund

3.1 The 1971 Fund was established in 1978 and was in force for some 23 years. There were 84 incidents in which the 1971 Fund has paid out Compensation.

3.2 The 1971 Fund has reported annually on its operations and on the financial costs required. In total some £331 million¹ was paid out in Compensation.

3.3 The 1971 Fund ceased to be in force from May 2002 and did not apply to incidents occurring after that date; though the 1971 Fund remained in operation to deal with pending incidents. Over time, the number of remaining claims reduced however the administrative and other costs of operating the 1971 Fund continued and further levies were required.

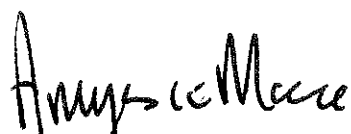
3.4 In the absence of the Convention text itself giving explicit guidance on closure, it became a matter for the former members as to how long to continue operating the 1971 Fund and to consider how it may be closed. Over the last few years the Administrative Council and stakeholders have considered how the 1971 Fund should close out the remaining incidents and navigate a course to its final closure. The process set out in section 1 has achieved this while trying to balance awaiting disputed claims to work through negotiation and achieving prompt settlements.

3.5 The closure of the 1971 Fund gives the Secretariat a useful case study to reference for the management of the closure of a Fund; and has demonstrated the importance of establishing a clear timeline.

¹ IOPC Report 'Incidents Involving the IOPC Funds 2013' provides more information and statistics from the 1971 Fund's operations

Acknowledgement

4.1 We wish to record our appreciation for the co-operation and assistance provided during our audit of the 1971 Fund.


Sir Amyas C E Morse

Comptroller and Auditor General, United Kingdom

External Auditor

27th Feb 2015

Annex A - follow-up on prior period recommendation

Follow up on Prior Year Recommendation

Recommendation	Management Response	External Auditors Comment
<p>Recommendation from 2012:</p> <p>We recommend that the Secretariat develop appropriate procedures for the efficient closure of the 1971 Fund in the event of an Administrative Council decision to wind it up, including establishing a more realistic estimate of the costs of the closure.</p>	<p>In accordance with the decisions and instructions of the 1971 Fund Administrative Council at its October 2013 session, the Director, in consultation with the Chairman of the 1971 Fund Administrative Council, undertook the study of the legal and procedural issues relating to the winding up of the 1971 Fund and resolution of some outstanding issues.</p> <p>Resolution No17 on the Preparation for the Dissolution of the 1971 Fund was presented to and adopted by the Administrative Council at its session in May 2014.</p> <p>Resolution No18 on the Dissolution of the 1971 Fund with effect from the expiry of the last day of the financial year 2014 (31 December 2014) was presented and adopted by the Administrative Council at its session in October 2014.</p> <p>Resolution No18 also contained decisions on the distributions of remaining assets and transfer of title to the archives.</p>	<p>In 2013 we reported implementation of this recommendation was ongoing.</p> <p>We have followed the steps taken and decisions made during 2013 and 2014, concluding with the adoption of Resolution 18 and the addressing of each item.</p> <p>Item Closed.</p>

INDEPENDENT AUDITOR'S OPINION AND REPORT TO THE FORMER MEMBERS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

I have audited the accompanying financial statements of the International Oil Pollution Compensation Fund 1971 for the year ended 31 December 2014. These comprise: the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Net Assets, the Statement of Cash Flow, the Statement of Comparison of Budget and Actual Amounts for the year then ended and the related notes.

Director's Responsibility for the Financial Statements

The Director was responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as he determined was 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 these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing.


Those standards require that I and my staff comply with ethical requirements and 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Director, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.


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 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Emphasis of matter

 Without qualifying my opinion, I draw attention to the disclosures in Notes 1 and 2 of the accompanying financial statements concerning the dissolution of the International Oil Pollution Compensation Fund 1971 in accordance with the Administrative Council Resolution 18 of October 2014. The Director has therefore prepared the financial statements on a basis other than going concern.

