



International Oil Pollution
Compensation Funds

Agenda Item 5	IOPC/OCT19/5/6/2	
Date	12 August 2019	
Original	English	
1992 Fund Assembly	92A24	
1992 Fund Executive Committee	92EC73	
Supplementary Fund Assembly	SA16	●

2018 FINANCIAL STATEMENTS AND AUDITOR'S OPINION

INTERNATIONAL OIL POLLUTION COMPENSATION SUPPLEMENTARY FUND (SUPPLEMENTARY FUND)

Note by the Director

Summary:	As indicated in document IOPC/OCT19/5/6, the Supplementary Fund Financial Statements and the Auditor's Opinion are set out.
Action to be taken:	<u>Supplementary Fund Assembly</u> Approval of 2018 Financial Statements.

1 Introduction

- 1.1 Under Article 16.2 of the Supplementary Fund Protocol, read in conjunction with Article 29.2(f) of the 1992 Fund Convention, the Director has prepared the Financial Statements of the Supplementary Fund for the financial year 2018. The Director has also prepared comments on the Financial Statements. These comments are at Section One of the Annex.
- 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 in Section One of the Annex.
- 1.3 The Financial Statements of the Supplementary Fund are audited by BDO LLP.
- 1.4 In view of the limited financial activity of the Supplementary Fund for the financial year 2018, the External Auditor has decided not to produce any Report on the audit of the accounts of that period. Under Financial Regulation 14.16 the External Auditor shall express an opinion on the Financial Statements on which it is reporting. This Opinion is in Section Two of the Annex.
- 1.5 The 2018 Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) as prescribed by Financial Regulation 12.1.
- 1.6 The certified Financial Statements for the financial period 1 January to 31 December 2018 are 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

1.7 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

Supplementary Fund Assembly

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

* * *



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 OPINION

INTERNATIONAL OIL POLLUTION COMPENSATION SUPPLEMENTARY FUND (SUPPLEMENTARY FUND)

TABLE OF CONTENTS

	Page
Section One	3–9
Director’s comments	3
Statement on internal control	7
Section Two	10–12
External Auditor’s Opinion	10
Section Three	13–23
Financial Statements for the financial year ended 31 December 2018	14–18
Statement I — Statement of Financial Position at 31 December 2018	14
Statement II — Statement of Financial Performance for the year ended 31 December 2018	15
Statement III — Statement of Changes in Net Assets for the year ended 31 December 2018	16
Statement IV — Statement of Cash Flow for the year ended 31 December 2018	17
Statement V — Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2018	18
Notes to the financial statements	19

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 A Protocol to the 1992 Fund Convention adopted in 2003 resulted in the establishment of the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund), which provides an optional third tier of compensation. The Protocol entered into force on 3 March 2005. Any State Party to the 1992 Fund Convention may become Party to the Protocol and thereby become a Member of the Supplementary Fund.
- 1.4 The maximum amount of compensation payable for any one incident for pollution damage in States which become Party to the Supplementary Fund Protocol is SDR 750 million^{<1>} which as at 31 December 2018 corresponded to £820 million. This amount includes the amount payable under the 1992 Civil Liability and Fund Conventions.
- 1.5 The Supplementary Fund has an Assembly composed of all Member States. The Assembly is the supreme governing body of the organisation having, *inter alia*, the responsibility for financial matters.
- 1.6 The Supplementary 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. Where the aggregate quantity of contributing oil received in a Supplementary Fund Member State in a given calendar year is less than one million tonnes, the Member State will be liable to pay contributions for a quantity of contributing oil corresponding to the difference between one million tonnes and the aggregate quantity of actual contracting oil receipts reported in respect of that State.
- 1.7 At its February/March 2006 session, the Supplementary Fund Assembly took note of a voluntary agreement, the Tanker Oil Pollution Indemnification Agreement (TOPIA) 2006, under which the shipowner/P&I Clubs would reimburse the Supplementary Fund for 50% of the compensation

<1> The SDR (Special Drawing Right), which is the unit of account used in the Conventions referred to in paragraph 1.4, 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.

payments made by it to claimants if the incident involved a ship covered by the agreement. As at 31 December 2018, there have been no incidents covered by this agreement.

- 1.8 As at 31 December 2018, there were 32 Member States of the Supplementary Fund. A full list of the current Member States of the Supplementary Fund can be found on the Membership page of the IOPC Funds' website: www.iopcfunds.org.

