



International Oil Pollution  
Compensation Funds

<b>Agenda Item 5</b>	IOPC/OCT19/5/6/1	
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<b>Supplementary Fund Assembly</b>	SA16	

## 2018 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION

### INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 (1992 FUND)

#### Note by the Director

**Summary:** As indicated in document IOPC/OCT19/5/6, the 1992 Fund Financial Statements and the Auditor's Report and Opinion are set out.

**Action to be taken:** 1992 Fund Assembly  
Approval of 2018 Financial Statements.

#### 1 Introduction

- 1.1 In accordance with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the Financial Statements of the 1992 Fund for the financial year 2018. The Director has also prepared comments on the Financial Statements. These comments are contained in Section One of the Annex. Also contained in Section One of the Annex, is a summary of the External Auditor's recommendations from the current and prior financial years and the actions taken on those recommendations.
- 1.2 In keeping with best practice, the Director has included a Statement on Internal Control which provides positive confirmation of the internal control framework. The Statement is contained in Section One of the Annex.
- 1.3 The Financial Statements of the 1992 Fund are audited by BDO LLP.
- 1.4 Pursuant to Financial Regulation 14.10, the External Auditor has submitted to the 1992 Fund Assembly, through its Chairman, its Report on the audit of the Financial Statements of the 1992 Fund for the financial period ended 31 December 2018. The Auditor's Report is contained in Section Two of the Annex.
- 1.5 Under Financial Regulation 14.16 the External Auditor shall express an opinion on the Financial Statements on which it is reporting. This Opinion is contained in Section Two of the Annex.
- 1.6 Staff Regulation 26(b) provides that the Director shall establish and operate a Provident Fund to which both the 1992 Fund and staff members shall contribute on such terms and conditions as may be approved by the 1992 Fund Assembly. Under Staff Rule VIII.5(g), the auditing of the Provident Fund shall be carried out in conjunction with the annual audit of the accounts of the 1992 Fund.
- 1.7 The 2018 Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) as prescribed by Financial Regulation 12.1.

1.8 The certified Financial Statements for the financial period 1 January to 31 December 2018 are contained in Section Three of the Annex and consist of the following:

Statement I Statement of Financial Position at 31 December 2018

Statement II Statement of Financial Performance for the year ended 31 December 2018

Statement III Statement of Changes in Net Assets for the year ended 31 December 2018

Statement IV Statement of Cash Flow for the year ended 31 December 2018

Statement V Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2018

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

## **2 Action to be taken**

### 1992 Fund Assembly

The 1992 Fund Assembly is invited to consider the External Auditor's Report and Opinion and to approve the Financial Statements for the financial period 1 January to 31 December 2018.

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International Oil Pollution  
Compensation Funds

Fonds internationaux  
d'indemnisation pour les  
dommages dus à la pollution  
par les hydrocarbures

Fondos internacionales  
de indemnización de daños  
debidos a contaminación por  
hidrocarburos

## **ANNEX**

### **2018 FINANCIAL STATEMENTS AND AUDITOR'S REPORT AND OPINION**

### **INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 (1992 FUND)**

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# SECTION ONE

## DIRECTOR'S COMMENTS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD 1 JANUARY TO 31 DECEMBER 2018

### 1 Introduction

- 1.1 The International Oil Pollution Compensation Funds (IOPC Funds) are intergovernmental organisations which provide compensation for oil pollution damage resulting from spills of persistent oil from tankers. The International Oil Pollution Compensation Fund 1992 (1992 Fund), which entered into force on 30 May 1996, was set up under the 1992 Fund Convention and is the second tier in the international civil liability and compensation regime.
- 1.2 The first tier is the 1992 Civil Liability Convention (1992 CLC), which lays down the principle of strict liability of shipowners for oil pollution damage and creates a system of compulsory liability insurance. The shipowner is normally entitled to limit its liability to an amount which is linked to the tonnage of its ship. The 1992 Fund Convention establishes a regime for compensating victims when the compensation available under the Civil Liability Convention is inadequate, and it forms the second tier of compensation. Any State Party to the 1992 Civil Liability Convention may become Party to the 1992 Fund Convention and thereby become a Member of the 1992 Fund.
- 1.3 The maximum amount of compensation payable under the 1992 Conventions for any one incident is SDR 135 million<sup><1></sup> in respect of incidents occurring before 1 November 2003 and SDR 203 million for incidents occurring after that date. These amounts, which as at 31 December 2018 corresponded to £148 million and £223 million respectively, include the sum which may be attributed to the shipowner or their insurer (Protection and Indemnity Club (P&I Club)).
- 1.4 The 1992 Fund has an Assembly composed of all Member States and an Executive Committee of 15 Member States elected by the Assembly. The Assembly is the supreme governing body of the organisation having, *inter alia*, the responsibility for financial matters. The main function of the Executive Committee is to approve settlement of claims for compensation when either the Director is not authorised to make settlements or when the Director seeks policy approval on specific aspects of a claim.
- 1.5 The 1992 Fund is financed by contributions paid by any person who has received in the relevant calendar year in excess of 150 000 tonnes of crude oil or heavy fuel oil (contributing oil) in ports or terminal installations in a Member State after carriage by sea. The levy of contributions is based on reports of oil receipts in respect of individual contributors, which are submitted to the Secretariat by governments of Member States.
- 1.6 At its February/March 2006 session, the 1992 Fund Assembly took note of a voluntary agreement, the Small Tanker Oil Pollution Indemnification Agreement (STOPIA) 2006, under which the shipowner/P&I Clubs would reimburse the 1992 Fund for part of the compensation payable by the Fund under the 1992 Fund Convention. The effect of STOPIA 2006 is that the maximum amount of compensation payable by owners of all ships of 29 548 gross tonnage or less is SDR 20 million.

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<sup><1></sup> The SDR (Special Drawing Right), 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.

This voluntary agreement is applicable to the *Solar 1* incident which occurred in 2006, *Haekup Pacific* incident in 2013, the *Double Joy* incident in 2014 and the *Trident Star* incident in 2016.

- 1.7 As at 31 December 2018, 115 States were Members of the 1992 Fund. A full list of current Member States of the 1992 Fund can be found on the Membership page of the IOPC Funds' website: [www.iopcfunds.org](http://www.iopcfunds.org).

## 2 Secretariat

- 2.1 The 1992 Fund has a Secretariat, based in London, headed by a Director. The 1992 Fund enjoys Privileges and Immunities under its Headquarters Agreement with the United Kingdom Government. The 1992 Fund Secretariat also administers the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund). As at 31 December 2018, the Secretariat had 34 established posts.
- 2.2 The Director of the 1992 Fund is *ex officio* also the Director of the Supplementary Fund and is assisted by a Management Team in the day-to-day running of the joint Secretariat.
- 2.3 The Management Team consists of the Director, Deputy Director/Head of the Finance and Administration Department, the Head of the External Relations and Conference Department, the Head of the Claims Department, and the Legal Counsel. Related party disclosures in line with the International Public Sector Accounting Standards (IPSAS) requirements are included in the notes to the Financial Statements.
- 2.4 The 1992 Fund uses external consultants to provide advice on legal and technical matters as well as on matters relating to management.
- 2.5 In connection with a number of major incidents, the Fund and the shipowner's third-party liability insurer have established joint local claims offices to facilitate the efficient handling of the great number of claims submitted and to assist claimants generally.
- 2.6 Local claims offices were in operation in 2018 with respect to the *Prestige* and *Agia Zoni II* incidents. The local offices ensured smooth communication between the 1992 Fund and the claimants, technical experts, and lawyers with respect to claims and claims-related matters.

## 3 Governance

- 3.1 Audit Body
- 3.1.1 The governing bodies of the IOPC Funds have established a joint Audit Body for the 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 Chair of the 1992 Fund Assembly. The Chair of the Audit Body is elected by the 1992 Fund Assembly on a proposal by the Chair of the 1992 Fund Assembly.
- 3.1.2 In October 2017, the 1992 Fund Assembly elected a new Audit Body for a three-year term made up of the full complement of members.
- 3.1.3 The Audit Body normally meets three times a year. In 2018 it met in April, June and December.

## 3.2 Investment Advisory Body

3.2.1 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 on the Funds' investments.

3.2.2 The IAB normally meets four times a year. In 2018 it met in March, May, September and November.

## 3.3 Financial risk management

3.3.1 The IOPC Funds manage risk using a risk register consisting of two categories: operational risk and institutional risk. Operational risk has been sub-divided into five areas: finance and contributions; governance and management; compensation; safety and security; communications and publications. For each of these areas, sub-risks have been identified, and the processes and procedures for their management have been mapped, assessed and documented. This exercise allows the IOPC Funds to prioritise key risks and to ensure that these risks have been adequately mitigated and managed. Annual reviews are conducted of the IOPC Funds' full risk register by management, and of the 'Key Risk Register' by the Audit Body.

3.3.2 The 1992 Fund has established a framework of internal control as set out in the Statement on Internal Control (see page 20).

3.3.3 The 1992 Fund's financial risk management policies focus on securing the Fund's assets, maintaining sufficient liquid funds for the operation of the Fund, avoiding undue currency risks and obtaining a reasonable return. Financial risk is managed using the Internal Investment and Hedging Guidelines approved by the Director, which have been developed in accordance with advice from the IAB. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of financial instruments, and the investing of excess liquid funds.

3.3.4 The 1992 Fund's credit risk is spread widely, and its investment policy limits the amount of credit exposure to any one counterparty and includes minimum credit quality guidelines.

## 4 2018 Financial Highlights

4.1 In accordance with International Public Sector Accounting Standards (IPSAS), the Financial Statements for the 1992 Fund are produced on an entity basis. The 1992 Fund classifies its activities into the General Fund and Major Claims Funds and segment reporting of financial position and financial performance is provided in Note 25. Major Claims Funds are set up for incidents where expenditure for the incident exceeds SDR 4 million, with four Major Claims Funds in place at the beginning of 2018 for the *Prestige*, *Hebei Spirit*, *Volgoneft 139* and *Alfa I* incidents, and two further Major Claims Funds being established in 2018 for the *Agia Zoni II* and *Nesa R3* incidents.

4.2 At an entity level the closing net asset position presented in Statement I amounted to £39 901 837 (2017: £48 969 393). This represents a decrease of £9 067 556 from the opening balance on 1 January 2018 due to an increase in compensation expenditure and the decision to reduce the working capital (see document IOPC/OCT17/11/1, paragraph 9.1.18) as set out in section 7.1.

4.3 In 2018 the total revenue was some £28.3 million and the total expenditure was some £37.4 million.

4.4 The increase in cash assets during 2018 reflects additional levies raised for payment in 2018. The 1992 Fund's cash assets at the end of the 2018 financial period, amounting to some £109 million (2017: £99 million), were mainly held in pounds sterling (40%), US dollars (14%) in respect of the General Fund and *Hebei Spirit* incident, euros (30%) in respect of the *Prestige* and *Agia Zoni II* incidents and the General Fund, and Korean won (16%) in respect of the *Hebei Spirit* incident.

- 4.5 With regard to contributions, the 1992 Fund Assembly decided in October 2017 to levy £1.5 million to the General Fund, and £26 million to the *Agia Zoni II* Major Claims Fund payable in 2018. Outstanding contributions due to the 1992 Fund as at 31 -December 2018 totalled some £230 000 (some £407 000 net of a provision of £177 000) representing 0.04% of the total amount levied of £589 million since inception.
- 4.6 Other receivables amounting to some £527 000 includes taxes such as VAT recoverable from the United Kingdom, French and Spanish Governments of £181 700. Accrued interest on investments amounts to £124 000. Accrued income of £17 100 includes £7 300 and £9 800 due from the P&I Clubs in relation to the joint costs in respect of the *Hebei Spirit* and *Prestige* incidents respectively.
- 4.7 Contributions-in-kind (£206 400) received in 2018 is the reimbursement received from the United Kingdom Government of 80% of the rent of the Secretariat offices in the International Maritime Organization (IMO) building.
- 4.8 Compensation claims during 2018 amounted to some £31.3 million. The amount related to the *Hebei Spirit* incident (£17.9 million), as well as £7.1 million in respect of the *Agia Zoni II* incident plus £6.3 million in respect of the *Nesa R3* incident.
- 4.9 Claims-related expenditure incurred in 2018 amounted to some £2.6 million, with payments in respect of the *Hebei Spirit* incident of £0.98 million. Payments were also made in respect of the *Agia Zoni II* incident of £0.58 million and in respect of the *Prestige* incident of £0.52 million. Under the Memorandum of Understanding (MoU) with the International Group of P&I Clubs, the relevant P&I Club's share of joint costs in 2018 amounted to £33 760, in respect of the *Hebei Spirit* and *Prestige* incidents. These amounts have been offset against claims-related expenditure.

## 5 Secretariat budget

- 5.1 The budget for the running of the joint Secretariat is prepared on a modified cash basis. Expenses for running the joint Secretariat were made under six chapters (Statement of Comparison of Budget and Actual Amounts — Statement V) as set out in the table below:

Chapter	2018 Budget appropriations £	2018 Budget out-turn £	Underspend/ (overspend) as % of original budget appropriations
I Personnel	3 151 708	2 892 559	8.2
II General services	649 700	639 355	1.6
III Meetings	110 000	98 569	10.4
IV Travel	150 000	100 249	33.2
V Miscellaneous expenditure	415 025	335 024	19.3
VI Unforeseen expenditure	60 000	-	100.0
<b>Total</b>	<b>4 536 433</b>	<b>4 065 757</b>	<b>10.4%</b>

- 5.2 The total joint Secretariat expenses (excluding External audit fees) amounted to £4 065 757. This is £470 676 or 10.4 % less than the 2018 budget appropriation of £4 536 433.

### 5.3 Chapter I — Personnel

- 5.3.1 Expenditure under Personnel totalled £2 892 559 and covers salaries, separation/recruitment, staff benefits/allowances, and training. The increase in provision for employee benefits (as set out in paragraph 6.2) is not included in the budget out-turn figure.

5.3.2 Costs under this chapter makes up 71% of the total administrative expenditure.

#### 5.4 Chapter II — General Services

5.4.1 Of the £639 355 spent within this chapter, some 25% related to office accommodation, 40% to IT (hardware, software, maintenance and connectivity) and 21% to public information (including website and publications costs).

5.4.2 The 1992 Fund Secretariat relocated to the IMO headquarters building in 2016. The term of the lease entered into with the IMO runs from 1 March 2016 and will expire on 25 October 2032. The rent has been fixed at £258 000 per annum with a break on 31 October 2024. The United Kingdom Government meets 80% of the costs related to the rental space of the Secretariat offices in the IMO headquarters building.

5.4.3 The budget out-turn includes the cost of purchase of fixed assets amounting to £5 373, whereas the Statement of Financial Performance (Statement II) includes instead the depreciation and amortisation cost of £35 716, in line with IPSAS requirements.

5.4.4 Costs under this chapter make up 16% of the total administrative expenditure.

#### 5.5 Chapter III — Meetings

5.5.1 In 2018 the IOPC Funds' governing bodies held seven days of sessions over two meetings.

5.5.2 Costs under this chapter make up 2% of the total administrative expenditure.

#### 5.6 Chapter IV — Travel

5.6.1 Where possible, costs incurred by travel to various conferences and seminars and to hold workshops on claims handling is shared with travel in relation to incidents. Budgeting for travel is difficult as invitations for conferences and seminars are not normally provided in time to be included in the preparation of the budget.

5.6.2 Costs under this chapter make up 2% of the total administrative expenditure.

#### 5.7 Chapter V — Miscellaneous expenditure

5.7.1 Expenses under this chapter include consultants' fees amounting to £73 984. Consultants' fees cover non-incident related studies and non-incident related legal fees. Other costs under this chapter relate to the Audit Body and Investment Advisory Body amounting to £184 635 and £76 405, respectively.

5.7.2 Costs under this chapter make up 8% of the total administrative expenditure.

#### 5.8 Chapter VI — Unforeseen expenditure

In 2018 there was no expenditure against this chapter.

#### 5.9 Chapter VII — External audit fees (1992 Fund expense only)

5.9.1 External audit fees paid in 2018 for the audit of the 1992 Fund's 2017 Financial Statements amounted to £43 200, in accordance with the fee agreed with the External Auditor on appointment.

5.9.2 The expenses included in the Statement of Financial Performance (Statement II) are based on the requirements of the accounting standards. Total administrative expenses for 2018 were £4 366 349

(2017: £4 474 255) made up of staff and other personnel costs of £2 913 209 (2017: £2 912 578), and other administrative costs of £1 453 140 (2017: £1 561 677).

Expenses included	£
Statement of Financial Performance (Statement II)	<b>4 366 349</b>
<b>Less:</b>	
<u>In accordance with IPSAS:</u>	
Accommodation costs reimbursed by the United Kingdom Government	(206 400)
Depreciation and amortisation	(35 716)
New provision for employee benefits less prior year adjustment	(20 649)
<u>1992 Fund expense only:</u>	
External audit fees — Chapter VI	(43 200)
<b>Add:</b> Fixed asset purchase — Chapter II	5 373
Joint Secretariat expenses Chapters I–VI on budget basis (paragraph 5.1 above)	<b>4 065 757</b>

## 6 Other assets and liabilities

- 6.1 At its first session, the 1992 Fund Assembly instructed the Director to carry out the tasks necessary for the setting up of the International Hazardous and Noxious Substances Fund (HNS Fund) as requested by the HNS International Conference on the basis that any related expenses would be treated as loans from the 1992 Fund. An amount of £378 752 (2017: £353 028), including interest of £40 862) is due from the HNS Fund when it is established. It can be reasonably expected that this balance will be recovered due to progress towards entry into force of the 2010 HNS Convention.
- 6.2 Provision for employee benefits (short-term and long-term) of £569 801 (2017: £559 899) has been made for accrued annual leave and separation benefits.
- 6.3 The Contributors' account has a balance of £208 341 (2017: £480 022) made up of reimbursement of contributions in accordance with the Assembly's decisions and net overpayments by contributors. Contributors have been informed by the Secretariat of their credit balances, but some contributors have decided to retain the amounts with the 1992 Fund to be offset against the future levy of contributions.
- 6.4 The staff Provident Fund is made up of two elements, namely Provident Fund 1 (PF1), which is invested with the 1992 Fund assets, and Provident Fund 2 (PF2), which is managed by an independent financial broker in the name of the 1992 Fund. Participation in PF2 is entirely voluntary, and new staff members can only participate in PF2 after completing one year of service in the Secretariat. Investing in PF2 is to be made only from the cash balance available in PF1. There is no possibility of investing private funds in PF2. All fees paid by those participating in PF2 are based on the proportion of their investment in PF2.
- 6.5 As at 31 December 2018, the PF1 had a balance of £4 928 926 (2017 — £4 543 665) on the accounts of staff members. This balance reflects contributions to the Provident Fund during the financial year, transfers to and from PF2, withdrawals and repayments of housing loans, withdrawals on separation, and interest earned of £167 926 (2017: £166 584) on the investment of the assets of the Provident Fund (see Note 14 to the Financial Statements).
- 6.6 A transfer of £220 542 was made by staff members from PF1 to PF2 in 2018. As at 31 December 2018 the value of the funds in PF2 was £1 189 224 (2017: £1 012 968).