Opinion on Regularity

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

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 financial statements.


Sir Amyas C E Morse

Comptroller and Auditor General

United Kingdom

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

 February 2015

ANNEX V

FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014



National Audit Office

CONTENTS

Page

FINANCIAL STATEMENTS

Statement I	Statement of Financial Position at 31 December 2014	4
Statement II	Statement of Financial Performance for the year ended 31 December 2014	5
Statement III	Statement of Changes in Net Assets for the year ended 31 December 2014	6
Statement IV	Statement of Cashflow for the year ended 31 December 2014	7
Statement V	Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2014	8

NOTES TO FINANCIAL STATEMENTS

9-19



National Audit Office

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 as at 31 December 2014.



José Maura
Director

31 December 2014



Ranjit S P Pillai
Deputy Director/Head of Finance
and Administration Department



National Audit Office

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971

STATEMENT I

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

		2014	2013
	Note	£	£
ASSETS			
Current assets			
Cash and cash equivalents	3	-	4 912 738
Contributions receivable	4, 5	-	-
Other receivables		-	3 572
Total current assets		-	4 916 310
TOTAL ASSETS		-	4 916 310
LIABILITIES			
Current liabilities			
Payables and accruals		-	67 404
Contributors' account	6	-	175 545
Total current liabilities		-	242 949
TOTAL LIABILITIES		-	242 949
NET ASSETS		-	4 673 361
FUNDS' BALANCES	14		
General Fund		-	2 532 090
<i>Nissos Amorgos</i> Major Claims Fund		-	2 179 080
<i>Vistabella</i> Major Claims Fund		-	(37 809)
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES		-	4 673 361

The 1971 Fund was dissolved on 31 December 2014 in accordance with Resolution N°18 adopted by the 1971 Fund Administrative Council at its 33rd session in October 2014.

Notes are on pages 9-19

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971
STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2014

		2014	2013
REVENUE	Note	£	£
Interest on investments		18 797	24 701
Other revenue	8	2 252	1 166
Total revenue		21 049	25 867
EXPENSES			
Compensation/indemnification claims	9	801 925	-
Claims-related expenses	10	808 898	167 874
Other administrative costs	11	674 435	282 290
Reimbursement of contributions	12	2 380 035	-
Increase in allowance for contributions and interest on overdue contributions		-	1 076
Total expenses		4 665 293	451 240
DEFICIT FOR THE YEAR		(4 644 244)	(425 373)

Notes are on pages 9-19



National Audit Office



INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971
STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Accumulated surpluses/Fund balances			Total £
		General Fund £	Nissos Amorgos MCF £	Vistabella MCF £	
Balance at 31 December 2013		2 532 090	2 179 080	(37 809)	4 673 361
Movements in Fund balances					
(Deficit)/surplus for the period	14 (b)	(2 360 616)	(2 175 496)	(108 132)	(4 644 244)
Transfer of deficit to General Fund		(145 941)	-	145 941	-
Total movement during the year	14 (a)	(2 506 557)	(2 175 496)	37 809	(4 644 244)
Distribution to IMLL, WMU & IMSSE (Resolution N°18)		(25 533)	(3 584)	-	(29 117)
TOTAL NET ASSETS at 31 December 2014		-	-	-	-

Notes are on pages 9-19

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1971
STATEMENT IV
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014	2013
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit for the period		(4 644 244)	(425 373)
Interest on investments ^{<1>}		(18 797)	(24 701)
Operating deficit		(4 663 041)	(450 074)
(Increase)/decrease in receivables		3 572	6 810
Increase/(decrease) in payables and accruals		(243 220)	(145 243)
Net cash flow from operating activities		(4 902 689)	(588 507)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned ^{<2>}		19 068	26 051
Net cash flow from investing activities		19 068	26 051
Net decrease in cash and cash equivalents		(4 883 621)	(562 456)
Cash and cash equivalents at beginning of the year		4 912 738	5 475 194
Distribution to IMLI, WMU & IMSSE (Resolution N°18)		(29 117)	-
Cash and cash equivalents at end of the year	3	-	4 912 738

Notes are on pages 9-19

<1> Interest earned from investing the assets of the General Fund and the Major Claims Fund.