2 Secretariat

- 2.1 The Supplementary Fund is administered by the 1992 Fund.
- 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 Supplementary Fund uses external consultants to provide advice on legal and technical matters as well as on matters relating to management.

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 the 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 manages 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 Supplementary Fund has established a framework on internal control as set out in the Statement on Internal Control (see page 7).

- 3.3.3 The Supplementary 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 As at 31 December 2018, all cash, cash equivalent and investments were denominated in pounds sterling.
- 3.3.5 The Supplementary Fund's 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 the International Public Sector Accounting Standards (IPSAS), the Financial Statements for the Supplementary Fund are produced on an entity basis. There have been no incidents involving the Supplementary Fund, and therefore no Claims Fund has been established.
- 4.2 The net asset position presented in Statement I shows a closing net balance position of £1 488 047 an increase of £636 516 from the balance on 31 December 2017 of £851 531.
- 4.3 In 2018 the total revenue was £673 716 and the total expenditure £37 200.
- 4.4 Contributions of £1.5 million was levied for payment in 2018 with respect to the General Fund, and an amount of £0.85 million reimbursed to those contributors in the 19 Member States who contributed to the first levy to the Supplementary Fund. As at 31 December 2018, an amount of £2 978 remains outstanding from contributors in two Member States.
- 4.5 An amount of £58 041 is payable to the 1992 Fund of which includes a management fee of £34 000 for 2018.
- 4.6 The Director's comments on the expenses for running the joint Secretariat are in the 2018 Financial Statements of the 1992 Fund. The joint Secretariat's administrative expenses for 2018 amounted to £4 065 757 excluding the External Auditor fees paid in 2018 for the audit of the 2017 Financial Statements for the two Funds. The total obligations incurred in 2018 were 10.4% less than the 2018 budget appropriation of £4 536 433. The amount for the External Auditor's fees is paid by the respective organisation which was £3 200 for the Supplementary Fund.
- 4.7 At their October 2017 sessions, the Supplementary Fund Assembly and the 1992 Fund Assembly decided that the Supplementary Fund should pay to the 1992 Fund a flat management fee towards the cost of running the joint Secretariat in 2018. The management fee was set based on the estimated number of working days that the entire Secretariat would have to spend on Supplementary Fund matters. The fee for 2018 was set at £34 000, which was the same as in 2017.

4.8 The expenditure relating to the Supplementary Fund's share of the costs of running the joint Secretariat and the External audit fees amounted to £37 200 in 2018 compared to the total appropriation of £47 200. A breakdown of the Supplementary Fund expenditure is set out below.


Expenditure relating only to Supplementary Fund	2018 Budget appropriations £	2018 Budget out-turn £	Balance of appropriations £
(a) Management fee payable to 1992 Fund	34 000	34 000	-
(b) Administrative costs including External Audit fees	13 200	3 200	10 000
Total	47 200	37 200	10 000

4.9 General Fund Balance

The General Fund balance on 31 December 2018 was £1 488 047 which is higher than the working capital of £1 million set by the Supplementary Fund Assembly at its first session in March 2005.

5 Sustainability

- 5.1 The Supplementary Fund Protocol provides the Supplementary Fund Assembly with authority to levy contributions that may be required to balance the payments to be made by the Supplementary Fund. It also places an obligation on the contributors to make payment by the due date or bear interest on any arrears.
- 5.2 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 Supplementary Fund's Financial Statements.


 José Maura
 Director
 24 June 2019

INTERNATIONAL OIL POLLUTION COMPENSATION SUPPLEMENTARY FUND
STATEMENT ON INTERNAL CONTROL

6 Scope of Director's responsibility

- 6.1 Under Article 16 of the Supplementary Fund Protocol, read in conjunction with Article 28.2 of the 1992 Fund Convention, the Director shall be the legal representative of the International Oil Pollution Compensation Supplementary Fund (Supplementary Fund). Each Contracting State shall, pursuant to Article 2.2 of the Supplementary Fund Protocol, recognise the Director as the legal representative of the Supplementary Fund.
- 6.2 Under Article 16 of the Supplementary Fund Protocol, read in conjunction with Article 29.1 of the 1992 Fund Convention, the Director shall be the chief administrative officer of the Supplementary Fund. As chief administrative officer, the Director has responsibility for maintaining a sound system of internal control that supports the achievement of the Supplementary Fund's policies, aims and objectives, while also safeguarding the Supplementary Fund's assets.
- 6.3 As a result of these provisions, the Director has the authority, vis-à-vis third parties, to commit the Supplementary Fund without restrictions, unless the third party concerned has been informed of any limitation of this authority decided by the Assembly or Executive Committee.
- 6.4 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.
- 6.5 The Supplementary Fund and the International Oil Pollution Compensation Fund 1992 (1992 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.
- 6.6 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.
- 6.7 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.