## 7 General Fund and Major Claims Funds' balances

- 7.1 The General Fund balance on 31 December 2018 was £16 069 176 (2017: £21 704 555), showing a reduction of some £5.6 million due to unanticipated expenditure on the *Agia Zoni II* and *Nesa R3* incidents before they became Major Claims Funds and a planned reduction of the working capital to £19.5 million (2017: £22 million). The General Fund balance is lower than the working capital of £19.5 million set by the 1992 Fund Assembly at its October 2017 session and will be replenished by the General Fund levy due for payment on 1 March 2019. The working capital is established to ensure that the 1992 Fund is able to meet compensation and claims-related expenses which have not been foreseen and occur between the regular sessions of the governing bodies.
- 7.2 In 2018, the General Fund made loans to both the *Alfa I* and *Nesa R3* Major Claims Funds pending future levies to be made to these Major Claims Funds.
- 7.3 The balances on the respective Major Claims Funds, specific to incidents, are as follows:

Balances on Major Claims Funds, £	
<i>Prestige</i> Major Claims Fund	995 274
<i>Hebei Spirit</i> Major Claims Fund	5 327 564
<i>Volgoneft 139</i> Major Claims Fund	3 716 864
<i>Alfa I</i> Major Claims Fund	(1 313 257)
<i>Agia Zoni II</i> Major Claims Fund	18 211 370
<i>Nesa R3</i> Major Claims Fund	(3 105 154)

- 7.4 The contingent liabilities as at 31 December 2018 were estimated at some £41.2 million (2017: £69.2 million) in respect of 11 incidents (2017: 14 incidents). Further details on the incidents are provided in Note 26 to the 2018 Financial Statements.
- 7.5 A schedule of compensation and claims-related expenditure incurred in respect of open incidents involving the 1992 Fund is provided on page 11.

- 7.6 A summary of the total compensation and claims-related expenditure, excluding provision, from both the General Fund (up to SDR 4 million) and the Major Claims Fund established for the incident, is as follows:

Incident	Date of incident	Claims-related		Total
		Compensation	expenses	
		£	£	£
<i>Prestige</i>	13.11.02	83 119 382	24 096 265	<b>107 215 647</b>
<i>Solar 1*</i>	11.08.06	6 491 623	263 871	<b>6 755 494</b>
<i>Volgoneft 139</i>	11.11.07	4 978 755	1 241 450	<b>6 220 205</b>
<i>Hebei Spirit</i>	07.12.07	84 111 662	36 648 390	<b>120 760 052</b>
<i>Redfferm</i>	30.03.09	-	73 391	<b>73 391</b>
<i>Haekup Pacific*</i>	20.04.10	-	20 126	<b>20 126</b>
<i>Alfa I</i>	05.03.12	10 856 126	558 694	<b>11 414 820</b>
<i>Nesa R3</i>	19.06.13	6 682 146	306 961	<b>6 989 107</b>
<i>Double Joy*</i>	05.08.14	-	18 584	<b>18 584</b>
<i>Trident Star*</i>	24.08.16	-	26 329	<b>26 329</b>
<i>Agia Zoni II</i>	10.09.17	9 150 131	2 038 825	<b>11 188 956</b>

\*Under STOPIA 2006

A detailed breakdown by year is provided on pages 11 to 15.

## 8 Sustainability

- 8.1 The 1992 Fund Convention provides the 1992 Fund Assembly the authority to levy contributions that may be required to balance the payments to be made by the 1992 Fund. It also places an obligation on the contributors to make payment by a due date or bear interest on any arrears.
- 8.2 Based on the net assets held at the end of the period and the generally high percentage of receipt of the contributions levied by the due date, the going concern basis has been adopted in preparing the 1992 Fund's Financial Statements.

## 9 External Auditor's recommendations from previous financial years

- 9.1 The External Auditor made three recommendations in 2018. Recommendations from previous financial years and the Director's response thereto are set out on pages 16–17.
- 9.2 Appropriate action has been/is being taken on all previous financial years' recommendations.

José Maura  
Director  
24 June 2019

## 10 Claims and claims-related expenditure as at 31 December 2018 (figures in pounds sterling)

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
<i>Prestige</i> <sup>&lt;2&gt;</sup> , 13 November 2002							
	2018	-	361 941	146 719	27 339	7 337	543 336
Reimbursement from P&I Club	2018	-	-	(19 484)	-	-	(19 484)
	2017	-	375 037	175 527	34 033	3 912	588 509
Reimbursement from P&I Club	2017	-	-	(23 310)	-	-	(23 310)
	2016	45 229	234 346	145 060	34 392	27 326	486 353
Reimbursement from P&I Club	2016	-	-	(19 264)	-	-	(19 264)
	2015	238	66 242	42 733	28 238	6 732	144 183
Reimbursement from P&I Club	2015	-	-	(5 887)	-	-	(5 887)
	2014	38 323	204 580	53 571	25 666	10 114	332 254
Reimbursement from P&I Club	2014	-	-	(6 895)	-	-	(6 895)
	2013	53 811	904 052	340 051	131 867	11 682	1 441 463
Reimbursement from P&I Club	2013	-	-	(50 124)	-	-	(50 124)
	2012	-	882 326	454 536	51 095	6 766	1 394 723
Reimbursement from P&I Club	2012	-	-	(55 821)	-	-	(55 821)
	2011	107 197	876 299	696 430	18 108	2 692	1 700 726
Reimbursement from P&I Club	2011	-	-	(92 062)	-	-	(92 062)
	2010	62 446	1 123 739	785 355	23 309	3 195	1 998 044
Reimbursement from P&I Club	2010	-	-	(119 399)	-	-	(119 399)
	2009	253 735	1 016 806	1 389 357	33 428	3 340	2 696 666
Reimbursement from P&I Club	2009	-	-	(218 703)	-	-	(218 703)
	2008	251 641	699 131	1 241 573	34 636	3 731	2 230 712
Reimbursement from P&I Club	2008	-	-	(171 669)	-	-	(171 669)
	2007	1 109 424	661 652	1 208 692	64 583	8 488	3 052 839
Reimbursement from P&I Club	2007	-	-	(20 153)	-	-	(20 153)
	2006	40 537 569	664 774	1 663 608	135 402	23 225	43 024 578
Reimbursement from P&I Club	2006	-	-	(1 000 000)	-	-	(1 000 000)
	2005	621 316	356 892	2 052 910	208 059	31 557	3 270 734
	2004	123 033	285 311	1 865 281	175 002	288 810	2 737 437
	2003	39 915 420	252 526	2 760 248	280 599	120 473	43 329 266
	2002	-	-	35 969	-	10 626	46 595
<b>Total to date</b>		<b>83 119 382</b>	<b>8 965 654</b>	<b>13 254 849</b>	<b>1 305 756</b>	<b>570 006</b>	<b>107 215 647</b>

<2> Joint costs reimbursement by P&I Club.

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
<i>Solar 1, 11 August 2006 (Under STOPIA 2006)<sup>&lt;3&gt;</sup></i>							
	2018	-	17 746	-	-	-	17 746
	2017	-	18 255	-	377	24	18 656
	2016	-	6 588	-	-	33	6 621
	2015	-	9 503	-	-	12	9 515
	2014	-	10 156	-	-	-	10 156
	2013	-	6 843	-	-	12	6 855
	2012	-	18 272	656	-	6	18 934
	2011	-	10 270	-	-	6	10 276
	2010	17 798	8 692	635	-	897	28 022
Reimbursement from P&I Club	2010	-	-	-	-	(573)	(573)
	2009	390 508	33 077	3 800	-	7 294	434 679
Reimbursement from P&I Club	2009	-	-	-	-	(1 663)	(1 663)
	2008	281 908	-	-	-	10 990	292 898
Reimbursement from P&I Club	2008	-	(43 052)	-	(77 879)	(10 925)	(131 856)
	2007	3 835 532	46 658	-	80 677	67 167	4 030 034
	2006	1 965 877	-	-	248	39 069	2 005 194
<b>Total to date</b>		<b>6 491 623</b>	<b>143 008</b>	<b>5 091</b>	<b>3 423</b>	<b>112 349</b>	<b>6 755 494</b>
<i>Volgoneft 139, 11 November 2007</i>							
	2018	-	1 089	-	-	8	1 097
	2017	3 141 445	34 508	-	301	313	3 176 567
	2016	310 060	37 626	-	-	81	347 767
	2015	-	42 883	-	425	64	43 372
	2014	-	30 636	1 125	-	5 383	37 144
	2013	1 527 250	96 891	9 795	-	27 724	1 661 660
	2012	-	84 354	23 658	-	10 561	118 573
	2011	-	119 313	65 823	645	6 367	192 148
	2010	-	100 881	88 350	-	9 934	199 165
	2009	-	97 831	127 852	-	14 468	240 151
	2008	-	60 940	120 781	5 849	14 991	202 561
<b>Total to date</b>		<b>4 978 755</b>	<b>706 952</b>	<b>437 384</b>	<b>7 220</b>	<b>89 894</b>	<b>6 220 205</b>

<sup><3></sup> Compensation payments reimbursed by the P&I Club under STOPIA 2006.

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
<i>Hebei Spirit</i> <sup>&lt;4&gt;</sup> , 7 December 2007							
	2018	(1 861)	923 635	32 487	2 018	38 130	994 409
Reimbursement from P&I Club	2018	-	-	(14 276)	-	-	(14 276)
	2017	48 147 120	721 150	145 908	5 553	23 589	49 043 320
Reimbursement from P&I Club	2017	-	-	(64 218)	-	-	(64 218)
	2016	24 064 868	1 431 530	767 394	-	79 157	26 342 949
Reimbursement from P&I Club	2016	-	-	(337 653)	-	-	(337 653)
	2015	11 901 535	1 585 233	2 221 723	-	390 507	16 098 998
Reimbursement from P&I Club	2015	-	-	(977 507)	-	-	(977 507)
	2014	-	1 499 185	1 652 666	-	53 866	3 205 717
Reimbursement from P&I Club	2014	-	-	(715 743)	-	(343)	(716 086)
	2013	-	933 971	1 194 111	-	45 725	2 173 807
Reimbursement from P&I Club	2013	-	-	(463 652)	-	-	(463 652)
	2012	-	306 560	3 132 934	-	62 972	3 502 466
Reimbursement from P&I Club	2012	-	-	-	-	(343)	(343)
	2011	-	512 816	4 211 595	-	155 240	4 879 651
Reimbursement from P&I Club	2011	-	-	-	-	(5 359)	(5 359)
	2010	-	287 299	5 907 901	-	150 818	6 346 018
Reimbursement from P&I Club	2010	-	-	(1 523)	-	(12 793)	(14 316)
	2009	-	2 332 643	5 072 399	31 312	110 021	7 546 375
Reimbursement from P&I Club	2009	-	-	(9 320)	-	(21 255)	(30 575)
	2008	-	248 382	2 903 118	156	96 682	3 248 338
	2007	-	-	-	-	1 989	1 989
<b>Total to date</b>		<b>84 111 662</b>	<b>10 782 404</b>	<b>24 658 344</b>	<b>39 039</b>	<b>1 168 603</b>	<b>120 760 052</b>
<i>Redferm</i> , 30 March 2009							
	2018	-	3 600	-	-	-	3 600
	2017	-	1 675	-	-	-	1 675
	2016	-	2 425	-	-	209	2 634
	2015	-	-	-	-	-	-
	2014	-	1 625	-	-	35	1 660
	2013	-	24 850	6 978	-	292	32 120
	2012	-	7 125	11 827	-	12 750	31 702
<b>Total to date</b>		<b>-</b>	<b>41 300</b>	<b>18 805</b>	<b>-</b>	<b>13 286</b>	<b>73 391</b>

<sup><4></sup> USD 5 million (£3 137 550) received as a result of legal settlement between the 1992 Fund and the P&I Club with Samsung Heavy Industries and Samsung C&T Corporation. The amount is accounted under 'Other revenue' in 2012.

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
<i>Haekup Pacific, 20 April 2010</i>							
	2018	-	236	-	-	-	236
	2017	-	4 029	-	-	39	4 068
	2016	-	8 526	-	424	129	9 079
	2015	-	-	-	-	-	-
	2014	-	-	-	-	-	-
	2013	-	6 975	-	-	4	6 979
<b>Total to date</b>		-	<b>19 530</b>	-	<b>424</b>	<b>172</b>	<b>20 126</b>
<i>Alfa I, 5 March 2012</i>							
	2018	-	56 666	364	-	10 521	67 551
	2017	-	174 540	4 197	251	10 483	189 471
	2016	10 856 126	112 062	12 375	1 161	7 918	10 989 642
	2015	-	23 212	20 333	-	2 749	46 294
	2014	-	66 998	19 155	405	2 598	89 156
	2013	-	7 976	725	-	68	8 769
	2012	-	14 103	6 477	522	2 835	23 937
<b>Total to date</b>		<b>10 856 126</b>	<b>455 557</b>	<b>63 626</b>	<b>2 339</b>	<b>37 172</b>	<b>11 414 820</b>
<i>Nesa R3, 19 June 2013</i>							
	2018	3 533 737	65 402	25 343	2 017	5 730	3 632 229
	2017	174 192	37 146	7 500	2 333	522	221 693
	2016	1 344 648	24 726	20 737	-	2 302	1 392 413
	2015	868 298	44 334	25 351	4 514	5 312	947 809
	2014	761 271	3 030	16 722	-	4 345	785 368
	2013	-	-	6 920	-	2 675	9 595
<b>Total to date</b>		<b>6 682 146</b>	<b>174 638</b>	<b>102 573</b>	<b>8 864</b>	<b>20 886</b>	<b>6 989 107</b>
<i>Double Joy, 5 August 2014</i>							
	2018	-	12 483	-	2 018	-	14 501
	2017	-	-	-	3 833	250	4 083
<b>Total to date</b>		-	<b>12 483</b>	-	<b>5 851</b>	<b>250</b>	<b>18 584</b>

Incident	Year	Compensation £	Legal fees £	Technical fees £	Various fees £	Other £	Total £
<i>Trident Star, 24 August 2016</i>							
	2018	-	14 159	-	2 018	19	16 196
	2017	-	6 664	-	2 423	22	9 109
	2016	-	800	-	-	224	1 024
<b>Total to date</b>		-	<b>21 623</b>	-	<b>4 441</b>	<b>265</b>	<b>26 329</b>
<i>Agia Zoni II, 10 September 2017</i>							
	2018	9 150 131	54 561	820 979	39 264	10 205	10 075 140
	2017	-	85 433	936 781	69 696	21 906	1 113 816
<b>Total to date</b>		<b>9 150 131</b>	<b>139 994</b>	<b>1 757 760</b>	<b>108 960</b>	<b>32 111</b>	<b>11 188 956</b>

**Notes:**

Compensation paid in 2018 totalled £12 682 007 (Note 20 of Financial Statements).

In respect of the *Dawn Kanchipuram* incident, claims-related expenditure of £2 018 was incurred.

In respect of the Incident in Canada, claims-related expenditure of £2 969 was incurred.

## 11 FINANCIAL STATEMENTS 2018 — Recommendations

- 11.1 Recommendations made during the audit of the Financial Statements 2018 were made by BDO, and the Director provided his response to the governing bodies at their October 2019 sessions.
- 11.2 Recommendation 1: Recognition of provisions
- 11.2.1 Issues have arisen relating to the nature of the *Agia Zoni II* incident and how provisions are assessed.
- 11.2.2 The claims report feature on the Claims Handling System (CHS) displays limited data for each claim. This makes it difficult to identify claims that should be provided for.
- 11.2.3 Consideration should be given to incidents to determine whether they display characteristics out of the 'normal' where the mainstream approach to provisions may not be appropriate. This should be part of the audit planning meeting, to discuss potential scenarios and their likelihood of arising in the future, and then as incidents arise.
- 11.2.4 We recommend the CHS to be modified so that reports show additional information such as claim date, assessed date and approved date.
- Director's response (October 2019)*
- 11.2.5 The IOPC Funds' accounting policy sets out when compensation provision is realised in the financial statements. Experts' assessments are the basis of the approval of claims which rests with the Secretariat. Experts' assessments of claims are reviewed by the Claims Departments based on the Funds admissible criteria. It is the Secretariat that decides what is to be offered to claimants.
- 11.2.6 There are many instances where experts' assessments have required a reassessment. The recognition of a compensation provision therefore is based on the approval of the claim by the P&I Club and the Fund. If there is no P&I Club it is the Fund that approves the claim.
- 11.2.7 There is no P&I Club involved in the claims approval process in the *Agia Zoni II* incident and therefore approval of claims is made only by the Fund. In relation to this incident there have been claims that have been assessed provisionally by experts but at the time of preparing the financial statements and prior to signing them have not been approved by the Fund and therefore not included in the provision.
- 11.2.8 The Director is of the view that these should not be included as provision. Inclusion of assessed claims will lead to subjectivity of what claims should or should not be included and lead to potentially having to adjust the provisions on a year-on-year basis and having to provide explanations for any adjustments. This could result in an over/under provision and will not provide an accurate representation.
- 11.2.9 Claims and potential future liability for an incident is disclosed in the Contingent Liability note which in the Director's view provides the stakeholders with a fuller picture. The Director notes that there is no P&I Club involved and that the Fund is paying compensation from the onset. He is happy to discuss with the External Auditor at the audit planning meeting potential scenarios and to agree the approach to recognising provisions.
- 11.2.10 The report in the Claims Handling System (CHS) has been modified to include additional information to determine the provision to be included and was used to determine the 2018 compensation

provision for the *Agia Zoni II* incident. A similar report was included in the old system WCMS at the time of the adoption of IPSAS in 2010.

### 11.3 Recommendation 2: Generic accounts in CHS

11.3.1 Through our testing of IT general controls we noted five generic user accounts within CHS that were created for initial system testing. We have been told that only the IT Manager has access to these accounts. One of the accounts has the ability to create other users and to change existing users' access privileges.

11.3.2 There is a risk that generic user accounts could be used to make malicious or fraudulent changes to the system. The accounts are a means of accessing and editing sensitive data that currently serves no practical purpose. Over time there can be a tendency to lose track of who has access to generic user accounts.

11.3.3 We recommend deleting or disabling these generic accounts.

*Director's response (October 2019)*

11.3.4 Following discussions with the External Auditor during the final audit this recommendation has been implemented. There exists an audit trail of all accounts created and deleted, and changes made by any account holder. The list of account holders is reviewed especially at the time when users are added or deleted.