<2> Interest earned from investing the assets of the General Fund, the Major Claims Fund and credit balances held by contributors.



National Audit Office

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 2014

CLASS OF EXPENDITURE	Note	BUDGET APPROPRIATIONS		REVISED BUDGET APPROPRIATIONS		BUDGET OUT-TURN		BALANCE OF APPROPRIATIONS	
		2014	2013	2014	2013	2014	2013	2014	2013
		£	£	£	£	£	£	£	£
(a) Management fee payable to 1992 Fund		240 000	247 500	480 000	247 500	480 000	247 500	-	-
(b) Costs for winding up of the 1971 Fund		250 000	250 000	250 000	250 000	167 535	24 490	82 465	225 510
(c) Administrative costs including External Audit fees		15 300	15 300	32 300	15 300	26 900	10 300	5 400	5 000
TOTAL	12, 13	505 300	512 800	762 300	512 800	674 435	282 290	87 865	230 510

Notes are on pages 9-19

NOTES TO FINANCIAL STATEMENTS

1 Accounting policies

The 2014 Financial Statements have been prepared in accordance with Financial Regulation 12.3 of the International Oil Pollution Compensation Fund 1971 (1971 Fund) and in compliance with International Public Sector Accounting Standards (IPSAS). This is the final set of financial statements of the 1971 Fund.

No new IPSAS have been issued in 2014 and no modifications to existing IPSAS have been made that would affect the preparation of the 2014 Financial Statements.

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

At its October 2014 session, the 1971 Fund Administrative Council adopted Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) (October 2014) with a majority vote by the former Member States. The effect of adoption of Resolution N°18 was that with effect from the expiry of the last day of the financial year 2014 (31 December 2014), the 1971 Fund would be dissolved and its legal personality would cease to exist. Accordingly the 2014 Financial Statements have been prepared on a non-going concern basis.

As in the previous years, the accruals basis of accounting in accordance with IPSAS using the historic cost convention has been the basis of preparation of the 2014 Financial Statements.

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 Pounds 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. There are no areas of estimation in the 2014 Financial Statements.

In the process of applying the Funds' accounting policies, management has determined the following:

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

(b) Impact of closure at 31 December 2014

Since there were no non-current assets it was not necessary to make any adjustments to asset valuations in respect of the non-going concern basis of preparation of the Financial Statements for 2014. Consequently, there has been no financial impairment of the 1971 Fund's assets.

After the settlement of all liabilities, the balance of the 1971 Fund's assets held only in cash, was distributed in accordance with paragraphs 6 and 7 of Resolution N°17 of 9 May 2014 and the 1971 Fund's Financial Regulations.

Reimbursement of £850 005 from the General Fund and reimbursement of £1 530 030 from the *Nissos Amorgos* Major Claims Fund were made directly to contributors on a pro rata basis.

Costs for winding up the 1971 Fund amounted to £167 535 comprising mainly of legal and

related fees, the cost of holding a one-day meeting of former 1971 Fund Member States to approve the 2014 Financial Statements and the transfer of the 1971 Fund archives into electronic form to facilitate storage.

An amount of £42 491, being contributions due from contributors in the Russian Federation, was written off in accordance with the decision of the 1971 Fund Administrative Council at its session in October 2014.

There are no amounts receivable or payable as on the 31 December 2014.

The Director, in consultation with the Chairman of the 1971 Fund Administrative Council distributed the remaining monies, £29 116.77 equally to the World Maritime University (£9 705.59), the International Maritime Law Institute (£9 705.59) and the International Maritime Safety, Security and Environment Academy (£9 705.59).