7 Statement on the system of internal control

- 7.1 The Director has the responsibility for maintaining a sound system of internal control that supports the work of the Supplementary 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.
- 7.2 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.

- 7.3 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 Supplementary Fund Assembly on an annual basis.
- 7.4 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 Supplementary Fund Assembly on an annual basis.

8 Risk management

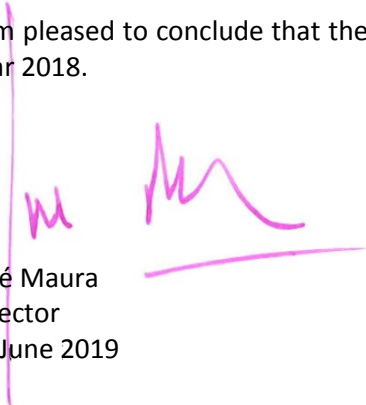
- 8.1 The Director continued a review of the IOPC Funds' risk register to identify key risks across the Secretariat. These risks have been placed in two categories: operational risk and institutional risk. Operational risk has been sub-divided into five areas: finance and contributions; governance and management; compensation; safety and security; and communications and publications.
- 8.2 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.
- 8.3 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.

9 The risk and control framework

- 9.1 The system of internal control is based on an ongoing process designed to ensure conformity with the Supplementary Fund Protocol, the Financial Regulations, the Internal Regulations and decisions of the Supplementary Fund Assembly.
- 9.2 The Assembly adopts the Financial Regulations and Internal Regulations necessary for the proper functioning of the Supplementary Fund.

10 Review of effectiveness

- 10.1 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.
- 10.2 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.
- 10.3 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 OPINION

OPINION ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the International Oil Pollution Compensation Supplementary Fund (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 Flow 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 Supplementary Fund (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 Supplementary Fund 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. 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 Supplementary Fund financial statements.

Use of our report

This report is made solely to the Assembly of the International Oil Pollution Compensation Supplementary Fund (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

SECTION THREE

THE FINANCIAL STATEMENTS OF THE INTERNATIONAL OIL POLLUTION COMPENSATION
SUPPLEMENTARY FUND
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 Supplementary Fund as at 31 December 2018.



José Maura
Director

24 June 2019



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

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

	Note	2018 £	2017 £
ASSETS			
Current assets			
Cash and cash equivalents	2	1 587 214	851 239
Contributions receivable	3	2 978	-
Other receivables	4	843	20 364
Total current assets		1 591 035	871 603
TOTAL ASSETS		1 591 035	871 603
LIABILITIES			
Current liabilities			
Payables and accruals	5	58 041	-
Prepaid contributions		-	20 072
Contributors' account	6	44 946	-
Total current liabilities		102 987	20 072
TOTAL LIABILITIES		102 987	20 072
NET ASSETS		1 488 047	851 531
FUND BALANCE			
Balance b/f: 1 January		851 531	883 108
Surplus for the year		636 516	(31 577)
GENERAL FUND BALANCE	7	1 488 047	851 531

Notes are found on pages 19–23

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

	Note	2018 £	2017 £
REVENUE			
Contributions	9	663 125	-
Interest on investments		10 428	5 623
Other Revenue		164	-
Total revenue		673 716	5 623
EXPENSES			
Administrative costs		37 200	37 200
Total expenses		37 200	37 200
SURPLUS/(DEFICIT) FOR THE YEAR		636 516	(31 577)

Notes are found on pages 19–23

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

Accumulated surpluses / Fund balances	
£	
Balance at 31 December 2017	851 531
Movements in Fund balances:	
Surplus/(deficit) for the period	636 516
TOTAL NET ASSETS at 31 December 2018	1 488 047