### 11.4 Recommendation 3: Authorisation of compensation offers

11.4.1 After a claim has been assessed by an external expert, a Claims Manager decides whether to approve the claim. The Funds' policy requires a second member of staff to authorise an offer to be made to the claimant. When we attempted to confirm the implementation of this control, we found an offer had been made to a claimant but there was no evidence of a second authorisation. We understand that the claim was discussed with other members of the Secretariat and that it was verbally approved before the letter was sent. We are satisfied that several authorisations were obtained before the claim was actually paid.

11.4.2 There is a risk of the Funds being liable to make an inappropriate payment to a claimant if offers are not checked and authorised by a second individual.

11.4.3 We recommend that all offers of compensation are checked and authorised by a second member of the Secretariat.

*Director's response (October 2019)*

11.4.4 In accordance with the Internal Regulation of the IOPC Funds, the Director has delegated authority to Claims Managers and to the Head of Claims for the approval of claims.

11.4.5 It is the practice that discussions take place within the Claims Department prior to claims being approved. Not only for instances where the staff members approval limit is exceeded, it is now the practice that the claim is discussed with the Head of Claims/Director prior to the claimant being made an offer.

11.4.6 For completeness and to evidence the working practice of claims approval the claim is now authorised by a second staff member.

## 12 FINANCIAL STATEMENTS 2016 — Recommendations and response

12.1 Recommendations made during the audit of the Financial Statements 2016 were made by BDO, and the Director provided his response to the governing bodies at their October 2017 sessions.

### 12.2 Accounting for provision movements (including foreign currency transactions)

12.2.1 The Secretariat is currently undergoing a review of their accounting systems and processes, with a view to either upgrading or replacing their current accounting software. As part of this review, we recommend that management consider the need to specify functionality to include accounting for provision movements and foreign exchange gains and losses within the accounting system in real time. This will significantly reduce the level of manual effort required in accounting for these complex areas.

#### *Director's response (October 2017)*

12.2.2 The current accounting software was upgraded in 2006 when the Funds' financial reporting was under the United Nations Systems Accounting Standards (UNSAS).

12.2.3 With the subsequent adoption of the International Public Sector Accounting Standards (IPSAS) and development of the Online Reporting System for contributing oil receipts and the Claims Handling System, the management is simultaneously reviewing its accounting software requirements. An off-the-shelf package is viewed as most appropriate since the IPSAS follows similar principles to the International Financial Reporting Standards (IFRS) used by commercial institutions.

12.2.4 The Director welcomes the recommendation and will include it in the requirements capture for the new accounting software and will discuss with the External Auditor on the most appropriate package and timelines.

#### *Update on progress in 2018*

12.2.5 Moore Stephens provided advisory services during the third quarter of 2018 to facilitate the exercise of mapping business processes and identifying system requirements, which were then prioritised in terms of both importance and urgency. Moore Stephens made recommendations on the type of system which would meet IOPC Funds' requirements and identified potential vendors for the supply and implementation of the system. Following proposals provided by the potential vendors, a recommendation of a preferred vendor was made by Moore Stephens in the first quarter of 2019. The Secretariat was involved in the vendor selection process.

12.2.6 For several reasons, including preparation of accounts and contributor management, it was recommended that an ERP (Enterprise Resource Platform) would be the most suitable software solution to enable the contributor management database and the accounting system (for multiple Major Claims Funds) to sit on one platform with seamless links.

12.2.7 The Secretariat has engaged a vendor to implement the new ERP system, which is envisaged to be in place by the end of 2019.

## 13 FINANCIAL STATEMENTS 2015 — Recommendations and Response

13.1 Recommendations made during the audit of the Financial Statements 2015 were made by the predecessor External Auditor to BDO, and the Director provided his response to the governing bodies at their October 2016 sessions.

## 13.2 Financial Statements 2015, Recommendation 7

13.2.1 The Secretariat should formally evaluate the case for the provision of a small, risk-focused programme of internal audit activity which would be subject to an independent and objective review by the Audit Body.

### *Director's response (October 2016)*

13.2.2 The Director maintains that an internal audit function would be an unnecessary burden and expense on an organisation the size of the Secretariat. He does, however, see merit in engaging the services of an external consultant to review areas in the operation of the Secretariat to assure him further that the internal control processes in place are adequate.

13.2.3 The Director shall discuss with the Audit Body and the External Auditor how best to discharge this recommendation.

### *Update on progress in 2018*

13.2.4 This recommendation has been implemented.

13.2.5 Assistance was sought from the external auditors to help shape the potential scope and risk focus of the internal audit function for the Funds.

13.2.6 An external firm, Moore Stephens, was appointed and undertook and delivered an initial priority piece of work focusing on cybersecurity.

13.2.7 In February 2019, the external auditor, BDO LLP, acquired the offices of Moore Stephens that had been appointed to undertake Internal Audit work. To ensure an avoidance of a conflict scenario, Moore Stephens resigned from the engagement.

13.2.8 The Secretariat has since secured the services of Mazars to undertake the Internal Audit engagement. As part of the process of further enhancing the system of internal control, the Director commissioned an internal audit needs assessment, which was discussed with the Audit Body at its meeting in April 2018.

13.2.9 As disclosed by the Director in the Statement on Internal Control included in the 2017 Financial Statements, the first such review was focused on cybersecurity. Moore Stephens was engaged to undertake this review which took place in November 2018 and was reviewed at the December 2018 meeting of the Audit Body. Further reviews are planned for 2019.

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992  
STATEMENT ON INTERNAL CONTROL

**14 Scope of Director's responsibility**

- 14.1 Under Article 28.2 of the 1992 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Fund 1992 (1992 Fund). Each Contracting State shall, pursuant to Article 2.2 of the 1992 Fund Convention, recognise the Director as the legal representative of the 1992 Fund.
- 14.2 Under Article 29.1 of the 1992 Fund Convention, the Director shall be the chief administrative officer of the 1992 Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the 1992 Fund's policies, aims and objectives, while also safeguarding the 1992 Fund's assets.
- 14.3 As a result of these provisions, the Director has the authority, *vis-à-vis* third parties, to commit the 1992 Fund without restrictions, unless the third party concerned has been informed of any limitation of this authority decided by the Assembly or Executive Committee.
- 14.4 The Director is, however, bound by any restriction of his authority decided by the Assembly or Executive Committee. He may delegate his authority to other officers within the limits laid down by the Assembly.
- 14.5 The 1992 Fund and the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund) are together referred to as the IOPC Funds. 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.
- 14.6 Pursuant to the authority given and within the limits laid down by the IOPC Funds' governing bodies, the Director has delegated his authority to other officers by Administrative Instructions.
- 14.7 In 2018, the Director was assisted by a Management Team comprising of the Deputy Director/Head of the Finance and Administration Department, Head of the External Relations and Conference Department, Head of the Claims Department and the Legal Counsel, for the day-to-day running of the Secretariat.

**15 Statement on the system of internal control**

- 15.1 The Director has the responsibility for maintaining a sound system of internal control that supports the work of the 1992 Fund. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to evaluate the likelihood and impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 15.2 The Management Team normally meets on a weekly basis to exchange information and to brief the Director on matters that may require particular attention. The minutes of these, and any other meetings held by the Management Team to discuss substantive matters of policy and work are held in the Director's office. These meetings provide the necessary forum where Management Team members entrusted with specific areas of responsibility can discuss issues including internal control and risks arising in the organisation. The Director obtains assurance from these meetings that there

are sufficient internal controls in place and that the risks are mitigated and managed across the organisation.

- 15.3 The joint Audit Body established by the IOPC Funds' governing bodies meets formally three times a year. The Audit Body has the mandate to review the adequacy and effectiveness of the organisation with regard to key issues of management and financial systems, financial reporting, internal controls, operational procedures and risk management, to review the organisation's Financial Statements and reports, and to consider all relevant reports by the External Auditor including reports on the organisation's Financial Statements. This additional oversight provides further assurance to the Director, as well as the governing bodies, that appropriate internal controls are in place. The Audit Body reports to the 1992 Fund Assembly on an annual basis.
- 15.4 In relation to investments and cash management the joint Investment Advisory Body (IAB) established by the IOPC Funds' governing bodies advises the Director on relevant procedures for investment and cash management controls and these are monitored by the IAB which provides the Director with further assurances regarding the internal controls that are in place in this area. The IAB also reviews the IOPC Funds' investments and foreign exchange requirements to ensure that reasonable investment returns are achieved without compromising the IOPC Funds' assets. The IAB also monitors, on an ongoing basis, the credit ratings of financial institutions and reviews the credit ratings of institutions which meet the IOPC Funds' investment criteria. The IAB meets quarterly with the Director and Secretariat, annually with the External Auditor and attends Audit Body meetings as requested in order to exchange information. The IAB reports to the 1992 Fund Assembly on an annual basis.

## 16 Risk management

- 16.1 The Director continued a review of the IOPC Funds' risk register to identify key risks across the Secretariat. These risks have been placed in two categories: operational risk and institutional risk. Operational risk has been sub-divided into five areas: finance and contributions; governance and management; compensation; safety and security; and communications and publications.
- 16.2 In 2018, the Management Team reviewed and assessed the sub-risks under these risk areas, following which the process and procedures for management of these risks were documented. This exercise allowed the IOPC Funds to prioritise the key risks and to ensure that these risks have been adequately mitigated.
- 16.3 The Key Risk Register is shared with the Audit Body at least annually, following the results of the annual risk management review and updates to the Register. The Audit Body and the Director jointly identified two areas of risk for more in-depth analysis, which the Audit Body reviewed throughout the year. The Audit Body has made valuable contributions to the organisation's risk management, which provides further assurance to the Director that the processes are effective. The Audit Body makes specific reference to these matters in its annual report to the governing bodies.

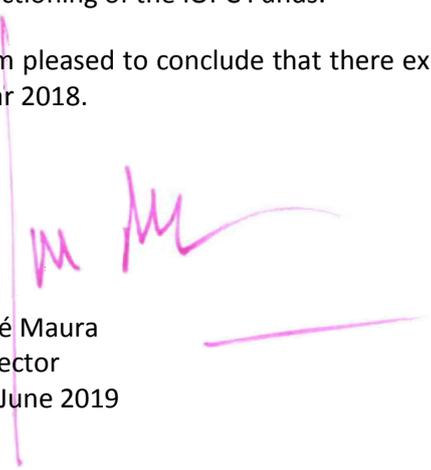
## 17 The risk and control framework

- 17.1 The system of internal control is based on an ongoing process designed to ensure conformity with the 1992 Fund Convention, the Financial Regulations, the Internal Regulations and decisions of the 1992 Fund Assembly and Executive Committee.
- 17.2 The Assembly adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the 1992 Fund.

- 17.3 Staff Regulations are adopted by the 1992 Fund Assembly. Staff Rules are issued by the Director and any amendments made to the Staff Rules are reported annually to the 1992 Fund Assembly. Administrative Instructions are issued by the Director as and when required.

## 18 Review of effectiveness

- 18.1 The review of the effectiveness of the system of internal control is carried out through the work of the Audit Body and that of the External Auditor. Any recommendations made by the External Auditor, in its management letter and other reports, are considered, and a plan is agreed to address any identified weakness and to ensure continuous improvement of the current system. The Assembly is updated annually on the status of these recommendations.
- 18.2 As part of the process of further enhancing the system of control, the Director commissioned an internal audit needs assessment, which was discussed with the Audit Body at its meeting in April 2018. The outline plan and the areas to be reviewed over a three-year period agreed with the Audit Body, should provide added assurances to the Director on the effectiveness of the internal controls in place. The first audit, which was undertaken on cybersecurity in November 2018, was reviewed by the Audit Body in December 2018 and provided assurances that the infrastructure and management controls in place provided a stable and secure platform to support the ongoing functioning of the IOPC Funds.
- 18.3 I am pleased to conclude that there existed an effective system of internal control for the financial year 2018.



José Maura  
Director  
24 June 2019

\* \* \*

## SECTION TWO

### EXTERNAL AUDITOR'S REPORT AND OPINION

#### OPINION ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the International Oil Pollution Compensation Fund 1992 (the Fund) for the year ended 31 December 2018 which comprise the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Net Assets, the Statement of Cash Flows and the Statement of Comparison of Budget and Actual Accounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law including the Financial Regulations of the International Oil Pollution Compensation Fund 1992 (the Financial Regulations) and International Public Sector Accounting Standards (IPSASs).

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the International Oil Pollution Compensation Fund 1992 as at 31 December 2018 and of the results of its operations and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Fund's Financial Regulations and International Public Sector Accounting Standards; and
- accounting principles have been applied in the preparation of the financial statements on a basis consistent with that of the preceding period.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the IESBA Code of Ethics for professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matter – basis for accounting and use

In forming our opinion on the accounts, which is not modified, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Fund in complying with their financial reporting obligations. As a result, the financial statements may not be suitable for another purpose.

## Other Information

The Director is responsible for the other information. The other information comprises the information included in the annual report, including the Director's Comments on the Financial Statements and Statement on Financial Control, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinion on Regularity

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

## Responsibilities of the Director

The Director is responsible for the preparation of the financial statements and for such internal control as the Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

In preparing the financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Fund and enable the Director to ensure that the financial statements comply with the Fund regulations and IPSASs. The Director is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Director is responsible for ensuring that transactions of the Fund are in accordance with the Financial Regulations and legislative authority.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### External Auditor's Report

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

### Use of our report

This report is made solely to the Assembly of the International Oil Pollution Compensation Fund 1992 (the Assembly), as a body, in accordance with the Financial Regulations of the Fund and our engagement letter. Our audit work has been undertaken so that we might state to the Assembly those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Assembly as a body, for our audit work, for this report, or for the opinions we have formed.



David Eagles  
For and on behalf of BDO LLP  
Ipswich, UK 28 June 2019



# INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992

## REPORT OF THE EXTERNAL AUDITOR

Audit for the year ended 31 December 2018

9 July 2019



# INTRODUCTION

## PURPOSE AND USE OF THIS REPORT

We are pleased to present our third annual report to the Fund Assembly, which details the key findings arising from our audit of the International Oil Pollution Compensation 1992 Fund ('the Fund') for the year ended 31 December 2018.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (ISAs) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance, in this case the Joint Audit Body. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and regularity. As the purpose of the audit is for us to express an opinion on the financial statements and regularity, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Fund Assembly. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank the Director and the staff of the Secretariat for their co-operation and assistance during the audit and throughout the year.

## AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk).

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## EXECUTIVE SUMMARY

### AUDIT APPROACH

Scope of the audit	<p>An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.</p> <p>We also give an opinion of the regularity of the Fund's income and expenditure; that is whether it has been applied to the purposes intended by the Fund Assembly, and whether it is in accordance with the Financial Regulations.</p>
Materiality	<p>The materiality for the financial statements as a whole was set at £1.63 million. This was lower than that applied in the previous year (2017: £1.95 million) because of a reduction in the Fund's net assets as at 31 December 2018 (due mainly to the level of compensation payments made in the year in relation to the Hebei Sprit and Agia Zoni II incidents).</p> <p>In addition, we applied a lower specific materiality of £670,000 (2017: £780,000) to the Fund's income and expenditure (with the exception of non-cash movements in provisions).</p>

### OVERALL CONCLUSION

Overall conclusion	<p>We have given an unmodified opinion on the financial statements, and an unmodified regularity opinion. This means that we are satisfied that:</p> <ul style="list-style-type: none"> <li>• the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS); and</li> <li>• the revenue and expense have been applied to the purposes intended by the Fund's Assembly and the financial transactions conform to the Financial Regulations.</li> </ul>
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### KEY AUDIT RISKS AND OTHER MATTERS ARISING

Key audit risks	<p>In planning our audit, we identified significant risks in relation to management override of controls, and provisions for claim liabilities.</p> <p>Our audit identified no evidence of fraud in relation to management override of controls.</p>
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# AUDIT APPROACH AND CONCLUSIONS

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

We also give an opinion of the regularity of the Fund's income and expenditure; that is whether it has been applied to the purposes intended by the Fund Assembly, and whether it is in accordance with the Financial Regulations.

Our audit was scoped by obtaining an understanding of the Fund and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. This allowed us to focus our audit effort on the areas of greatest risk, as set out in the following section.

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £1.63 million. This was lower than that applied in the previous year (2017: £1.95 million) because of a reduction in the Fund's net assets as at 31 December 2018 (due mainly to the level of compensation payments made in year in relation to the Hebei Sprit and Agia Zoni II incidents). In addition, we applied a lower specific materiality of £670,000 (2017: £780,000) to the Fund's income and expenditure (with the exception of non-cash movements in provisions).

We have reported to management and the Joint Audit Body all misstatements identified during the course of the audit, except those which we consider to be clearly trivial. For the purposes of making this assessment we applied a triviality level of £50,000.

## OVERALL CONCLUSIONS

We have given an unmodified opinion on the financial statements, and an unmodified regularity opinion. This means that we are satisfied that:

- the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS); and
- the revenue and expense have been applied to the purposes intended by the Fund's Assembly and the financial transactions conform to the Financial Regulations.

In addition, we are aware of no unadjusted misstatements within the approved financial statements besides those which we consider to be clearly trivial.

This report includes a summary of our key audit findings. In addition, we reported more detailed findings to the Joint Audit Body at their meeting on 21 June 2019.

## KEY AUDIT ISSUES AND CONCLUSIONS

### KEY AUDIT RISKS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team. We have also set out the approach we took to address these risks, and our findings in each area.