(c) 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 Special Drawing Rights (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 were established for incidents where the total amount payable by the 1971 Fund exceeded 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.

(d) Revenue

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 cases 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.

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.

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.

(e) Expenses

Foreign currency transactions

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

Foreign currency is bought for Pounds sterling and invested as part of the hedging strategy and used for making payments for compensation claims. Such payments are converted at the rate on the date of the transaction as published in the London Financial Times.

(f) Currency exchange differences

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

(g) Cash and cash equivalents

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

(h) 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

Dissolution of the 1971 Fund

The 1971 Fund Convention ceased to be in force on 24 May 2002. The termination of the 1971 Fund Convention did not in itself result in the winding up of the 1971 Fund. The 1971 Fund Administrative Council, which was assigned with the function of the 1971 Fund Assembly and its Executive Committee, was required to take appropriate measures to complete the winding up of the Fund, including the distribution in an equitable manner of any remaining assets among contributors.

At its October 2013 session, the 1971 Fund Administrative Council took a number of decisions with a view to deciding to dissolve the 1971 Fund at its October 2014 session and instructed the Director, in consultation with the Chairman of the 1971 Fund Administrative Council, to resolve as many of the outstanding issues as possible and to study the legal and procedural issues relating to the winding up of the 1971 Fund.

At its May 2014 session, the 1971 Fund Administrative Council decided to confirm its intention to dissolve the 1971 Fund at its October 2014 session. At the same session the 1971 Fund Administrative Council adopted Resolution N°17 on the Preparation for the Dissolution of the International Oil Pollution Compensation Fund (1971 Fund).

The 1971 Fund Administrative Council also instructed the Director to submit to the October 2014 session of the Administrative Council, a draft Resolution N°18 on the Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) with effect from the expiry of the last day of the financial year 2014 (31 December 2014).

At its October 2014 session the Administrative Council adopted Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) (October 2014) by a majority vote by the former Member States. The effect of adoption of Resolution N°18 was that with effect from the expiry of the last day of the financial year 2014 (31 December 2014), the 1971 Fund would be dissolved and its legal personality would cease to exist.

It was decided to authorise the Director, in consultation with the Chairman of the 1971 Fund Administrative Council, to take any necessary and reasonable steps to implement paragraphs 6 and 7 of Resolution N°17 of 9 May 2014 which were as follows;

- any surplus monies in the Major Claims Funds shall be reimbursed in accordance with Regulations 4.4 and 4.5 of the 1971 Fund's Financial Regulations on a pro rata basis directly to the contributors who have made contributions to these Major Claims Funds; and
- any surplus monies in the General Fund shall be reimbursed in accordance with the decision of the 1971 Fund Administrative Council at its fifteenth session (October 2004) reimbursement shall be made directly to the contributors to the General Fund on a pro rata basis.

The Director was further authorised, in consultation with the Chairman of the 1971 Fund Administrative Council, to take any necessary and reasonable steps to give any remaining monies not so distributed to the World Maritime University, the International Maritime Law Institute and the International Maritime Safety, Security and Environment Academy in equal shares.

Assets and liabilities

3 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:

	2014	2013
Cash on hand and balances with banks	0	512 738
Term deposits	0	4 400 000
Total	0	4 912 738

After settlement of liabilities, reimbursement to contributors of £2 380 035 was made from the balance in the General Fund and the *Nissos Amorgos* Major Claims Fund on 8 December 2014.

The remaining balance of £29 116.77 was distributed in accordance with Resolution N°18.

The cash balance as at 31 December 2014 is nil.

4 Contributions receivable

The situation as regards outstanding contributions due from the Russian Federation is as set out below.

State	Previous levies General Fund £	Previous levies <i>Nissos Amorgos</i> MCF £	Previous levies <i>Vistabella</i> MCF £	2014 Total contributions receivable £	2013 Total contributions receivable £
Contributions receivable	39 686	2 720	632	43 038	43 038
Reimbursement on dissolution	(179)	(368)	-	(547)	-
Sub-total	39 507	2 352	632	42 491	43 038
Write off	(39 507)	(2 352)	(632)	(42 491)	-
Sub-total	-	-	-	-	43 038
Provision	-	-	-	-	(43 038)
Total	-	-	-	-	-

At its session in October 2014, the 1971 Fund Administrative Council decided to write off contributions (£43 038.75) due from contributors in the Russian Federation. However, in accordance with Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) a total reimbursement of £547 from the General Fund and the *Nissos Amorgos* Major Claims Fund was due to a contributor in the Russian Federation. The amount written off net of the reimbursement was £42 491.

5 Provision for contributions and interest on overdue contributions

Provisions were made for contributions and interest on overdue contributions due from contributors in the Russian Federation in 2011, 2012 and 2013. The 1971 Fund has not been successful in pursuing these amounts due from contributors through the Russian courts.

Following the decision by the 1971 Fund Administrative Council to dissolve the 1971 Fund on 31 December 2014 it was decided to write off the contributions due from contributors in the Russian Federation.

Since one contributor was due reimbursement from the General Fund and the *Nissos Amorgos* Major Claims Fund part of the provision did not materialise (see Note 4).

Provision	Contributions receivable £	Interest on overdue contributions receivable £
Opening balance	43 038	56 056
Reversal in 2014 due to reimbursement	(547)	-
Reversal in 2014 due to write off	(42 491)	(56 056)
Closing balance	-	-

6 Contributors' account

The balance on the contributors' account (2013 - £175 545) was repaid to contributors on 8 December 2014. Three contributors renounced their credit balances totalling £1 088. The amounts reimbursed included interest up to date of repayment, 8 December 2014 of £271 (2013 - £1 350) credited to contributors.

7 Financial instruments

In 2014, there were no complex financial instruments entered into by the 1971 Fund and consequently the Fund was not exposed to credit risk, interest rate risk and foreign currency risk in respect of the financial instruments. However, with respect to the investment of the cash assets the risks were managed as set out below.

7.1 Credit risk

- (a) The 1971 Fund's credit risk is spread widely and its risk management policies limit the amount of credit exposure to any counterparty and include minimum credit quality guidelines.

The guidelines include market and capital strength measures in addition to the credit rating provided by the three rating agencies. Credit default swaps (CDS) and Tier One are the additional measures used to determine the counterparty list. The guidelines are as follows:

Banks should have a short-term credit rating of F1+, P1 and A1+ from two of the three main credit rating agencies, a Tier One capital ratio of at least 9.5% or higher and a five year credit default swap (CDS) spread of 150 basis points or below to be eligible for placement up to twelve months.

Banks should have a minimum short-term rating of F1, P1 and A1 from at least two of the three main credit rating agencies, a Tier One capital ratio of at least 9.5% or higher and a five year CDS spread of 200 basis points or below to be eligible for placements up to three months.

A list of approved financial institutions is prepared by the Investment Advisory Body (IAB) on a quarterly basis and approved by the Director. This list is kept under constant review by the IAB between meetings and the Secretariat advised accordingly.

7.2 Liquidity risk

Liquidity risk associated with cash and cash equivalents is minimised substantially by ensuring that these financial assets are placed in term deposits not exceeding one year.

7.3 Interest rate risk

The 1971 Fund places its cash investments in term deposits with fixed interest rates under strict investment guidelines. The Financial Regulations of the 1971 Fund focus on the security and liquidity of the assets rather than maximising revenue and this is taken into account when managing the liquidity (cash flow) risk.

The average interest rate earned on investment in 2014 was 0.43%.

Revenue and expenses

8 Other revenue

Sundry income of £1 705 (2013 - £90) includes an amount of £1 088 credit balances due to contributors being renounced by them and an amount of £617 being interest on loan made to the *Vistabella* Major Claims Fund from the General Fund.