	AUDIT AREA	AUDIT WORK	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	<p>Our audit work included:</p> <ul style="list-style-type: none"> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Reviewing accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</li> <li>• Obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	<p><b>No issues identified</b></p> <p>Our audit work in relation to journals has not identified any issues in respect of inappropriate journal entries in the general ledger or adjustments made in the preparation of the financial statements.</p> <p>We have not identified bias in accounting estimates.</p> <p>No unusual transactions outside of the normal course of business were identified.</p>

## KEY AUDIT ISSUES AND CONCLUSIONS

AUDIT AREA	AUDIT WORK	AUDIT FINDINGS AND CONCLUSION
2	<p><b>Provisions for claim liabilities</b></p>	<p>Our work focused around the Agia Zoni II incident as this is a new major incident and because most compensation payments made in the year relate to it.</p> <p>We have carried out substantive testing on a sample of claims paid during the year and a sample of claims provided for at the year end. For each claim sampled we reviewed supporting evidence such as legal findings and reports prepared by experts. We evaluated the methods used by the experts and the appropriateness of conclusions they reached.</p> <p>We have reviewed the Secretariat's assessment of overall liability positions for larger incidents approaching the Fund limits.</p> <p>We reviewed contingent liabilities disclosures and considered their accuracy and completeness in light of the results from our provisions testing and other information available.</p> <p>We have drawn on a number of sources to consider the completeness of provisions recognised and the contingent liabilities disclosed. We obtained reports from the Claims Handling System (CHS) of claims received but not provided for and carried out focussed substantive testing on a sample to determine whether a liability should be recognised.</p> <p>The draft financial statements of the 1992 Fund included a total provision for compensation of £63.2 million, of which the majority relates to the Hebei Spirit incident (£37.3million), the Prestige incident (£25.1 million) and the Agia Zoni II incident (£0.9 million).</p> <p><b>Agia Zoni II incident</b></p> <p>This incident, which occurred in 2017, currently has the most active claims being considered by the Fund.</p> <p>The Agia Zoni II incident has a number of features that differentiate it from “normal” incidents, including the questions raised about the cause of the incident (see also <i>Contingent liabilities</i> below), the nature and extent of involvement of the insurer (non P&amp;I) and the turnaround of claims approved and paid. This has caused us to revisit the accounting policy and to assess whether its application as worded to this unusual scenario remains compliant with the underlying accounting standards, namely IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and IPSAS 14 <i>Events After the Reporting Date</i>.</p> <p>In the draft accounts, claims had only been provided for where they had been approved or when there had been a court decision prior to the year end. Claims received before the year end but approved after it had not been provided for. As a result of our discussions with the Secretariat on these issues, it was agreed that an additional provision of £0.8 million would be made in relation to the Agia Zoni II incident. Also, the accounting policy in Note 1 to the accounts has been expanded to clarify when the Fund provides for compensation.</p> <p>We also discussed a claim relating to clean up costs which has been assessed as eligible by experts but not yet approved, or therefore provided for, by the Fund. This has been discussed with the Director to see to what extent it is possible to determine whether incidents display characteristics out of the “normal” where the mainstream approach to provisions may not be appropriate.</p>

AUDIT AREA	AUDIT WORK	AUDIT FINDINGS AND CONCLUSION
		<p><b><i>Hebei Spirit incident</i></b></p> <p>Provisions up to the limit of the Fund's liability were made in 2017 and were still outstanding in 2018. As the result of a Korean court finding in relation to the exchange rate applied, the Fund's liability increased and an equivalent provision has been recognised. We have reviewed legal documentation available and we are satisfied that this treatment is appropriate.</p> <p><b><i>Prestige incident</i></b></p> <p>Provisions up to the limit of the Fund's liability were made in 2017 and were still outstanding in 2018. We have reviewed legal documentation available and we are satisfied that this treatment is appropriate.</p> <p><b><i>Sample testing</i></b></p> <p>Our testing of a sample of claims, including the work of management experts, identified no issues.</p> <p><b><i>Contingent liabilities</i></b></p> <p>The contingency in respect of the Agia Zoni II incident takes account of the consideration about whether or not the incident was deliberate rather than an accident.</p> <p>No contingent liability was initially disclosed in relation the Bow Jubail incident because it had not yet been officially accepted as within the Fund's scope. We considered that it should be disclosed as the possibility of it falling within the Fund's scope was not remote. The accounts have now been amended to include an appropriate disclosure in relation to this incident.</p> <p>There are two incidents, Trident Star and Solar 1, that fall within the scope of STOPIA whereby the Fund may need to make payments that will be reimbursed by the ship owners' insurer. Disclosures have been made to this effect but no values of the potential payments have been given. IPSAS states that, where possible, contingent liabilities should be quantified. We do not consider this to be a significant omission.</p> <p>We are satisfied that contingent liabilities are now disclosed in respect of all known or likely claims against the Funds which are not yet approved, and therefore represent a reasonable estimate of the maximum liability which the Funds can expect to pay out in respect of each incident.</p>

# APPENDICES

## APPENDIX I: CURRENT YEAR RECOMMENDATIONS

Key: ■ Recommendation linked to key audit area ■ Other recommendations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Recognition of provisions	<p>Issues have arisen relating to the nature of the Agia Zoni II incident and how provisions are assessed.</p> <p>The claims report feature on the Claims Handling System (CHS) displays limited data for each claim. This makes it difficult to identify claims that should be provided for.</p>	<p>Consideration should be given to incidents to determine whether they display characteristics out of the “normal” where the mainstream approach to provisions may not be appropriate. This should be part of the audit planning meeting, to discuss potential scenarios and their likelihood of arising in the future, and then as incidents arise.</p> <p>CHS to be modified so that reports show additional information such as claim date, assessed date and approved date.</p>	<p>The IOPC Funds’ accounting policy sets out when compensation provision is realised in the financial statements. Experts’ assessment is the basis of the approval of claims which rests with the Secretariat. Experts’ assessments of claims are reviewed by the Claims Departments based on the Funds admissible criteria. It is the Secretariat who decide what is to be offered to claimants.</p> <p>There are many instances where experts’ assessments have required a reassessment. The recognition of a compensation provision therefore is based on the approval of the claim by the P&amp;I Club and the IOPC Fund. If there is no P&amp;I Club it is the Fund that approves the claim.</p> <p>There is no P&amp;I Club involved in the claims approval process in the Agia Zoni II incident and therefore approval of claims are made only by the Fund. In relation to this incident there have been claims that have been assessed provisionally by experts but at the time of preparing the financial statements and prior to signing them have not been approved by the Fund and therefore not included in the provision.</p> <p>The Director is of the view that these should not be included as provision. Inclusion of assessed claims will lead to subjectivity of what claims should or should not be included and lead to potentially having to adjust the provisions on year on year basis and having to provide explanations for any adjustments. This could result in an over/ under provision and will not provide an accurate representation.</p> <p>Claims and potential future liability for an incident is disclosed in the Contingent Liability note which in the Director’s view provides the stakeholders with a fuller picture. The Director notes that as there is no P&amp;I Club involved and that the IOPC Fund is paying compensation from the onset. He is happy to discuss with the External Auditor at the audit planning meeting potential scenarios and to agree the approach to recognising provisions.</p> <p>The report in the Claims Handling System (CHS) has been modified to include additional information to determine the provision to be included and was used to determine the 2018 compensation provision for the Agia Zoni II incident. A similar report was included in the old system WCMS at the time of the adoption of IPSAS in 2010</p>

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Generic accounts in CHS	<p>Through our testing of IT general controls we noted five generic user accounts within CHS that were created for initial system testing. We have been told that only the IT Manager, has access to these accounts. One of the accounts has the ability to create other users and to change existing users' access privileges.</p> <p>There is a risk that generic user accounts could be used to make malicious or fraudulent changes to the system. The accounts are a means of accessing and editing sensitive data that currently serves no practical purpose. Over time there can be a tendency to lose track of who has access to generic user accounts.</p>	We recommend deleting or disabling these generic accounts.	<p><b>IMPLEMENTED</b></p> <p>Following discussions with the External Auditor during the final audit this recommendation has been implemented. There exists an audit trail of all accounts created and deleted, and changes made by any account holder. The list of account holders is reviewed especially at the time when users are added or deleted</p>
Authorisation of compensation offers	<p>After a claim has been assessed by an external expert, a Claims Manager decides whether to approve the claim. The Funds' policy requires a second member of staff to authorise an offer to be made to the claimant. When we attempted to confirm the implementation of this control, we found an offer had been made to a claimant but there was no evidence of a second authorisation. We understand that the claim was discussed with other members of the Secretariat and that it was verbally approved before the letter was sent. We are satisfied that several authorisations were obtained before the claim was actually paid.</p> <p>There is a risk of the Funds being liable to make an inappropriate payment to a claimant if offers are not checked and authorised by a second individual.</p>	That all offers of compensation are checked and authorised by a second member of the Secretariat.	<p><b>IMPLEMENTED</b></p> <p>In accordance with the Internal Regulation of the IOPC Funds, the Director has delegated authority to Claims Managers and to the Head of Claims for the approval of claims.</p> <p>It is the practice that discussions take place within the Claims department prior to claims being approved. Not only for instances where the staff members approval limit is exceeded, it is now the practice that the claim is discussed with the Head of Claims/ Director prior to the claimant being made an offer.</p> <p>For completeness and to evidence the working practice of claims approval the claim is now authorised by a second staff member.</p>

## APPENDIX II: PROGRESS AGAINST PRIOR YEAR RECOMMENDATIONS

We set out below the progress the Funds have made in implementing recommendations we made in the prior year. We have not made any recommendations in relation to the current year.

RECOMMENDATION (MADE BY BDO)	DIRECTORS' UPDATE	EXTERNAL AUDIT VIEW
<p><b>Accounting for provision movements (including foreign currency transactions)</b></p> <p>The Secretariat are currently undergoing a review of their accounting systems and processes, with a view to either upgrading or replacing their current accounting software. As part of this review, we recommend that management consider the need to specify functionality to include accounting for provision movements and foreign exchange gains and losses within the accounting system in real time.</p> <p>This will significantly reduce the level of manual effort required in accounting for these complex areas.</p>	<p>Moore Stephens provided advisory services during the third quarter of 2018 to facilitate the exercise of mapping business processes and identifying system requirements, which were then prioritised in terms of both importance and urgency. Moore Stephens made recommendations on the type of system which would meet IOPC Funds' requirements and identified potential vendors for the supply and implementation of the system. Following proposals provided by the potential vendors, a recommendation of a preferred vendor was made by Moore Stephens in the first quarter of 2019. The Secretariat was involved in the vendor selection process.</p> <p>For several reasons, including preparation of accounts and contributor management, it was recommended that an ERP (Enterprise Resource Platform) would be the most suitable software solution to enable the contributor management database and the accounting system (for multiple Major Claims Funds) to sit on one platform with seamless links.</p> <p>The Secretariat has engaged a vendor to implement the new ERP system, which is envisaged to be in place by the end of 2019.</p>	<p><b>Ongoing</b></p> <p>We will continue to review the progress of the system implementation as part of audit of the 2019 accounts.</p>

## APPENDIX II: PROGRESS AGAINST PRIOR YEAR RECOMMENDATIONS

We set out below the progress the Funds have made in implementing recommendations made by the predecessor auditors.

RECOMMENDATION (MADE BY PREDECESSOR AUDITOR)	DIRECTORS' UPDATE	EXTERNAL AUDIT VIEW
<p><u>Recommendation 7</u></p> <p>The Secretariat should formally evaluate the case for the provision of a small, risk focussed programme of internal audit activity which would be subject to an independent and objective review by the Audit Body.</p>	<p><b>IMPLEMENTED</b></p> <p>Assistance was sought from the external auditors to help shape the potential scope and risk focus of the internal audit function for the Funds.</p> <p>An external firm, Moore Stephens, was appointed and undertook and delivered an initial priority piece of work focusing on Cyber Security. In February 2019, the external auditor, BDO LLP, acquired the offices of Moore Stephens that had been appointed to undertake Internal Audit work. To ensure an avoidance of a conflict scenario, Moore Stephens resigned from the engagement.</p> <p>The Secretariat has since secured the services of Mazars to undertake the Internal Audit engagement.</p>	<p><b>IMPLEMENTED</b></p>

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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## SECTION THREE

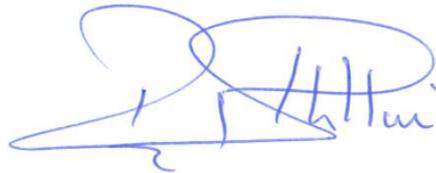
THE FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

### CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that to the best of our knowledge and information, all transactions during the period have been properly entered in the accounting records and that these transactions together with the appended Financial Statements numbered I to V and notes, details of which form part of this document, fairly present the financial position of International Oil Pollution Compensation Fund 1992 as at 31 December 2018.



José Maura  
Director



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

24 June 2019

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992  
STATEMENT I  
Statement of Financial Position  
At 31 December 2018

	Note	2018 £	2017 £
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	108 830 949	99 424 123
Contributions receivable	3, 5	229 608	299 612
Other receivables	4, 5	526 807	523 767
Staff Provident Fund (externally managed)	14	1 189 224	1 012 968
<b>Total current assets</b>		<b>110 776 588</b>	<b>101 260 470</b>
<b>Non-current assets</b>			
Due from HNS Fund	6	378 752	353 028
Property, plant and equipment	7	38 939	65 950
Intangible assets	8	-	3 332
<b>Total non-current assets</b>		<b>417 691</b>	<b>422 310</b>
<b>TOTAL ASSETS</b>		<b>111 194 279</b>	<b>101 682 780</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables and accruals	9	533 468	1 220 530
Provision for compensation	10	63 270 343	43 995 350
Provision for employee benefits (short term)	11	208 424	187 202
Prepaid contributions	12	592 339	900 953
Contributors' account	13	208 341	480 022
<b>Total current liabilities</b>		<b>64 812 915</b>	<b>46 784 057</b>
<b>Non-current liabilities</b>			
Staff Provident Fund	14	6 118 150	5 556 633
Provision for employee benefits (long term)	11	361 377	372 697
<b>Total non-current liabilities</b>		<b>6 479 527</b>	<b>5 929 330</b>
<b>TOTAL LIABILITIES</b>		<b>71 292 442</b>	<b>52 713 387</b>
<b>NET ASSETS</b>		<b>39 901 837</b>	<b>48 969 393</b>
<b>BALANCES</b>			
		<b>31-Dec-18</b>	<b>31-Dec-17</b>
General Fund		16 069 176	21 704 555
<i>Prestige</i> Major Claims Fund		995 274	1 500 214
<i>Hebei Spirit</i> Major Claims Fund		5 327 564	23 374 492
<i>Volgoneft 139</i> Major Claims Fund		3 716 864	3 725 001
<i>Alfa I</i> Major Claims Fund		(1 313 257)	(1 334 869)
<i>Agia Zoni II</i> Major Claims Fund		18 211 370	-
<i>Nesa R3</i> Major Claims Fund		(3 105 154)	-
<b>GENERAL FUND &amp; MAJOR CLAIMS FUNDS (MCFs) BALANCES</b>	<b>15</b>	<b>39 901 837</b>	<b>48 969 393</b>

Notes are found on pages 46–78

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992  
STATEMENT II  
Statement of Financial Performance  
For the year ended 31 December 2018

		2018	2017
	Note	£	£
<b>REVENUE</b>			
Contributions	17	27 075 571	17 282 921
Contributions-in-kind	18	206 400	206 400
Interest on investments		872 488	795 051
Other revenue	19	159 405	58 793
<b>Total revenue</b>		<b>28 313 864</b>	<b>18 343 165</b>
<b>EXPENSES</b>			
Compensation claims	20	31 314 655	29 673 076
Claims-related expenses	21	2 655 260	2 835 538
Personnel costs		2 913 209	2 912 578
Other administrative costs	22	1 453 140	1 561 677
Currency exchange (gain)/loss	24	(950 482)	(319 884)
Amounts added to provision for contributions and interest, less amounts received	5	(4 362)	86 630
<b>Total expenses</b>		<b>37 381 420</b>	<b>36 749 615</b>
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>		<b>(9 067 556)</b>	<b>(18 406 450)</b>

Notes are found on pages 46–78

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992  
STATEMENT III  
Statement of Changes in Net Assets  
For the year ended 31 December 2018

		Accumulated surpluses / Fund balances							
	Note	£							
		General Fund	<i>Prestige</i> MCF	<i>Hebei Spirit</i> MCF	<i>Volgoneft</i> 139 MCF	<i>Alfa I</i> MCF	<i>Agia Zoni II</i> MCF	<i>Nesa R3</i> MCF	Total
<b>Total net assets at 31 December 2016</b>		<b>17 446 504</b>	<b>26 063 584</b>	<b>27 796 868</b>	<b>3 411 470</b>	<b>(7 342 583)</b>			<b>67 375 843</b>
Surplus/(deficit) for the year ended 31 December 2017	25	4 258 051	(24 563 370)	(4 422 376)	313 531	6 007 714			(18 406 450)
<b>TOTAL NET ASSETS at 31 December 2017</b>	<b>25</b>	<b>21 704 555</b>	<b>1 500 214</b>	<b>23 374 492</b>	<b>3 725 001</b>	<b>(1 334 869)</b>	-	-	<b>48 969 393</b>
Surplus/(deficit) for the year ended 31 December 2018	25	(5 635 379)	(504 940)	(18 046 928)	(8 137)	21 612	18 211 370	(3 105 154)	(9 067 556)
<b>TOTAL NET ASSETS at 31 December 2018</b>	<b>25</b>	<b>16 069 176</b>	<b>995 274</b>	<b>5 327 564</b>	<b>3 716 864</b>	<b>(1 313 257)</b>	<b>18 211 370</b>	<b>(3 105 154)</b>	<b>39 901 837</b>

Notes are found on pages 46–78

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992  
STATEMENT IV  
Statement of Cash Flow  
For the year ended 31 December 2018

		2018	2017
	Note	£	£
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Surplus/(deficit) for the period</b>		(9 067 556)	(18 406 449)
Adjustment for:			
Interest on investment <sup>&lt;1&gt;</sup>		(872 488)	(795 051)
Unrealised foreign exchange (gains)/losses		(1 019 060)	(1 195 190)
Depreciation and amortisation	7, 8	35 716	50 377
		<b>(10 923 388)</b>	<b>(20 346 313)</b>
(Increase)/decrease in receivables	3, 4, 5, 6, 14	(134 725)	245 267
Increase/(decrease) in payables & accruals	9, 13	(960 230)	120 053
Increase/(decrease) in provisions	10, 11	18 643 715	(20 591 228)
Increase/(decrease) in Provident Fund (less interest)	14	393 591	340 999
Increase/(decrease) in prepaid contributions	12	(308 615)	(283 319)
<b>Net cash flow from operating activities</b>		<b>6 710 348</b>	<b>(40 514 541)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned <sup>&lt;2&gt;</sup>		1 041 901	963 139
Increase in property, plant and equipment	7	(5 373)	(9 090)
Increase in intangible assets		-	-
<b>Net cash flow from investing activities</b>		<b>1 036 528</b>	<b>954 049</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>7 746 876</b>	<b>(39 560 492)</b>
Cash and cash equivalents at beginning of the year		99 424 123	137 364 300
Exchange (losses)/gains on cash and cash equivalents		1 659 950	1 620 315
<b>Cash and cash equivalents at end of the year</b>	2	<b>108 830 949</b>	<b>99 424 123</b>

Notes are found on pages 46–78

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

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

INTERNATIONAL OIL POLLUTION COMPENSATION FUND 1992 — STATEMENT V  
GENERAL FUND — JOINT SECRETARIAT EXPENDITURE  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
For the year ended 31 December 2018

CLASS OF EXPENDITURE	NOTE	BUDGET APPROPRIATIONS		REVISED BUDGET APPROPRIATIONS		BUDGET OUT-TURN		BALANCE OF APPROPRIATIONS	
		2018	2017	2018	2017	2018	2017	2018	2017
		£	£	£	£	£	£	£	£
<b>I</b>	<b>PERSONNEL</b>								
a	Salaries	2 160 678	2 172 425	2 160 678	2 172 425	2 028 664	1 998 058	132 014	174 367
b	Separation and recruitment	40 000	80 000	40 000	80 000	3 298	46 913	36 702	33 087
c	Staff benefits, allowances and training	931 030	779 885	931 030	779 885	851 347	810 447	79 683	(30 562)
d	Conscious rewarding scheme	20 000	20 000	20 000	20 000	9 250	14 000	10 750	6 000
		<b>3 151 708</b>	<b>3 052 310</b>	<b>3 151 708</b>	<b>3 052 310</b>	<b>2 892 559</b>	<b>2 869 418</b>	<b>259 149</b>	<b>182 892</b>
<b>II</b>	<b>GENERAL SERVICES</b>								
a	Office accommodation	185 100	188 600	161 511	188 600	161 511	184 597	-	4 003
b	IT (hardware, software, maintenance and connectivity)	242 500	277 560	254 005	277 560	254 005	260 055	-	17 505
c	Furniture and other office equipment	21 100	10 800	21 100	10 800	14 715	16 918	6 385	(6 118)
d	Office stationery and supplies	10 000	10 000	10 000	10 000	6 863	8 608	3 137	1 392
e	Communications (courier, telephone, postage)	32 000	35 000	22 705	35 000	22 182	20 523	523	14 477
f	Other supplies and services	21 000	18 500	21 000	18 500	20 700	21 141	300	(2 641)
g	Representation (hospitality)	20 000	20 000	24 315	20 000	24 315	18 825	-	1 175
h	Public information	118 000	110 000	135 063	110 000	135 063	81 818	-	28 182
		<b>649 700</b>	<b>670 460</b>	<b>649 700</b>	<b>670 460</b>	<b>639 355</b>	<b>612 485</b>	<b>10 345</b>	<b>57 975</b>
III	MEETINGS	<b>110 000</b>	<b>128 846</b>	<b>110 000</b>	<b>128 846</b>	<b>98 569</b>	<b>128 846</b>	<b>11 431</b>	-
IV	TRAVEL — Conferences, seminars and missions	<b>150 000</b>	<b>111 603</b>	<b>150 000</b>	<b>111 603</b>	<b>100 249</b>	<b>111 603</b>	<b>49 751</b>	-
V	MISCELLANEOUS EXPENDITURE								
a	Consultants' fees	150 000	150 000	150 000	150 000	73 984	55 314	76 016	94 686
b	Audit Body	187 800	180 000	187 800	180 000	184 635	187 148	3 165	(7 148)
c	Investment Advisory Body	77 225	73 750	77 225	73 750	76 405	73 681	820	68
		<b>415 025</b>	<b>403 750</b>	<b>415 025</b>	<b>403 750</b>	<b>335 024</b>	<b>316 143</b>	<b>80 001</b>	<b>87 606</b>
VI	UNFORESEEN EXPENDITURE	<b>60 000</b>	<b>29 551</b>	<b>60 000</b>	<b>29 551</b>	-	-	<b>60 000</b>	<b>29 551</b>
<b>TOTAL I–VI (excluding External audit fees)</b>		<b>4 536 433</b>	<b>4 396 520</b>	<b>4 536 433</b>	<b>4 396 520</b>	<b>4 065 757</b>	<b>4 038 495</b>	<b>470 676</b>	<b>358 024</b>
VII	<b>EXTERNAL AUDIT FEES (1992 Fund only)</b>	<b>43 200</b>	<b>43 200</b>	<b>43 200</b>	<b>43 200</b>	<b>43 200</b>	<b>43 200</b>	-	-
<b>TOTAL EXPENDITURE I–VII</b>		<b>4 579 633</b>	<b>4 439 720</b>	<b>4 579 633</b>	<b>4 439 720</b>	<b>4 108 957</b>	<b>4 081 695</b>	<b>470 676</b>	<b>358 024</b>

Notes are found on pages 46–78

## NOTES TO FINANCIAL STATEMENTS

### Note 1 — Accounting policies

- 1.1 These Financial Statements have been prepared on a consistent basis with prior years in accordance with Financial Regulation 12.3 of the International Oil Pollution Compensation Fund 1992 (1992 Fund) and in compliance with International Public Sector Accounting Standards (IPSAS).
- 1.2 No new IPSAS have been issued in 2018, and no modifications to existing IPSAS have been made that would affect the preparation of the 2018 Financial Statements. There have been no changes in the operation of the Funds which might necessitate a review of applicable accounting standards.
- 1.3 The principal accounting policies followed in arriving at the financial information given in the respective statements are set out below (paragraphs 1.4 to 1.18).
- 1.4 Basis of preparation
- 1.4.1 The Financial Statements of the 1992 Fund have been prepared on the accruals basis of accounting in accordance with IPSAS using the historical cost convention.
- 1.4.2 In accordance with the 1992 Fund's Financial Regulations:
- (a) the financial year is the calendar year; and
  - (b) the functional and reporting currency of the 1992 Fund is pounds sterling.
- 1.4.3 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 date of the statement of financial position and the amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.
- 1.4.4 In the process of applying the 1992 Fund's accounting policies, management has made the following judgements:
- (a) the Cash Flow Statement is prepared using the indirect method; and
  - (b) expenditure for goods and services are net of taxes.
- 1.4.5 The management has made estimations for the following which have the most significant effect on the amounts recognised in the Financial Statements:
- (a) compensation provision; and
  - (b) employee benefit provision.
- 1.5 Fund accounting and segment reporting
- 1.5.1 The Financial Statements are prepared on the entity basis, showing at the end of the period the consolidated position of all funds controlled by the 1992 Fund. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.
- 1.5.2 The 1992 Fund classifies its fund activities into segments on the basis of a General Fund and Major Claims Funds (MCFs), as laid down in Financial Regulation 7. Fund balances represent the accumulated residual of revenue and expenses.

- 1.5.3 The General Fund covers the 1992 Fund's expenses for the administration of the organisation and compensation payments and claims-related expenditure up to a maximum amount of the pounds sterling equivalent of SDR 4 million per incident (Financial Regulation 7.1(c)(i)) converted at the rate applicable on the date of the incident. Working capital is maintained within the General Fund.
- 1.5.4 Separate MCFs are established for incidents where the total amount payable by the 1992 Fund exceeds SDR 4 million (Financial Regulation 7.2(d)).

#### *Inter-fund loans*

- 1.5.5 Interest on any loan made between the General Fund and an MCF is calculated at a preferential rate of 0.25% above the lowest London clearing bank base rate.

### 1.6 Revenue

#### *Contributions*

- 1.6.1 Income from contributions is treated as revenue from non-exchange transactions and is based on levies approved by the Assembly that are due in the financial period. Such income from contributions is recognised only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States.
- 1.6.2 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*

- 1.6.3 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.
- 1.6.4 The interest earned on investments of assets in currencies other than pounds sterling is translated into pounds sterling using the United Nations Operational Rates of Exchange.

#### *Interest on overdue contributions*

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

#### *Interest on loans to the HNS Fund*

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

### 1.7 Expenses

#### *Foreign currency transactions*

- 1.7.1 In accordance with Financial Regulation 10.4(a), the 1992 Fund's assets shall be held in pounds sterling, or, if the Director considers it appropriate, in other currencies, to meet claims and claims-related expenses.
- 1.7.2 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 the transaction.
- 1.7.3 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 (rates are derived from WM/Reuters spot rates and Morningstar).

#### *Joint Secretariat's administrative expenses*

- 1.7.4 The cost of running the joint Secretariat is borne by the 1992 Fund except for the External Auditor's fees for the 1992 Fund and the Supplementary Fund, which are paid for by the respective Fund. The 1992 Fund receives a flat management fee decided by the governing bodies towards the joint Secretariat's administrative costs for the reporting period in respect of time spent on work done for the Supplementary Fund.

#### *Leases*

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

#### 1.8 STOPIA 2006 reimbursements

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

#### 1.9 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 pound sterling against various currencies on the last banking day of the financial year as published in the London Financial Times (rates are derived from WM/Reuters spot rates and Morningstar).

#### 1.10 Cash and cash equivalents

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

#### 1.11 Financial instruments

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

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

#### 1.12 Inventories

- 1.12.1 The costs incurred in bringing publications to a distributable state include translation costs and printing costs. Publications are distributed free of charge. Costs of publications are expensed in the year they are incurred.

- 1.12.2 No value in inventory is carried forward since the cost of stock at year-end is not material in value.

#### 1.13 Property, plant and equipment

Purchased assets which exceed an agreed value threshold, currently £500, are capitalised at cost in accordance with Financial Regulation 11.4. The cost of all assets acquired not exceeding that threshold is immediately charged as an expense. An asset is capitalised at cost and depreciated to its estimated residual value over its useful economic life using the straight-line method. The cost of

an asset includes the purchase price, shipping, and set-up charges. Depreciation is charged on an annual basis, with a full month's charge in the month of purchase and no charge in the month of disposal.

Class of asset	Useful life
Computer equipment	3–5 years
Office fixtures and fittings	5 years
Telecommunications equipment	5 years

#### 1.14 Intangible assets

Purchased computer software is capitalised at cost and amortised using the straight-line method over its useful life of up to five years. An intangible asset is recognised when it is identifiable, provides future economic benefits or service potential which can be reliably measured and access to which is wholly under the Fund's control. Internal operational and research costs are expensed. Costs associated with the maintenance of computer software programs are recognised as expenses when incurred.

#### 1.15 Provisions and contingent liabilities

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

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

##### *Compensation provision*

1.15.3 Provision is made for all claims approved by the relevant P&I Club and the 1992 Fund, but not paid, at the amount approved by the 1992 Fund which reflects management's best estimate at that time, or where a final judgment has taken place. Provision is also made for any significant claims approved between the year end and the date on which the Financial Statements are approved in respect of claims existing at the year end. Where approved claims have been pro-rated because there is uncertainty as to whether funds will be sufficient to allow further payments, no provision is made for such claims over and above the level of pro-rating, but the maximum of such amounts is disclosed separately in the Financial Statements as a contingent liability.

##### *Provision for employee benefits*

1.15.4 The following employee benefits are provided for:

- short-term employee benefits which fall due wholly within 12 months after the end of the accounting period in which employees render the related service; and
- long-term employee benefits not expected to be settled within 12 months.

1.15.5 Benefits in particular are:

- Provision for annual leave accrued: provision classified as short-term provision is made annually on the basis of unused annual leave with changes in the provision from the start of the year being charged as an expense or released in the current financial period; and
- Provision for separation costs: under the Staff Regulations and Rules, some staff members are entitled to certain benefits upon separation from service consisting of a repatriation grant lump

sum, travel of the staff member and eligible dependants and shipment of their personal effects. Separation costs are provided for at the management's best estimate.

### *Contingent liabilities*

1.15.6 Estimates of contingent liabilities include all known or likely compensation claims against the 1992 Fund. All these claims may not necessarily mature or be approved. In the case of fees (claims-related costs), these are calculated for the coming year only, due to the difficulties in predicting the length and cost of legal proceedings or of negotiations for reaching out-of-court settlements. Those liabilities which mature will, under the 1992 Fund Convention, be met from contributions levied by the Assembly.

### 1.16 Contributors' account

Net overpayments by contributors and reimbursement of contributions in accordance with the Assembly'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.

### 1.17 Staff Provident Fund

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

### 1.18 Budgetary information

1.18.1 The Assembly approves the budget which includes budgeted amounts for Secretariat administration costs and fixed assets. Budgets may be subsequently amended by the Assembly by authorising transfers within chapters of the budget, in excess of the limits of delegated authority provided under the Financial Regulations or approving supplementary budgets.

1.18.2 The Statement of Comparison of Budget and Actual Amounts (Statement V) compares the final budget to actual amounts calculated on the same basis (modified cash basis) as the corresponding budgetary amounts. As the bases used to prepare the budget and Financial Statements differ, reconciliation between the amounts presented in Statement V and Statement II (Statement of Financial Performance) is provided in note 23.

## Note 2 — Assets and Liabilities

### Cash and cash equivalents

- 2.1 Cash and cash equivalents included in the Statement of Cash Flow (Statement IV) and the Statement of Financial Position (Statement I) comprise the following amounts:

	2018 £	2017 £
Cash on hand and balances with banks	54 990 130	40 946 283
Term deposits	53 840 819	58 477 840
<b>Total</b>	<b>108 830 949</b>	<b>99 424 123</b>

- 2.2 Cash is invested in term deposits of up to one year but can be made available at short notice without significant effect on the interest on the deposit. No long-term investments are made in bonds or shares.
- 2.3 Cash and term deposits held in pounds sterling totalled £43 445 296 on 31 December 2018, of which £38 308 029 was held for the 1992 Fund. In addition, the Provident Fund held £4 928 926, and the Contributors' account held £208 341.
- 2.4 Other currencies held (£65 385 653) were as follows:

Currency	Incident	Amount in other currency	Translated as at 31 December 2018
Euros	General Fund	EUR 190 114	£170 643
Euros	<i>Prestige</i> MCF	EUR 28 035 070	£25 163 872
Euros	<i>Agia Zoni II</i> MCF	EUR 8 278 650	£7 430 796
US dollars	General Fund	USD 6 761 827	£5 309 223
US dollars	<i>Hebei Spirit</i> MCF	USD 13 124 752	£10 305 239
Korean won	<i>Hebei Spirit</i> MCF	KRW 24 166 532 142	£17 005 805
Russian roubles	<i>Volgoneft 139</i> MCF	RUB 6 609	£75
		<b>Total</b>	<b>£65 385 653</b>

### Note 3 — Contributions receivable

3.1 The situation with regard to outstanding contributions from previous levies and 2017 contributions due in 2018 is set out below.

State	General Fund £	Hebei Spirit MCF £	Volgoneft 139 MCF £	Alfa I MCF £	Agia Zoni II MCF £	2018 Total contributions receivable £	2017 Total contributions receivable £
Angola						-	29 392
Côte d'Ivoire					41 321	41 321	20 683
Croatia						-	1 792
Denmark	1 694			2 430		4 124	4 124
Djibouti	2 010				2 819	4 829	1 847
France	10 234					10 234	10 986
Germany						-	789
Ghana	10 599	52 110	4 880	5 305	16 680	89 574	71 932
Kenya						-	121 421
Malaysia	32 491			19 557	38 359	90 407	48 278
Mauritania	2 132					2 132	2 133
Morocco	28 445			21 383		49 828	49 828
Panama				1 294		1 294	1 294
Russian Federation	14 676			31 720		46 396	46 396
Tunisia				52		52	52
United Kingdom	36 129			30 408		66 537	70 147
<b>Sub-total</b>	<b>138 410</b>	<b>52 110</b>	<b>4 880</b>	<b>112 149</b>	<b>99 179</b>	<b>406 728</b>	<b>481 094</b>
Provision	(91 179)			(85 941)		(177 120)	(181 482)
<b>Total</b>	<b>47 231</b>	<b>52 110</b>	<b>4 880</b>	<b>26 208</b>	<b>99 179</b>	<b>229 608</b>	<b>299 612</b>

3.2 Contributions receivable is net of the provision for contributions due from some contributors, as set out in Note 5.

## Note 4 – Other receivables

4.1 Other receivables are set out in the table below.

	2018	2017
	£	£
Tax recoverable	181 754	80 891
Accrued interest on investments	124 428	70 659
Accrued interest on overdue	45 178	32 672
Prepayments	79 273	87 968
Advances to staff	17 639	21 410
Accrued income	17 153	22 753
Miscellaneous receivables	37 341	1 014
Receivable from UK Government	-	206 400
Supplementary Fund	24 041	-
<b>Total</b>	<b>526 807</b>	<b>523 767</b>

4.2 Taxes recoverable are value added tax (VAT), airport tax and climate change levy recoverable from the United Kingdom Government and VAT recoverable from the French and Spanish Governments under Article 34 of the 1992 Fund Convention.

4.3 Accrued interest on overdue contributions as at 31 December 2018 was £72 720, and a provision of £27 542 has been made for interest on contributions due from some contributors, as set out in Note 5. The net of these amounts (£45 178) is included in 'Other receivables'.

4.4 Prepayments are payments in advance of goods and service delivery.

4.5 Advances to staff are for travel season tickets and subscriptions to the health insurance scheme.

4.6 Accrued income relates to amounts to be reimbursed by P&I Clubs for joint costs in relation to the *Prestige* and *Hebei Spirit* incidents.

## Note 5 — Provision for contributions and interest on overdue contributions

5.1 As set out in Note 3, contributions receivable is net of the provision for contributions. The total provision of £204 662 is made up of £177 120 in contributions and £27 542 in interest on overdue contributions. A total amount of £54 025 is due from two contributors in the Russian Federation, and a total of £150 637 is due from four other contributors in liquidation proceedings.

5.1.1 A summary of the movements in the two provisions is shown in the table below.

Provision	Contributions outstanding	Interest on contributions outstanding	Total
	£	£	£
Opening balance, 01/01/2018	181 482	24 121	205 603
Amounts added to provision for contributions and interest, less amounts received (Statement II)	(4 362)	3 421	(941)
<b>Closing balance, 31/12/2018</b>	<b>177 120</b>	<b>27 542</b>	<b>204 662</b>

5.1.2 Movements on the provision for contributions and the provision for interest on contributions, shown by contributor, are shown in the table below.

Contributor	Contributors from the Russian Federation	Petroplus (UK & France)	O W Bunker (Denmark)	SAMIR (Morocco)	TOTAL
	£	£	£	£	£
<b>Contributions</b>					
Opening balance, 01/01/2018	46 396	81 134	4 124	49 828	<b>181 482</b>
Contributions received, 2018	-	(4 362)	-	-	<b>(4 362)</b>
<b>Total provision for contributions, 31/12/2018</b>	<b>46 396</b>	<b>76 772</b>	<b>4 124</b>	<b>49 828</b>	<b>177 120</b>
<b>Interest on contributions</b>					
Opening balance, 01/01/2018	6 488	-	-	17 633	<b>24 121</b>
Interest provided for, 2018	1 141	-	-	2 280	<b>3 421</b>
<b>Total provision for interest on contributions, 31/12/2018</b>	<b>7 629</b>	<b>-</b>	<b>-</b>	<b>19 913</b>	<b>27 542</b>
<b>Total provision for contributions and interest, 31/12/2018</b>	<b>54 025</b>	<b>76 772</b>	<b>4 124</b>	<b>69 741</b>	<b>204 662</b>

### *Contributors from the Russian Federation*

5.2 The provision includes contributions and interest on overdue contributions due from two contributors in the Russian Federation. Based on the decision of the Assembly at the October 2016 session, the Secretariat has continued discussions with the authority in the Russian Federation to recover the contributions, and no legal action has been taken in these cases.

## Contributors in liquidation/bankruptcy

- 5.3 One interim dividend of £4 362 was received in 2018 from the Petroplus company based in Switzerland for oil received in France. The 1992 Fund Assembly, at its October 2014 session, decided that after the receipt of final settlement from liquidators any balances due from two contributors in the United Kingdom and Switzerland should be written off (document [IOPC/OCT14/11/1](#), paragraph 5.2.17).