Provision amounting to £21 902 was made in 2011 for contributions due from a contributor in the Russian Federation. The amount due in reimbursement of £547 to this contributor in accordance with Resolution N°18 – Dissolution of the International Oil Pollution Compensation Fund (1971 Fund) has been included under 'Other revenue'.

9 **Compensation / indemnification claims**

At its October 2014 session, the 1971 Fund Administrative Council authorised the Director to reach a global settlement with the North of England P&I Club for €1 million in relation to the indemnification amount owed by the 1971 Fund in respect of the *Iliad* incident. An amount of £801 925 (€1 000 000) was paid to the North of England Club in November 2014.

10 **Claims-related expenses**

With respect to the *Vistabella* Major Claims Fund, the claims-related expenses includes an amount of £100 000 paid to the insurer in accordance with the instructions given by the 1971 Fund Administrative Council in an out-of-court settlement so as to close the incident. The amount was paid to the insurer to meet the legal costs of withdrawing its appeal before the Privy Council of the United Kingdom.

With respect to the *Nissos Amorgos* Major Claims Fund, the legal expenses amounted to £806 443. However based on the Court's decision to award legal costs to the 1971 Fund, an amount of £400 000 was received from the P & I Club, Gard AS. Payment of £213 047 (\$344 000) was made to Gard AS in settlement of the 1971 Fund's share of joint costs.

11 **Other administrative costs**

In October 2013 the Administrative Council approved the administrative budget of the 1971 Fund for 2014 of £505 300.

At its October 2014 session, the Administrative Council approved a supplementary budget of £257 000 as a result of the decision to dissolve the 1971 Fund mainly to cover an additional management fee of £240 000 and the fees of the 2014 Financial Statements of £14 000.

The amount under 'Costs for winding up of the 1971 Fund' includes legal and related fees, the cost of holding a one-day meeting of former 1971 Fund Member States to approve the 2014 Financial Statements and the transfer of 1971 Fund archives into electronic form to facilitate storage.

12 **Reimbursement of contributions**

In accordance with paragraphs 6 and 7 of Resolution N°17 of 9 May 2014 reimbursement of contributions were made as follows.

An amount of £1 530 030 from the surplus on the *Nissos Amorgos* Major Claims Fund was distributed between the contributors on the basis of the quantities of contributing oil reported as having been received during 1996, the year before the incident occurred.

An amount of £850 005 from the surplus on the General Fund was distributed between the States on the basis of the percentage of the total contributions made to the General Fund by contributors in the respective State and that the amount allocated to a given State should then be distributed between the contributors in that State on the basis of the quantities of contributing oil reported as having been received during 1997 by each contributor in that State, ie the last full year before the end of the transitional period (15 May 1998).

Reimbursement made from the General Fund to contributors by Member States is at Attachment I and from the *Nissos Amorgos* Major Claims Fund is at Attachment II.

13 Statement of Comparison of Budget and Actual Amounts

The 1971 Fund's budget and accounts are prepared using different bases. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accruals 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 basis, presentation or timing differences. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the Financial Statements are prepared. The budget relates only to the administrative expenses.

Reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V) and the actual amounts in the Statement of Financial Performance (Statement II) for the year ended 31 December 2014 is presented below:

	£
Statement V	674 435
Compensation/indemnification claims and claims-related expenses	1 610 823
Reimbursement of contributions	2 380 035
Statement II	4 665 293

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); and
- *Vistabella* Major Claims Fund was set up in 1994 for the incident in the Caribbean (1991). The deficit in this Major Claims Fund is absorbed by the General Fund.