### Note 6 — Due from HNS Fund

- 6.1 At its first session, the 1992 Fund Assembly instructed the Director to carry out the tasks necessary for the setting up of the HNS Fund, as requested by the HNS International Conference (document 92FUND/A.1/34, paragraph 33.1.1–33.1.3), on the basis that all expenses would be repaid by the HNS Fund when established. As a result of this decision, any expenses relating to the preparation for the entry into force have been treated as loans from the 1992 Fund.
- 6.2 The HNS Fund will be established when the HNS Convention comes into force. The HNS Convention will come into force 18 months following the ratification by 12 States, fulfilling the conditions as laid down in the HNS Protocol. Eight States (Canada, Denmark, France, Germany, Greece, the Netherlands, Norway, and Turkey) have signed the 2010 HNS Protocol, subject to ratification. As at 31 December 2018, four States (Canada, Denmark, Norway, and Turkey) have deposited their instruments of ratification or accession to the 2010 HNS Protocol.
- 6.3 An amount of £378 752 (2017: £353 028), including interest to date of £40 862, is due from the HNS Fund. The Director considers that progress towards the establishment of the Convention supports expectation of recovery of this balance.

### Note 7 — Property, plant and equipment

The following table shows a breakdown of fixed assets by type, with a reconciliation of additions and depreciation during the year.

	Computer equipment	Office fixtures and fittings	Telephone equipment	Total
	£	£	£	£
<b>Cost</b>				
Opening balance, 01/01/2018	189 814	38 017	25 459	253 290
Additions	3 948	1 425	-	5 373
Disposals	-	-	-	-
Closing balance, 31/12/2018	193 762	39 442	25 459	258 663
<b>Depreciation</b>				
Accumulated depreciation, 01/01/2018	151 405	14 720	21 215	187 340
Depreciation on disposals	-	-	-	-
Depreciation charge for the year	21 476	6 664	4 244	32 384
Closing balance, 31/12/2018	172 881	21 384	25 459	219 724
<b>Net book value</b>				
Opening balance, 01/01/2018	38 409	23 297	4 244	65 950
Closing balance, 31/12/2018	20 881	18 058	-	38 939

## Note 8 — Intangible assets

The following table shows the amortisation of purchased software for the year. The software has now been fully amortised.

Purchased software	
	£
<b>Cost</b>	
Opening balance, 01/01/2018	57 870
Additions	-
Disposals	-
Closing balance, 31/12/2018	57 870
<b>Amortisation</b>	
Accumulated amortisation charge, 01/01/2018	54 538
Amortisation charge on disposals	-
Amortisation charge for the year	3 332
Closing balance, 31/12/2018	57 870
<b>Net book value</b>	
Opening balance, 01/01/2018	3 332
Closing balance, 31/12/2018	-

## Note 9 — Payables and accruals

The following table shows movements for payables and accruals in 2018.

	2018	2017
	£	£
Payables for administrative expenses, lawyers, and experts	208 808	654 985
Accruals for administrative expenses, lawyers, and experts	324 660	565 545
<b>Total</b>	<b>533 468</b>	<b>1 220 530</b>

## Note 10 — Provision for compensation

10.1 Provision is made for all compensation claims as follows:

10.1.1 The following table shows movement in provision in the currency of the country where the incident took place:

	General Fund OMR	Prestige MCF EUR	Hebei Spirit MCF KRW	Alfa I MCF EUR	Agia Zoni II MCF EUR	Nesa R3 MCF OMR
Opening balance, 01/01/2018	34 317	28 004 739	27 491 047 867	100 000	-	-
Less: brought forward provision paid in 2018	(34 317)	-	-	-	-	-
Provision reversed in 2018	-	-	-	(100 000)	-	-
New provision made in 2018	-	-	25 449 728 900	-	955 290	10 894
Closing balance, 31/12/2018	-	<b>28 004 739</b>	<b>52 940 776 767</b>	-	<b>955 290</b>	<b>10 894</b>

10.1.2 The following table shows movement in provision in pounds sterling:

	General Fund £	Prestige MCF £	Hebei Spirit MCF £	Alfa I MCF £	Agia Zoni II MCF £	Nesa R3 MCF £	TOTAL £
Opening balance, 01/01/2018	65 880	24 857 748	18 982 960	88 762	-	-	43 995 350
Less: brought forward provision paid in 2018	(65 880)	-	-	-	-	-	(65 880)
Provision reversed in 2018	-	-	-	(88 762)	-	-	(88 762)
Exchange loss on brought forward provision unutilised in 2018	-	278 899	362 281	-	-	-	641 180
New provision made in 2018	-	-	17 908 781	-	857 455	22 219	18 788 455
Closing balance, 31/12/2018	-	<b>25 136 647</b>	<b>37 254 022</b>	-	<b>857 455</b>	<b>22 219</b>	<b>63 270 343</b>

10.2 A new provision has been made for the *Hebei Spirit* MCF for the balance payable to the Skuld Club.

10.3 In relation to the *Alfa I* MCF, an offer of EUR 100 000 had been made but was not accepted by the claimant. Given that the incident took place on 5 March 2012, this claim became time-barred on 5 March 2018, i.e. six years from the date when the incident occurred.

10.4 In relation to the *Agia Zoni II* MCF, a provision of EUR 955 290 has been made in accordance with Accounting Policy 1.15.3.

### Note 11 — Provision for employee benefits

11.1 The following table shows movements to the short- and long-term.

	Short-term	Long-term	Total
	£	£	£
Opening balance, 01/01/2018	187 202	372 697	559 899
Less: brought forward provision paid in 2018	(10 747)	-	(10 747)
Adjustment to provision b/fwd from 2017		(11 320)	(11 320)
New provision made in 2018	31 969	-	31 969
Closing balance, 31/12/2018	208 424	361 377	569 801

11.2 An adjustment was made to reduce the long-term provision due to a reduction on the estimations for flight costs.

### Note 12 — Prepaid contributions

The amount of £592 339 (2017: £900 953) represents the levy of contributions decided by the 1992 Fund Administrative Council in October 2018 and due on 1 March 2019 but received in 2018.

### Note 13 — Contributors' account

The amount of £208 341 (2017: £480 022) is the balance on the contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £1 487 (2017: £1 504) credited in 2018 to contributors.

## Note 14 — Staff Provident Fund

14.1 Table showing movements within the Staff Provident Funds in 2018:

	2018	2017
<b>Provident Fund (Managed by the 1992 Fund — PF1)</b>	£	£
<b>Accounts of staff members, 1 January</b>	4 543 665	3 688 691
<b>RECEIPTS</b>		
Contributions of staff members	203 910	205 426
Voluntary contributions of staff members	295 620	224 219
Contributions of 1992 Fund	425 820	428 852
Transfer from Provident Fund (Externally managed — PF2)	-	404 008
Interest received	167 926	166 584
Repayment of loans	50 000	58 000
<b>Total receipts</b>	<b>1 143 276</b>	<b>1 487 089</b>
<b>PAYMENTS</b>		
Transfer to Provident Fund (Externally managed — PF2)	220 542	-
Withdrawal on separation	287 473	537 488
Housing loans	250 000	94 627
<b>Total payments</b>	<b>758 015</b>	<b>632 115</b>
<b>Accounts of staff members, 31 December (PF1)</b>	<b>4 928 926</b>	<b>4 543 665</b>
<b>Provident Fund (Managed by the 1992 Fund — PF2)</b>		
Transfer from Provident Fund (PF1)	220 542	(404 008)
Valuation as at 31 December 2018 (PF2)	1 189 224	1 012 968
<b>Staff Provident Fund (PF1 and PF2) (Statement I)</b>	<b>6 118 150</b>	<b>5 556 633</b>

- 14.2 The rate of contribution to the Provident Fund for staff members is 7.9% of their respective pensionable remuneration and for the 1992 Fund is 15.8% of that remuneration (Staff Rule VIII.5(b)). At its October 2009 session, the 1992 Fund Administrative Council decided that staff members could make additional voluntary contributions of up to 5% of pensionable remuneration to the Provident Fund. At its April 2017 session, the 1992 Fund Administrative Council decided to increase the maximum voluntary contribution amount to 23.7% of the staff member's pensionable remuneration.
- 14.3 The Provident Fund is made up of two elements. Provident Fund (PF1) is invested with the 1992 Fund assets. Provident Fund (PF2) is managed by an independent financial broker in the name of the 1992 Fund.
- 14.4 All contributions are credited to PF1. Staff may invest in PF2 only from their cash balance available in PF1. There is no possibility of investing private funds in PF2. Amounts withdrawn from PF2 are credited to PF1.
- 14.5 The amount in PF1 is invested together with the 1992 Fund's assets. Interest is calculated and fixed monthly by the Director based on the rate of return of investments held during that month.
- 14.6 Participation in PF2 is entirely voluntary, and new staff members can only participate in PF2 after completing one year of service in the Secretariat. All fees paid by those participating in PF2 are based on the proportion of their investment in PF2. As set out above, PF2 is managed by an independent

financial broker, and £220 542 of new funds were invested with the broker in 2018. As at 31 December 2018, the amount managed by the broker was valued at £1 189 224.

14.7 Housing loans from the Provident Fund represent loans taken by staff members in accordance with Staff Rule VIII.5(j). The loan shall be repaid in a manner to be agreed between the staff member and the Director. In any event, the loan shall be repaid on the staff member's separation from the 1992 Fund by means of deduction from the monies payable.

14.8 The staff member's share in the Provident Fund is payable upon separation of the staff member from the 1992 Fund in accordance with the Fund's Staff Rule VIII.5(e).

### Note 15 — General Fund and MCFs balances

The 1992 Fund holds fund balances classified into General Fund and MCFs. The General Fund currently includes a working capital of £19.5 million, as decided by the 1992 Fund Assembly at its October 2017 session (document [IOPC/OCT17/11/1](#), paragraph 9.1.18). The working capital is established to ensure that the 1992 Fund is in a position to meet compensation and claims-related expenses, which may occur between the regular sessions of the governing bodies. See Note 25 for segment reporting by General Fund and MCFs.

### Note 16 — Financial instruments

16.1 Details of the significant accounting policies adopted, including the basis of measurement and the basis on which income and expenses are recognised in respect of the financial instruments are set out in Note 1.

16.2 All financial assets held during 2018 are classified as loans and receivables and are non-derivative financial assets with fixed payments and a fixed maturity for which the organisation has the intention and the ability to hold to maturity.

16.3 Credit risk

16.3.1 The 1992 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.

16.3.2 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 CET 1 capital ratio are the additional measures used to determine the counterparty list. The guidelines are as follows:

- (a) CET 1 capital ratio of at least 9.5% or higher;
- (b) five-year credit default swap (CDS) spread of a maximum of 100 basis points, a breach of which would trigger a review to ascertain whether the credit markets were weaker in general, or whether the creditworthiness of the counterparty concerned was subject to a particular credit-negative event that would warrant its temporary or permanent exclusion from the lending list; and
- (c) minimum short-term credit rating from two of the three main credit rating agencies, Fitch, Moody's and Standard & Poor's as follows:
  - For maturities of up to 12 months (Group 1) of F1+, P1 and A1+; and
  - for maturities of up to 6 months (Group 2) of F1, P1 and A1.

16.3.3 A list of approved financial institutions is prepared by the joint 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 is advised accordingly.

16.3.4 Contributions receivable are comprised primarily of amounts due from contributors in Member States. The Convention places an obligation on Member States to ensure that contributors fulfil their obligation to pay contributions. Details of contributions receivable are provided in Note 3.

#### 16.4 Liquidity risk

16.4.1 The 1992 Fund Convention provides the Assembly with authority to levy contributions that may be required to balance the payments to be made by the 1992 Fund.

16.4.2 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. It is ensured that in compliance with the investment guidelines on liquidity, the working capital set by the Assembly in October 2017 of £19.5 million is available within three months to support operational requirements.

#### 16.5 Interest rate risk

16.5.1 The 1992 Fund places its cash investments in term deposits with fixed interest rates under strict investment guidelines. The Financial Regulations of the 1992 Fund focus on the security and liquidity of the assets rather than maximising revenue, and this is taken into account in managing the liquidity (cash flow) risk.

16.5.2 The table below shows the average interest rate earned on investments in the different currencies and the effect in pounds sterling of a change of 0.25% in interest rate earned.

Investment	Average interest rate earned 2018 %	Effect of increase/decrease by 0.25% £
Pounds sterling	0.71	130 921
US dollar	2.14	32 851
Korean won	1.30	41 965
Russian rouble	2.68	1 403

#### 16.6 Foreign currency risk

16.6.1 Hedging guidelines were developed in 2008 with advice from the IAB. For an incident in respect of which compensation will be paid in a currency other than pounds sterling, in principle the aim is to hedge up to 50% of the liability of an incident but not more than the sum of the levies approved less the Fund's anticipated expenses within a six-month period after a levy has been approved.

16.6.2 The rationale behind the hedging policy is that hedging 50% of the foreign exchange liability constitutes a neutral position whichever way the exchange rate was to move.

16.6.3 As at 31 December 2018, cash and cash equivalents were held in pounds sterling (40%), euros (30%), Korean won (16%), US dollars (14%) and Russian roubles (less than 1%) (see Note 2).

16.6.4 As at 31 December 2018, the foreign exchange liability in euros in respect of the *Prestige* incident was hedged at 100%.

16.6.5 In respect of the *Hebei Spirit* incident, as at 31 December 2018, the foreign exchange liability in Korean won was hedged at 46%.

## Note 17 — Contributions

- 17.1 At its session in October 2017, the 1992 Fund Assembly decided to levy contributions (2017 contributions) to the General Fund of £1.5 million and to the *Agia Zoni II* MCF of £26 million payable by 1 March 2018.
- 17.2 Contributions invoiced for payment in 2018 are summarised below:

	2017 levy payable by 1 March 2018 £	Previous years' levies £	Total £
General Fund	1 476 932	(1 113)	1 475 819
<i>Agia Zoni II</i> MCF	25 599 752	-	25 599 752
<b>Total</b>	<b>27 076 684</b>	<b>(1 113)</b>	<b>27 075 571</b>

- 17.3 Contributions invoiced in 2018 include levies and reimbursements based on contributing oil reports received late amounting to a net reimbursement of £1 113. This is in accordance with Accounting policy paragraph 1.6.1 on contributions relating to late submission of oil reports, where the amount is recognised as income on the date of the invoice.

## Note 18 — Contributions-in-kind

The United Kingdom Government meets 80% of the costs related to the rental of the Secretariat offices and storage space. The total rental payments made in 2018 amounted to £258 000 (2017: £258 000) with the United Kingdom Government's share being £206 400 (2017: £206 400) (see Notes 22 and 27).

## Note 19 — Other revenue

- 19.1 Table showing the breakdown of other revenue earned by the 1992 Fund in 2018.

	2018 £	2017 £
Management fee payable by the Supplementary Fund	34 000	34 000
Interest on overdue contributions	27 706	11 087
Interest on loans to HNS Fund	2 378	1 685
Interest on loans to <i>Alfa I</i> MCF	10 996	10 449
Reimbursement from Barclays Bank	79 289	-
Sundry income	5 036	1 572
<b>Total</b>	<b>159 405</b>	<b>58 793</b>

- 19.2 The management fee was set in the budget at £34 000 (2017: £34 000) for the Supplementary Fund for the period 1 January to 31 December 2018 (document [IOPC/OCT17/11/1](#), paragraph 9.1.24).
- 19.3 A reimbursement was received from Barclays Bank in response to the discovery of a system error within the bank which had caused the 1992 Fund (and other clients) to be overcharged for some foreign exchange transactions between August 2005 and December 2015. Barclays Bank refunded £79 289 to the 1992 Fund, as reimbursement of all overcharges, plus interest.

## Note 20 — Compensation claims

20.1 Compensation is recognised on a cash basis in Section One, page 11, and can be reconciled to compensation paid in the Statement of Financial Performance (Statement II) as follows:

	General Fund £	Hebei Spirit MCF £	Alfa I MCF £	Agia Zoni II MCF £	Nesa R3 MCF £	Total £
Compensation paid on cash basis in 2018 (Section One, page 12)	3 351 364	(1 861)	-	6 249 632	3 082 872	12 682 007
Less: brought forward provision paid in 2018 (Note 10)	(65 880)	-	-	-	-	(65 880)
Provision reversed in 2018 (Note 10)	-	-	(88 762)	-	-	(88 762)
Exchange loss on brought forward provision paid in 2018 (Note 24)	(1 165)	-	-	-	-	(1 165)
New provision made in 2018 (Note 10)	-	17 908 781	-	857 455	22 219	18 788 455
<b>Compensation recognised on accrual basis (Statement II)</b>	<b>3 284 319</b>	<b>17 906 920</b>	<b>(88 762)</b>	<b>7 107 087</b>	<b>3 105 091</b>	<b>31 314 655</b>

20.2 Foreign currency is held for the purpose of making payments of compensation and any exchange loss on the payment is compensated by an exchange gain on the revaluation of the foreign currency (see Note 24).

20.3 Payments by the General Fund are compensation in respect of the *Agia Zoni II* and *Nesa R3* incidents.

## Note 21 — Claims-related expenses

21.1 Under the Memorandum of Understanding (MoU) between the International Group of P&I Clubs (shipowner's insurers) and the 1992 Fund, joint claims-related costs are apportioned between the P&I Clubs and the 1992 Fund based on their respective compensation liability.

Fund	Claims-related expenses paid in 2018 £	Joint costs received/ receivable from P&I Club in 2018 £	Claims-related expenses 2018 (Statement II) £	Claims-related expenses 2017 (Statement II) £
General Fund	502 457	-	502 457	1 226 990
<i>Prestige</i> MCF	543 336	(19 484)	523 852	565 199
<i>Hebei Spirit</i> MCF	996 270	(14 276)	981 994	831 983
<i>Volgoneft 139</i> MCF	1 097	-	1 097	21 895
<i>Alfa I</i> MCF	67 550	-	67 550	189 471
<i>Agia Zoni II</i> MCF	578 247	-	578 247	-
<i>Nesa R3</i> MCF	63	-	63	-
<b>Total</b>	<b>2 689 020</b>	<b>(33 760)</b>	<b>2 655 260</b>	<b>2 835 538</b>

21.2 In 2018, an amount of £33 760 (2017: £87 528) was invoiced under the MoU to the following P&I Clubs:

- The London Steam-Ship Owners' Mutual Insurance Association Limited (London P&I Club) — *Prestige* incident (£19 484); and
- Assurancéföreningen Skuld (Gjensidig) (Skuld Club) — *Hebei Spirit* incident (£14 276).

## Note 22 — Staff, other personnel and administrative costs

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

Chapter	Expenses 2018 (Statement II) £	Expenses 2017 (Statement II) £
I Personnel	2 913 209	2 912 578
II General services	876 098	961 885
III Meetings	98 569	128 846
IV Travel	100 249	111 603
V Miscellaneous expenditure	335 024	316 143
VI Unforeseen expenditure	-	-
VII External audit fees	43 200	43 200
<b>Total</b>	<b>4 366 349</b>	<b>4 474 255</b>

22.2 Chapter II, General services, includes £206 400, equivalent to 80% of the rent due on the Secretariat's office premises and an amount reimbursed by the Government of the United Kingdom (see Note 18). Chapter II also includes depreciation charges of £35 716 (see Note 7 and Note 8).

- 22.3 Expenses Under Chapter V, Miscellaneous expenditure, includes consultancy fees to cover non-incident related studies and legal fees. In 2018 an amount of £4 200 was paid to BDO LLP, the 1992 Fund's external audit firm, to undertake an internal audit needs assessment and outline audit plan which could be used as a basis for procuring an internal audit service. The study was undertaken by an independent division within BDO LLP.

### Note 23 — Statement of Comparison of Budget and Actual Amounts

- 23.1 The 1992 Fund's budget and Financial Statements are prepared using different bases. The Statement of Financial Position (Statement I); Statement of Financial Performance (Statement II); Statement of Changes in Net Assets (Statement III); and Statement of Cash Flow (Statement IV) are prepared on a full accruals basis using a classification based on the nature of expenses in the Statement of Financial Performance (Statement II), whereas the Statement of Comparison of Budget and Actual Amounts (Statement V) is prepared on a commitment accounting basis.
- 23.2 As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the Financial Statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the Financial Statements, identifying separately any basis, presentation, entity, and timing differences.
- 23.3 Basis differences occur when the approved budget is prepared on a basis other than the accounting basis. For the 1992 Fund, the budget is prepared on the commitment basis, and the Financial Statements are prepared on the accruals basis.
- 23.4 Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Financial Performance (Statement II) and Statement of Comparison of Budget and Actual Amounts (Statement V).
- 23.5 Entity differences occur when the budget omits programmes or entities that are part of the entity for which the Financial Statements are prepared. The budget relates only to the joint Secretariat's administrative expenses.
- 23.6 Timing differences occur when the budget period differs from the reporting period reflected in the Financial Statements. There are no timing differences for the 1992 Fund for purposes of comparison of budget and actual amounts.
- 23.7 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 2018 is presented below:

	£
<b>Statement V</b>	<b>4 108 957</b>
Contributions-in-kind (Note 18)	206 400
Purchase of fixed assets (Notes 7 and 8)	(5 373)
Depreciation and amortisation (Notes 7 and 8)	35 716
Adjustment to provision for employee benefits (Note 11)	(11 320)
New provision for employee benefits made in 2018 (Note 11)	31 969
Compensation claims (Note 20)	31 314 655
Claims-related expenses (Note 21)	2 655 260
Currency exchange differences (Note 24)	(950 482)
Provision for 2018 contributions and interest less amounts received (Note 5)	(4 362)
<b>Statement II</b>	<b>37 381 420</b>

## Note 24 — Currency exchange differences

24.1 As at 31 December 2018 there was a notional exchange gain of £950 482 (2017 gain: £319 884) made up as follows:

	General Fund £	Prestige MCF £	Hebei Spirit MCF £	Volgoneft 139 MCF £	Agia Zoni II MCF £	Gain/(Loss) 2018 £	Gain/(Loss) 2017 £
Currency revaluation <3>	484 701	253 088	705 757	(43 465)	192 161	<b>1 592 242</b>	1 946 414
Revaluation of taxes	(15)	643	-	-	(43)	<b>585</b>	1 245
Exchange difference on 2017 provision paid in 2018 (Note 20)	(1 165)	-	-	-	-	<b>(1 165)</b>	(1 202 734)
Increase in cost of unutilised 2017 provision due to currency revaluation (Note 10)	-	(278 899)	(362 281)	-	-	<b>(641 180)</b>	(425 041)
<b>Total</b>	<b>483 521</b>	<b>(25 168)</b>	<b>343 476</b>	<b>(43 465)</b>	<b>192 118</b>	<b>950 482</b>	<b>319 884</b>

24.2 Movement of exchange rates from the beginning to the end of the reporting period:

	31-Dec-18	31-Dec-17
EUR:GBP	1.1141	1.1266
KRW:GBP	1421.0755	1 448.1961
RUB:GBP	88.3524	77.8800
USD:GBP	1.2736	1.3528
OMR:GBP	0.4903	0.5209

24.3 Korean won strengthened against pounds sterling during 2018 resulting in an exchange gain on currency held, which was offset against exchange losses arising from the revaluation of the brought forward provision for compensation for the *Hebei Spirit* MCF.

24.4 The euro strengthened against pounds sterling during 2018, resulting in an exchange gain on revaluation of currency held at year end, which was offset against exchange losses from the revaluation of the brought forward provision for compensation for the *Prestige* MCF.

24.5 The US dollar strengthened against pound sterling during 2018, resulting in an exchange gain upon revaluation of USD currency held at year end for the General Fund and the *Hebei Spirit* MCF.

<3> Currency revaluation arising from translation of all monetary assets held at the end of the reporting period in currencies other than pounds sterling, as well as currency transfers between accounts during the year.

## Note 25 — Segment reporting

- 25.1 Segment reporting has been made on the basis that the 1992 Fund classifies its activities into the General Fund and MCFs.
- 25.2 The General Fund covers the 1992 Fund's expenses for the administration of the Secretariat and for compensation payments and claims-related expenditure for minor incidents, up to a maximum amount of the pounds sterling equivalent of SDR 4 million per incident and includes the working capital.
- 25.3 In 2018 the General Fund covered expenses mainly for *Agia Zoni II* and *Nesa R3* incidents as part of the first SDR 4 million of payments payable by the General Fund.
- 25.4 In accordance with Financial Regulation 7.1 (c)(iv), the General Fund made a loan in 2016 to the *Alfa I* MCF to make payment of compensation. The balance of the loan carried forward to 2018 was £1 288 429, and this was reduced by contributions received for the *Alfa I* MCF leaving a remaining balance of £1 275 637.
- 25.5 There were four MCFs at the beginning of 2018, and two further MCFs were established during the year. Levies of contributions are made for a MCF from which amounts are expensed for that incident (compensation and claims-related expenses):
- *Prestige* MCF was set up in 2003 for the incident in Spain (2002);
  - *Hebei Spirit* MCF was set up in 2008 for the incident in the Republic of Korea (2007);
  - *Volgoneft 139* MCF was set up in 2013 for the incident in the Russian Federation (2007);
  - *Alfa I* MCF was set up in 2015 for the incident in Greece (2012);
  - *Agia Zoni II* MCF was set up in 2018 for the incident in Greece (2017); and
  - *Nesa R3* MCF was set up in 2018 for the incident in Oman (2013).
- 25.6 Statement of Financial Position by segment (overleaf).

	General Fund	Prestige MCF	Hebei Spirit MCF	Volgoneft 139 MCF	Alfa I MCF	Agia Zoni II MCF	Nesa R3 MCF	Total 2018	Total 2017
	£	£	£	£	£	£	£	£	£
<b>ASSETS</b>									
<b>Current assets</b>									
Cash and cash equivalents	16 938 676	26 088 118	42 615 272	3 708 777	-	19 480 106	-	108 830 949	99 424 123
Contributions receivable	47 231	-	52 110	4 880	26 208	99 179	-	229 608	299 612
Other receivables	314 260	77 484	97 165	3 207	2 297	32 394	-	526 807	523 767
Staff Provident Fund (externally managed)	1 189 224	-	-	-	-	-	-	1 189 224	1 012 968
<b>Total current assets</b>	<b>18 489 391</b>	<b>26 165 602</b>	<b>42 764 547</b>	<b>3 716 864</b>	<b>28 505</b>	<b>19 611 679</b>	<b>-</b>	<b>110 776 588</b>	<b>101 260 470</b>
<b>Non-current assets</b>									
Due from HNS Fund	378 752	-	-	-	-	-	-	378 752	353 028
Property, plant and equipment	38 939	-	-	-	-	-	-	38 939	65 950
Intangible assets	-	-	-	-	-	-	-	-	3 332
<b>Total non-current assets</b>	<b>417 691</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>417 691</b>	<b>422 310</b>
<b>TOTAL ASSETS</b>	<b>18 907 082</b>	<b>26 165 602</b>	<b>42 764 547</b>	<b>3 716 864</b>	<b>28 505</b>	<b>19 611 679</b>	<b>-</b>	<b>111 194 279</b>	<b>101 682 780</b>
<b>LIABILITIES</b>									
<b>Current liabilities</b>									
Payables and accruals	182 214	33 681	182 961	-	441	134 171	-	533 468	1 220 530
Provision for compensation	-	25 136 647	37 254 022	-	-	857 455	22 219	63 270 343	43 995 350
Provision for employee benefits (short term)	208 424	-	-	-	-	-	-	208 424	187 202
Prepaid contributions	117 972	-	-	-	65 684	408 683	-	592 339	900 953
Contributors' account	208 341	-	-	-	-	-	-	208 341	480 022
Loan from General Fund to <i>Alfa I</i>	(1 275 637)	-	-	-	1 275 637	-	-	-	-
Loan from General Fund to <i>Nesa R3</i>	(3 082 935)	-	-	-	-	-	3 082 935	-	-
<b>Total current liabilities</b>	<b>(3 641 621)</b>	<b>25 170 328</b>	<b>37 436 983</b>	<b>-</b>	<b>1 341 762</b>	<b>1 400 309</b>	<b>3 105 154</b>	<b>64 812 915</b>	<b>46 784 057</b>
<b>Non-current liabilities</b>									
Staff Provident Fund	6 118 150	-	-	-	-	-	-	6 118 150	5 556 633
Provision for employee benefits (long term)	361 377	-	-	-	-	-	-	361 377	372 697
<b>Total non-current liabilities</b>	<b>6 479 527</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6 479 527</b>	<b>5 929 330</b>
<b>TOTAL LIABILITIES</b>	<b>2 837 906</b>	<b>25 170 328</b>	<b>37 436 983</b>	<b>-</b>	<b>1 341 762</b>	<b>1 400 309</b>	<b>3 105 154</b>	<b>71 292 442</b>	<b>52 713 387</b>
<b>NET ASSETS</b>	<b>16 069 176</b>	<b>995 274</b>	<b>5 327 564</b>	<b>3 716 864</b>	<b>(1 313 257)</b>	<b>18 211 370</b>	<b>(3 105 154)</b>	<b>39 901 837</b>	<b>48 969 393</b>
<b>FUNDS' BALANCES</b>									
Balance b/f: 1 January 2018	21 704 555	1 500 214	23 374 492	3 725 001	(1 334 869)	-	-	48 969 393	67 375 843
(Deficit)/Surplus for the year to date	(5 635 379)	(504 940)	(18 046 928)	(8 137)	21 612	18 211 370	(3 105 154)	(9 067 556)	(18 406 450)
<b>GENERAL FUND AND MAJOR CLAIMS FUNDS (MCFs) BALANCES</b>	<b>16 069 176</b>	<b>995 274</b>	<b>5 327 564</b>	<b>3 716 864</b>	<b>(1 313 257)</b>	<b>18 211 370</b>	<b>(3 105 154)</b>	<b>39 901 837</b>	<b>48 969 393</b>

25.7 Statement of Financial Performance by segment

	General Fund	Prestige MCF	Hebei Spirit MCF	Volgoneft 139 MCF	Alfa I MCF	Agia Zoni II MCF	Nesa R3 MCF	Total 2018	Total 2017
	£	£	£	£	£	£	£	£	£
<b>REVENUE</b>									
Contributions	1 475 819	-	-	-	-	25 599 752	-	27 075 571	17 282 921
Contributions-in-kind	206 400	-	-	-	-	-	-	206 400	206 400
Interest on investments	213 463	43 964	496 846	36 283	-	81 932	-	872 488	795 051
Other revenue	134 181	116	1 664	142	400	22 902	-	159 405	58 793
<b>Total revenue</b>	<b>2 029 863</b>	<b>44 080</b>	<b>498 510</b>	<b>36 425</b>	<b>400</b>	<b>25 704 586</b>	<b>-</b>	<b>28 313 864</b>	<b>18 343 165</b>
<b>EXPENSES</b>									
Compensation claims	3 284 319	-	17 906 920	-	(88 762)	7 107 087	3 105 091	31 314 655	29 673 076
Claims-related expenses	502 457	523 852	981 994	1 097	67 550	578 247	63	2 655 260	2 835 538
Personnel costs	2 913 209	-	-	-	-	-	-	2 913 209	2 912 578
Other administrative costs	1 453 140	-	-	-	-	-	-	1 453 140	1 561 677
Currency exchange differences	(483 521)	25 168	(343 476)	43 465	-	(192 118)	-	(950 482)	(319 884)
Amounts added to provision for contributions and interest, less amounts received	(4 362)	-	-	-	-	-	-	(4 362)	86 630
<b>Total expenses</b>	<b>7 665 242</b>	<b>549 020</b>	<b>18 545 438</b>	<b>44 562</b>	<b>(21 212)</b>	<b>7 493 216</b>	<b>3 105 154</b>	<b>37 381 420</b>	<b>36 749 615</b>
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>(5 635 379)</b>	<b>(504 940)</b>	<b>(18 046 928)</b>	<b>(8 137)</b>	<b>21 612</b>	<b>18 211 370</b>	<b>(3 105 154)</b>	<b>(9 067 556)</b>	<b>(18 406 450)</b>

## Note 26 — Contingent liabilities

- 26.1 The information has been compiled using data available to 17 May 2019. Since then, no significant changes have taken place.
- 26.2 Paragraph 26.17 below provides details in relation to an incident in the Netherlands where it is not certain whether the IOPC Funds Conventions apply. Therefore, no assessment of contingent liabilities has been made for this incident.
- 26.3 It should be noted that any estimate in this Note of amounts to be paid by the 1992 Fund in compensation has been made solely for the purpose of assessment of contingent liabilities, without prejudice to the position of the 1992 Fund in respect of the claims. The estimated expenditure under the item 'Other costs' relates to legal and technical costs for the next financial year, i.e. for 2019. The rate applied is the rate of exchange for the pound sterling against various currencies on 31 December 2018 as published in the London Financial Times.
- 26.4 There are contingent liabilities of the 1992 Fund estimated at £41 188 000 (2017: £69 210 000) in respect of 11 incidents as at 31 December 2018.
- 26.5 Details of the contingent liabilities at 31 December 2018, given in rounded figures, are set out below:

Incident	Date	Compensation (incident currency)	Compensation £	Other costs £	Total £	2017 Total £
1 <i>Prestige</i>	13.11.02		-	500 000	<b>500 000</b>	600 000
2 <i>Solar 1</i>	11.08.06	STOPIA 2006	-	10 000	<b>10 000</b>	10 000
3 <i>Hebei Spirit</i>	07.12.07		-	1 000 000	<b>1 000 000</b>	17 100 000
4 <i>Redfferm</i>	30.03.09		-	5 000	<b>5 000</b>	5 000
5 <i>Haekup Pacific</i>	20.04.10	STOPIA 2006	-	5 000	<b>5 000</b>	5 000
6 <i>Alfa I</i>	05.03.12		-	75 000	<b>75 000</b>	100 000
7 <i>Nesa R3</i>	19.06.13		-	50 000	<b>50 000</b>	50 000
8 <i>Double Joy</i>	05.08.14	Incident closed				40 000
9 <i>Trident Star</i>	24.08.16	STOPIA 2006	-	100 000	<b>100 000</b>	100 000
10 Incident in Canada ( <i>Nathan E. Stewart/ DBL 55</i> )	13.10.16		-	5 000	<b>5 000</b>	-
11 <i>Agia Zoni II</i>	10.09.17	EUR 43.27 million	38 838 000	600 000	<b>39 438 000</b>	51 200 000
<b>TOTAL</b>			<b>38 838 000</b>	<b>2 350 000</b>	<b>41 188 000</b>	<b>69 210 000</b>

### 26.6 Prestige

- 26.6.1 In November 2017, the Court in La Coruña delivered a judgment on the quantification of the losses resulting from the *Prestige* incident, awarding over EUR 1.6 billion in compensation.
- 26.6.2 The Supreme Court in Spain delivered its judgment on the quantification of the losses in December 2018, awarding EUR 1 439.08 million (after amendments) (losses EUR 884.98 million plus

pure environmental and moral damages EUR 554.10 million). The judgment clarified that only the losses were recoverable from the 1992 Fund. In addition, the judgment awarded interest and costs.

26.6.3 The total amount of the established claims in the *Prestige* incident exceeds the maximum amount available for compensation under the 1992 Conventions; SDR 135 million corresponding to EUR 171 520 703 (EUR 22.8 million under the 1992 Civil Liability Convention (1992 CLC) and EUR 148.7 million under the 1992 Fund Convention).

26.6.4 By the end of 2018, the 1992 Fund had paid a total of some EUR 120.7 million, including EUR 57 555 000 and EUR 56 365 000 paid to the Spanish State in 2003 and 2006 respectively, EUR 328 488 to the Portuguese State in 2006 and EUR 5.5 million to French claimants. The balance payable by the 1992 Fund in compensation is some EUR 28 million (£24.8 million) (2017: EUR 28 million) and this was provided for in 2017 following the November 2017 judgment.

26.6.5 The Court in charge of the enforcement of the Supreme Court judgment issued an order in March 2019 requesting the 1992 Fund to pay the limit of its liability after deducting the amounts already paid, i.e. EUR 28 million.

26.6.6 For the purposes of contingent liabilities, fees and other costs for 2019 have been estimated at £500 000 (2017: £600 000).

#### 26.7 Solar 1

26.7.1 The owner of the *Solar 1* is a party to STOPIA 2006 whereby the limitation amount applicable to the tanker is increased, on a voluntary basis, to SDR 20 million. It is very unlikely that the amount of compensation payable in respect of this incident will exceed the STOPIA 2006 limit of SDR 20 million and therefore very unlikely that the 1992 Fund will be called upon to pay compensation.

26.7.2 Three claims remain outstanding, namely a claim by the Philippine Coast Guard (PCG) assessed at PHP 104.8 million, a claim by 967 fisherfolk assessed at PHP 13.54 million and a claim by a group of municipal employees assessed at PHP 1.24 million.

26.7.3 Under STOPIA 2006 compensation payments made over the CLC limit are paid initially by the 1992 Fund and reimbursed by the relevant P&I Club up to the maximum amount of SDR 20 million.

26.7.4 For the purpose of the contingent liabilities, therefore only costs for 2019 have been estimated at an amount of £10 000 (2017: £10 000).

#### 26.8 Hebei Spirit

26.8.1 The Seosan Court has been seeking to encourage out-of-court settlements by proposing mediation settlements to the parties in cases where matters of principle were not under discussion. A substantial number of the 127 843 claims submitted in the limitation proceedings has been resolved by judgments, mediation or they have been withdrawn. These decisions have become final. The provision has been based on final judgments and mediations. Only two claims are still pending before the Korean courts. The total amount awarded by the Korean courts is KRW 432.9 billion. Therefore, the total amount of established claims in respect of this incident has exceeded SDR 203 million corresponding to KRW 321.6 billion, the maximum amount available for compensation under the 1992 Conventions.

26.8.2 The initial level of payments had been set at 60% in March 2008, decreased to 35% in June 2008 and increased to 50% in October 2015. In April 2016, the 1992 Fund Executive Committee decided to increase the level of payments from 50% to 60% of the established losses taking into account the number of claims pending at that time and the amount already awarded for the finalised claims.