(a) Statement of Financial Position by segment

	2014 General Fund	2014 <i>Nissos Amorgos</i> MCF	2014 <i>Vistabella</i> MCF	2014 Total	2013 Total
	£	£	£	£	£
ASSETS					
Current assets					
Cash and cash equivalents	-	-	-	-	4 912 738
Contributions receivable	-	-	-	-	-
Other receivables	-	-	-	-	3 572
Total current assets	-	-	-	-	4 916 310
TOTAL ASSETS	-	-	-	-	4 916 310
LIABILITIES					
Current liabilities					
Payables and accruals	-	-	-	-	67 404
Contributors' account	-	-	-	-	175 545
Total current liabilities	-	-	-	-	242 949
TOTAL LIABILITIES	-	-	-	-	242 949
	-	-	-	-	
NET ASSETS	-	-	-	-	4 673 361
	-	-	-		
FUNDS' BALANCES					
Balance b/f: 1 January	2 532 090	2 179 080	(37 809)	4 673 361	5 098 734
(Deficit)/surplus for the year	(2 360 616)	(2 175 496)	(108 132)	(4 644 244)	(425 373)
Transfer from <i>Vistabella</i> MCF to General Fund	(145 941)	-	145 941	-	-
GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES AFTER REIMBURSEMENT TO CONTRIBUTORS	25 533	3 584	-	29 117	4 673 361

In accordance with Resolution N°18 and in consultation with the Chairman of the 1971 Fund Administrative Council, the remaining monies were distributed to the World Maritime University, the International Maritime Law Institute and the International Maritime Safety, Security and Environment Academy in equal shares.

Distribution to IMLI, WMU & IMSSE (Resolution N°18)	(25 533)	(3 584)	-	(29 117)	-
FUNDS' BALANCES as at 31 December 2014	-	-	-	-	4 673 361

(b) Statement of Financial Performance by segment

	2014 General Fund	2014 <i>Nissos Amorgos</i> MCF	2014 <i>Vistabella</i> MCF	2014 TOTAL	2013 TOTAL
REVENUE	£	£	£	£	£
Interest on investments	10 049	8 748	-	18 797	24 701
Other revenue	1 884	368	-	2 252	1 166
Total revenue	11 933	9 116	-	21 049	25 867
EXPENSES					
Compensation / indemnification claims	801 925	-	-	801 925	-
Claims-related expenses	46 184	654 582	108 132	808 898	167 874
Administrative costs	674 435	-	-	674 435	282 290
Reimbursement of contributions	850 005	1 530 030	-	2 380 035	-
Increase in allowance for contributions and interest on overdue contributions	-	-	-	-	1 076
Total expenses	2 372 549	2 184 612	108 132	4 665 293	451 240
(DEFICIT)/SURPLUS FOR THE YEAR	(2 360 616)	(2 175 496)	(108 132)	(4 644 244)	(425 373)

15 Contingent liabilities

There were no contingent liabilities at 31 December 2014. The 1971 Fund Administrative Council considered all valid compensation claims arising from incidents as having been settled.

16 Related parties and key management personnel

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

The aggregate remuneration paid to key management personnel of the 1992 Fund will be in the 2014 Financial Statements of the 1992 Fund.

Related parties

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

The Director's relative is a partner in Meana Green Maura & Co (lawyers). They provided legal services in respect of the *Aegean Sea* incident. The total amount of transactions in 2014 with Meana Green Maura & Co amounted to £7 118 (2013 - £17 360). This business was conducted at arm's length.

A final settlement of joint costs of £213 047 (\$344 000) in respect of the *Nissos Amorgos* incident was made in 2014 to the Gard (UK) London. However based on the Court's decision to award legal costs an amount of £400 000 was received from the P & I Club, Gard AS.

17 Events after reporting date

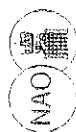
Since the 1971 Fund ceased to exist on the 31 December 2014 there are no subsequent events to report. The statements were authorised for issue on the date of the Audit Certificate.