26.8.3 The shipowner's insurer, the Skuld Club, reached the limit as per its Letter of Undertaking in 2015 and the 1992 Fund commenced making compensation payments. As at 31 December 2018, the

1992 Fund has made compensation payments totalling KRW 107.3 billion to the Government of the Republic of Korea, including an advance payment totalling KRW 40 billion. The 1992 Fund has also made a balancing payment totalling KRW 22 billion to the Skuld Club.

26.8.4 The joint cost expenditure until 31 December 2012 was made by the shipowner's insurer and since then by the 1992 Fund. An estimated proportion of joint costs are settled between the shipowner's insurer and the 1992 Fund on a periodic basis.

26.8.5 In November 2018, the Limitation Court in Seosan established the *Hebei Spirit* limitation fund and issued a distribution table for this incident, fixing the limitation amount at KRW 230 861 609 346, which included KRW 139 376 902 000 of principal and KRW 91 484 707 346 of interest, at the exchange rate of SDR 1 = KRW 1 552.60, which is lower than the rate used by the shipowner's insurer to calculate its limits in order to make compensation payments.

26.8.6 The table below summarises the 1992 Fund's liability for this incident:

	SDR	KRW
Maximum amount of compensation payable (rate based on date of decision of Executive Committee (13 March 2008))	203 million	<b>321 618 990 000</b>
Paid by shipowner's insurance (Exchange rate in force in November 2008)	89.77 million	186 831 480 571
<b>Payable by shipowner's insurance as established by Limitation Court</b>		<b>139 376 902 000</b>
<b>Payable by 1992 Fund</b>	113.23 million	<b>182 242 088 000</b>
Balance amount due to shipowner's insurer from 1992 Fund		<b>47 454 578 571</b>
<b>Payable by 1992 Fund</b>	<b>SDR</b>	<b>KRW</b>
Maximum liability (rate based on date of decision of Executive Committee (13 March 2008))	113.23 million	<b>182 242 088 000</b>
Payments made to the Government of the Republic of Korea as at 31 December 2018		107 301 311 233
Provision (balance payable to Government of the Republic of Korea)		27 486 198 196
<b>Total amount payable to Government of the Republic of Korea</b>		<b>134 787 509 429</b>
Payment made to shipowner's insurer in 2018		22 000 000 000
Provision (balance payable to shipowner's insurer by 1992 Fund)		25 454 578 571
<b>Total amount payable to shipowner's insurer by 1992 Fund</b>		<b>47 454 578 571</b>

26.8.7 Provision has been made for compensation payments to the Government of the Republic of Korea (KRW 27 486 198 196) and the shipowner (KRW 25 454 578 571). For the purpose of contingent liability, further amounts payable by the 1992 Fund, including legal costs, have been estimated at £1 million for 2019. The calculation of costs has been made using historical data together with an assessment of the work required for pending claims in court (2017: £1.5 million).

## 26.9 Redfferm

26.9.1 In late January 2012, the 1992 Fund was informed of an incident which occurred on 24 March 2009 at Tin Can Island, Lagos, Nigeria. Under the 1992 CLC, the limit of liability of the barge *Redfferm* is believed to be SDR 4.51 million (£4.6 million) based on a preliminary estimation of the size of the barge.

26.9.2 A claim was filed in March 2012 against the 1992 Fund by 102 communities allegedly affected by the incident for USD 26.25 million.

26.9.3 In February 2014, following the October 2013 session of the 1992 Fund Executive Committee, the Secretariat wrote to the claimants rejecting their claims on the basis that the barge *Redfferm* was

not a 'ship' within the definition of Article I(1) of the 1992 CLC and because insufficient information had been submitted in support of the claims submitted.

26.9.4 The Director has not been authorised by the 1992 Fund Executive Committee to make payment for this incident. It is expected that some legal costs will be incurred since legal proceedings in Nigeria were continuing and the 1992 Fund would have to defend its position.

26.9.5 For the purpose of the contingent liabilities, fees and other costs for 2019 have been estimated at £5 000 (2017: £5 000).

#### 26.10 Haekup Pacific

26.10.1 In April 2013, the Secretariat was informed of an incident which took place in April 2010 in the Republic of Korea. The *Haekup Pacific*, an asphalt carrier of 1 087 GT built in 1983, was involved in a collision with the *Zheng Hang*.

26.10.2 The *Haekup Pacific* was entered as a 'relevant ship' within the definition of STOPIA 2006, and the agreement therefore applies.

26.10.3 The UK P&I Club retained surveyors who estimated that the cost of the oil removal operation would be in the region of USD 5 million whereas the wreck (with the cargo on board) removal operation would cost in excess of USD 25 million.

26.10.4 In April 2013, the shipowner/UK P&I Club issued legal proceedings against the 1992 Fund in order to protect their rights in respect of any future liability for costs of the removal operations which they might have to pay. The legal proceedings commenced by the shipowner/UK P&I Club were withdrawn in June 2013.

26.10.5 In April 2016, the shipowner and insurer filed a claim for USD 25.1 million in accordance with the STOPIA 2006 arrangement against the 1992 Fund before the expiry of the six-year time bar, in order to preserve the shipowner and insurers' rights against the 1992 Fund in the event that they be instructed to comply with the wreck and oil removal orders. However, no decision has yet been taken by the authorities in the Republic of Korea on whether to revoke the oil and wreck removal orders or to enforce them. In 2017, the Court dealing with the dispute between the shipowners of the colliding vessels decided that since the wreck and oil removal orders remained in place, the *Haekup Pacific* owners/insurers are obliged to remove the wreck and oil on board. As a consequence, it is reasonable to deem that those costs have de facto arisen. The colliding vessel interests have appealed against the Seoul High Court's judgment and that matter is now pending at the Supreme Court of Korea.

26.10.6 For the purpose of the contingent liabilities, fees and other costs for 2019 have been estimated at £5 000 (2017: £5 000).

#### 26.11 Alfa I

26.11.1 The *Alfa I* incident occurred near Piraeus, Greece in March 2012. Greece is a Party to the 1992 CLC, 1992 Fund Convention and the Supplementary Fund Protocol. Since the tonnage of *Alfa I* (1 648 GT) is below 5 000 units, the limitation amount applicable under the 1992 CLC is SDR 4.51 million (EUR 5.22 million). The tanker had an insurance policy limited to EUR 2 million, which did not cover pollution by persistent oil.

26.11.2 Six claims totalling EUR 16.1 million were submitted to the shipowner by two clean-up contractors. In addition, a claim by the Greek authorities of EUR 222 000 has been filed against the shipowner. The 1992 Fund has not been formally notified of the claim by the Greek authorities, and no further information has been provided by the shipowner.

26.11.3 At the April 2016 sessions of the IOPC Funds' governing bodies, the Executive Committee authorised the Director to settle the main contractor's claim for EUR 12 million and to claim back from the insurer the 1992 CLC limit. In December 2016, the 1992 Fund was informed that the insurer would likely be put into voluntary liquidation as it could not comply with Greek insurance solvency regulations. The 1992 Fund filed applications for prenotated mortgages against the unencumbered buildings owned by the insurer. Since then, legal proceedings have been undertaken with the latest situation being that the 1992 Fund has two judgments in its favour, one against, and two appeals have been submitted to the Supreme Court of Appeal, with the first hearing date in February 2020. The estimated costs for these appeals is some EUR 40 000.

26.11.4 A provision had already been made for the second clean-up contractor's claim that has been assessed by the 1992 Fund at EUR 100 000, which includes interest and legal costs. An offer of settlement at this figure was made to the second clean-up contractor in January 2017. However, the claimant did not accept the offer, and the claim became time-barred. This provision was reversed in 2018.

26.11.5 For the purpose of the contingent liabilities, fees and other costs for 2019 have been estimated at £75 000 (2017: £100 000).

#### 26.12 Nesa R3

26.12.1 On 19 June 2013, the 856 GT tanker *Nesa R3*, carrying 840 tonnes of bitumen from the port of Bandar Abbas in the Islamic Republic of Iran, sank off the Port Sultan Qaboos, Muscat, Sultanate of Oman, tragically claiming the life of its master.

26.12.2 In October 2013, the Government of Oman commenced legal action against the shipowner in the Court of Muscat, as the shipowner had refused to meet its obligation under the 1992 CLC. The insurer of the ship had also refused to consider any claims, citing the country of origin of the cargo as the reason.

26.12.3 In view of the considerations above, the 1992 Fund Executive Committee, at its session in October 2013, decided to authorise the Director to make payments of compensation in respect of claims arising from this incident.

26.12.4 In February 2016, the 1992 Fund joined the legal action by the Government of Oman against the shipowner and the insurer of the *Nesa R3*.

26.12.5 All claims in respect of this incident were settled in 2018. Thirty-three claims totalling OMR 5 915 218 have been received by the 1992 Fund. Twenty-eight claims have been settled and paid for a total amount of OMR 3 521 366 and BHD 8 419.35. The remaining claims have been assessed at nil.

26.12.6 In January 2018, the Court of Muscat awarded the Fund OMR 1 777 113 and BHD 8 419, which correspond to the payments made up to the date of the judgment. The 1992 Fund is trying to pursue the shipowner/insurer to enforce the judgment.

26.12.7 For the purpose of contingent liabilities, fees and other costs for 2019 have been estimated at £50 000 (2017: £50 000).

#### 26.13 Double Joy — incident closed

26.13.1 A claim by a shipping company totalling USD 7.61 million that was pending in Court has been settled at USD 4.85 million, including interest, and this amount has been paid by the Shipowners' Mutual Protection and Indemnity Association (Luxembourg) (Shipowners' Club). As a result of this settlement, the claimant has withdrawn its legal action, and the proceedings have been terminated.

26.13.2 All the claims arising from this incident have been settled by the shipowner/insurer for some USD 6.8 million, and it is now certain that the 1992 Fund will not be called upon to pay compensation in relation to this incident.

26.13.3 This incident is therefore closed.

#### 26.14 Trident Star

26.14.1 The ship is insured with the Shipowners' Club, which is part of the International Group of P&I Associations. The *Trident Star* was entered as a 'relevant ship' within the definition of STOPIA 2006, and therefore STOPIA 2006 applies to this case, increasing the shipowner's limit to SDR 20 million.

26.14.2 Claims for pollution damage arising from this incident will surpass the 1992 CLC limit applicable to the *Trident Star*. Although STOPIA 2006 applies to this incident, it is not likely that the STOPIA 2006 limit will be reached. The 1992 Fund will be liable to pay compensation once the 1992 CLC limit is reached, albeit all payments will be later recovered from the shipowner's insurer under STOPIA 2006.

26.14.3 Claims have been received for a total of USD 24.8 million. The liability limit applicable to the *Trident Star* is approximately USD 6.3 million. The Shipowners' Club has already paid some USD 2.4 million in compensation.

26.14.4 For the purpose of contingent liabilities, fees and other costs for 2019 have been estimated at £100 000 (2017: £100 000).

#### 26.15 Incident in Canada (Nathan E. Stewart/DBL 55)

26.15.1 In October 2018 the Director was served with proceedings concerning an incident that occurred two years earlier in 2016. On 13 October 2016, the articulated tug-barge (ATB), composed of the tug *Nathan E. Stewart* and the tank barge *DBL 55*, ran aground on Edge Reef near Athlone Island, at the entrance to Seaforth Channel, approximately 10 nautical miles west of Bella Bella, British Columbia, Canada. The tug's hull was eventually breached and approximately 110 000 litres of diesel oil was released into the environment. The tug subsequently sank and separated from the barge.

26.15.2 A first nation community consisting of five tribes has brought a legal action against the owner, operators, the master and an officer of the *Nathan E. Stewart/DBL 55* ATB. The claimants also include as third parties, among others, the Ship-source Oil Pollution Fund in Canada, the 1992 Fund and the Supplementary Fund.

26.15.3 The application of the Conventions is not clear in this case, principally on two fronts: firstly it has not been established whether the *Nathan E. Stewart/DBL 55* ATB could be considered a 'ship' under Article I(1) 1992 CLC; and secondly even if this was the case, the unit was not actually carrying oil in bulk as cargo at the time of the incident and it is not clear whether it was carrying any persistent oil in bulk as cargo during any previous voyage. Its last known cargo was jet fuel, a non-persistent product.

26.15.4 Even if this case was proved to fall under the 1992 Civil Liability and Fund Conventions, there is no indication that the damages would exceed the shipowner's liability limit under the 1992 CLC.

26.15.5 The Director is monitoring this case. For the purpose of the contingent liabilities, fees and other costs for 2019 have been estimated at £5 000.

#### 26.16 Agia Zoni II

26.16.1 On 10 September 2017, the tanker *Agia Zoni II* sank at anchor in the Piraeus anchorage area, spilling approximately 700 tonnes of crude oil on the coast of Salamina Island, and subsequently around the coast of Piraeus along some 20 to 25 kilometres of coastline. The insurer (a fixed premium insurer)

established a limitation fund for EUR 5.41 million and made it clear that it did not consider itself liable for any costs incurred thereafter.

26.16.2 Extensive clean-up operations commenced, involving, at times, over 400 personnel. Oil removal operations from the wreck were concluded by 30 October 2017. The salvors were then instructed to remove the wreck at no cost to the Greek Government. The wreck was lifted by 30 November 2017.

26.16.3 Given the impact on the coastline and the importance of the incident to the Greek Government, a local Claims Submissions Office was set up in October 2017.

26.16.4 In terms of compensation payments, by the end of March 2019 the 1992 Fund had received 361 claims amounting to EUR 92.48 million and had paid some EUR 10.8 million in compensation.

26.16.5 It is still early to determine what the 1992 Fund's liability for this incident will be as claims are still being received and are being assessed. At the time of the incident, experts engaged by the 1992 Fund estimated that compensation in the region of some EUR 50 million to EUR 60 million may be payable for this incident. This amount includes the amount payable under the CLC leaving an estimated amount of some EUR 55 million payable by the 1992 Fund.

26.16.6 The estimated amount payable by the 1992 Fund is set out below:

<i>Agia Zoni II</i> incident	Amount in Euros
Estimated compensation payable	60 000 000
<i>Less</i> CLC limit	5 400 000
Estimated liability for 1992 Fund	54 600 000
<i>Less</i> Compensation paid to 31 December 2018	10 375 484
<i>Less</i> Compensation Provision for 2018	955 290
<b>Contingent liability</b>	<b>43 269 226</b>

26.16.7 For the purpose of contingent liabilities, an estimate of EUR 43.27 million (£38.84 million) of compensation and fees and other costs of £600 000 is made for 2019.

#### 26.17 *Bow Jubail*

26.17.1 At its April 2019 session, the 1992 Fund Executive Committee noted that on 23 June 2018, the oil and chemical tanker m.t.v. *Bow Jubail* (23 196 GT) collided with a jetty owned by LBC Tank Terminal in Rotterdam, the Kingdom of the Netherlands. As a consequence of the collision, a leak occurred in the area of the starboard bunker tank, resulting in a spill of fuel oil into the harbour. At the time of the incident, the *Bow Jubail* was in ballast.

26.17.2 The shipowner applied before the Rotterdam District Court for leave to limit its liability in accordance with the Convention on Limitation of Liability for Maritime Claims, 1976, as modified by the 1996 Protocol (LLMC 76/96) (SDR 14 312 384). The shipowner argued that the incident was covered under Article 1.8 of the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 (Bunkers Convention 2001).

26.17.3 In November 2018, the Rotterdam District Court decided that the shipowner had not proved that the tanker did not contain residues of persistent oil at the time of the incident and that therefore the *Bow Jubail* qualified as a ship as per Article I(1) of the 1992 CLC. The shipowner has appealed to the Court of Appeal in The Hague

26.17.4 The limitation amount applicable to the *Bow Jubail* if the 1992 CLC was to apply would be SDR 15 991 676, but the owner of the *Bow Jubail* is a party to STOPIA 2006 (as amended 2017) whereby the shipowner would indemnify, on a voluntary basis, the 1992 Fund for the difference

between the limitation amount applicable to the *Bow Jubail* under the 1992 CLC and the amount of compensation paid by the 1992 Fund, up to a limit of SDR 20 million.

26.17.5 So far, the shipowner has received some 150 claims. The claims have not yet been quantified but it is likely that the total pollution damage will exceed the limit that would apply to the ship under the 1992 CLC, and in that case, both the 1992 Fund Convention and the Supplementary Fund Protocol could apply to this incident.

26.17.6 However, if the shipowner is successful in proving that there were no such residues on board, the incident would fall under the Bunkers Convention 2001, and therefore the limitation amount of the LLMC 76/96 would apply, and the 1992 Fund would not be involved in this case.

## Note 27 — Commitments

27.1 On 15 February 2016 the Secretary-General of IMO and the Director of the IOPC Funds signed an agreement whereby IMO agrees to underlet to the IOPC Funds office space on the first-floor rear wing in its headquarters building. The lease came into effect on 1 March 2016 and will expire on 25 October 2032, with rent fixed at £258 000 per annum until the break point of 31 October 2024.

27.2 The United Kingdom Government meets 80% of the costs related to the rental of the Secretariat's office premises in the IMO headquarters building.

27.3 Future minimum lease payments payable by the 1992 Fund for the office in the IMO headquarters building:

	Secretariat office/ storage space (100%) £
Not later than one year	258 000
Later than one year and not later than five years	1 032 000
Later than five years to 31 October 2024	215 000

## Note 28 — Related parties and key management personnel

### 28.1 Key management personnel

	2018	2017
Number of individuals	5	5
	£	£
Basic salary and post adjustment	743 747	739 381
Entitlements	53 752	56 345
Provident Fund and health insurance	176 570	179 734
<b>Total remuneration</b>	<b>974 069</b>	<b>975 460</b>
Outstanding loans	782	770

28.1.1 The Director is assisted in the day-to-day running of the Secretariat by the Management Team, comprising of the Deputy Director/Head of the Finance and Administration Department, Head of the External Relations and Conference Department, Head of the Claims Department, and Legal Counsel.

28.1.2 In 2018 the aggregate remuneration paid to key management personnel included: net salaries, post-adjustment, entitlements such as representation allowance and other allowances and the organisation's contribution to the Provident Fund and health insurance.

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

### 28.2 Related parties

The Director is *ex officio* Director of the Supplementary Fund. The Supplementary Fund is a related party to the 1992 Fund as they are both administered by the 1992 Fund Secretariat, for which the Supplementary Fund pays the 1992 Fund a management fee of £34 000 (2017: £34 000). At year end, an additional £24 041 was receivable from the Supplementary Fund.

## Note 29 — Events after reporting date

29.1 The 1992 Fund's reporting date is 31 December 2018.

29.2 On the date of signing these Financial Statements, there have been no other material events, favourable or unfavourable, incurred between the balance sheet date and the date when the Financial Statements were authorised for issue that would have impacted these statements.

29.3 The date of authorisation for issue is the date of certification by the External Auditor.