ATTACHMENT I
REIMBURSEMENT TO CONTRIBUTORS TO THE GENERAL FUND
(based on contributing oil received in 1997)

	Member State	% of Total	Total reimbursement £
1	Japan	27.887	237 038.74
2	Italy	15.239	129 525.54
3	France	10.161	86 369.98
4	United Kingdom	8.838	75 120.94
5	Netherlands	8.686	73 827.44
6	Spain	5.155	43 815.24
7	Germany	3.162	26 877.70
8	Republic of Korea	3.074	26 126.54
9	India	2.407	20 460.45
10	Canada	2.158	18 344.41
11	Sweden	2.037	17 314.37
12	Norway	1.885	16 022.91
13	Greece	1.407	11 960.32
14	Indonesia	1.141	9 697.92
15	Finland	1.091	9 273.92
16	Bahamas	1.085	9 222.44
17	Portugal	1.081	9 188.90
18	Denmark	0.704	5 984.17
19	Poland	0.406	3 450.85
20	Tunisia	0.284	2 414.09
21	Venezuela	0.272	2 311.63
22	Morocco	0.265	2 252.47
23	Cote d'Ivoire	0.260	2 210.10
24	Mexico	0.254	2 159.00
25	Sri Lanka	0.165	1 402.46
26	Croatia	0.125	1 062.42
27	Cameroon	0.114	969.03
28	Ireland	0.108	917.86
29	Ghana	0.106	901.04
30	Cyprus	0.086	731.00
31	Kenya	0.083	705.45
32	Nigeria	0.064	543.98
33	China (HKSAR)	0.055	467.33
34	Algeria	0.045	382.50
35	Belgium	0.041	348.56
36	Malta	0.028	238.06
37	Russian Federation	0.021	178.48
38	New Zealand	0.019	161.74
39	Colombia	0.003	25.54
<i>Member States not in existence</i>			
40	Yugoslavia	0.000	0.00
41	USSR	0.000	0.00
<i>Nil oil received in 1997</i>			
42	Syrian Arab Republic	0.000	0.00
43	Slovenia	0.000	0.00
44	Gabon	0.000	0.00
45	Papua New Guinea	0.000	0.00
46	Liberia	0.000	0.00
<i>Nil net contributions to General Fund due to reimbursements made in 1997 and 1998 from General Fund</i>			
47	Australia	0.000	0.00
48	Barbados	0.000	0.00
49	Malaysia	0.000	0.00
50	Mauritius	0.000	0.00
		100.000	850 005.52

ATTACHMENT II
REIMBURSEMENT TO CONTRIBUTORS TO THE
NISSOS AMORGOS MAJOR CLAIMS FUND
(based on contributing oil received in 1996)

	Member State	Total reimbursement £
1	Japan	350 206.76
2	Italy	183 135.95
3	Republic of Korea	143 766.25
4	Netherlands	130 901.85
5	France	122 895.22
6	United Kingdom	98 379.75
7	Spain	71 329.17
8	India	55 481.46
9	Canada	50 228.59
10	Australia	41 067.79
11	Norway	35 836.36
12	Germany	35 045.83
13	Sweden	27 376.36
14	Greece	25 565.41
15	Venezuela	21 373.19
16	Malaysia	20 855.57
17	Portugal	16 427.85
18	Mexico	13 692.90
19	Finland	12 474.81
20	Indonesia	11 765.08
21	Denmark	8 682.52
22	Morocco	6 770.86
23	New Zealand	5 594.93
24	China (HKSAR)	5 113.59
25	Croatia	4 989.62
26	Poland	4 658.42
27	Cote d'Ivoire	4 239.27
28	Ireland	3 973.09
29	Tunisia	3 236.41
30	Sri Lanka	2 509.19
31	Bahamas	1 903.74
32	Cyprus	1 848.69
33	Kenya	1 791.10
34	Cameroon	1 607.76
35	Belgium	1 257.37
36	Malta	1 045.93
37	Nigeria	956.96
38	Ghana	838.40
39	Algeria	621.81
40	Russian Federation	368.14
41	Barbados	216.20
		1530 030.15



National Audit Office