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

Note	2018 £	2017 £
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit) for the period	636 516	(31 577)
Adjustment for:		
Interest on investment^{<1>}	(10 428)	(5 623)
	626 089	(37 200)
(Increase)/decrease in receivables	16 543	(17 767)
Increase/(decrease) in payables & accruals	102 745	-
Increase/(decrease) in prepaid contributions	(20 072)	20 072
Net cash flow from operating activities	725 305	(34 895)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned ^{<2>}	10 670	5 623
Net cash flow from investing activities	10 670	5 623
Net (decrease)/increase in cash and cash equivalents	735 975	(29 272)
Cash and cash equivalents at beginning of the year	851 239	880 511
Cash and cash equivalents at end of the year	1 587 214	851 239

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

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

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

CLASS OF EXPENDITURE	Note	BUDGET APPROPRIATIONS		BUDGET OUT-TURN		BALANCE OF APPROPRIATIONS	
		2018	2017	2018	2017	2018	2017
		£	£	£	£	£	£
(a) Management fee payable to 1992 Fund		34 000	34 000	34 000	34 000	-	-
(b) Administrative costs including External audit fees		13 200	13 500	3 200	3 500	10 000	10 000
TOTAL	9	47 200	47 500	37 200	37 500	10 000	10 000

Notes are found on pages 19–23

Note 1 — Accounting policies

- 1.1 These Financial Statements have been prepared in accordance with Financial Regulation 12.3 of the International Oil Pollution Compensation Fund Supplementary Fund (Supplementary 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 1.8).
- 1.4 Basis of preparation
- 1.4.1 The Financial Statements of the Supplementary 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 Supplementary Fund’s Financial Regulations:
- (a) the financial year is the calendar year; and
 - (b) the functional and reporting currency of the Supplementary 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 Funds’ 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.
- 1.5 Fund accounting
- 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 Supplementary 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 Financial Statements have been prepared on the basis of a General Fund only. Fund balances represent the accumulated residual of revenue and expenses.
- 1.5.3 The General Fund covers the Supplementary Fund’s expenses for the administration of the organisation. The working capital was established to ensure that the Supplementary Fund was in a position to meet compensation and claims-related expenses which occur between the regular sessions of the governing bodies.

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 governing body as due in the financial period. Such income from contributions is recognised only after the contributions are invoiced on the basis of figures on contributing oil receipts reported by Member States.

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.

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

Interest on investments

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

Interest on overdue contributions

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

1.7 Cash and cash equivalents

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

1.8 Budgetary information

The Assembly approves the budget for administration costs. Budgets may be subsequently amended by the Assembly or through the exercise of delegated authority. 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.

Note 2 — Assets and liabilities

2.1 Cash and cash equivalents

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

	2018 £	2017 £
Cash balances with banks	1 237 214	40 331
Term deposits	350 000	810 908
Total	1 587 214	851 239

2.1.2 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.

Note 3 — Contributions receivable

The situation with regard to outstanding contributions is set out below.

	2018 £	2017 £
Congo	1 489	-
Hungary	1 489	-
Total	2 978	-

Note 4 — Other receivables

	2018 £	2017 £
Accrued interest on investments	781	178
Accrued interest on overdue contributions	62	-
Due from 1992 Fund	-	20 186
Total	843	20 364

Note 5 — Payables and accruals

An amount of £58 041 is payable to the 1992 Fund made up of a management fee of £34 000 and an additional amount of £24 041.

Note 6 — Contributors' account

The amount of £44 946 (2017: £0) is the balance on the contributors' account after the deduction of amounts repaid to contributors or offset against contributions. The amount includes interest of £242 (2017: £0) credited in 2018 to contributors.

Note 7 — General Fund balance

The General Fund balance of £1 488 047 is above the working capital of £1 million as decided by the Supplementary Fund Assembly at its first session in March 2005. The working capital was established to ensure that the Supplementary Fund was in a position to meet compensation and claims-related expenses which occur between the regular sessions of the governing bodies.

Note 8 — Financial instruments

8.1 In 2018, there were no complex financial instruments entered into by the Supplementary Fund, and consequently, the Fund was not exposed to significant credit risk, interest rate risk, and foreign currency risk.

8.2 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.

8.3 With respect to the investment of the cash assets, the risks were managed as set out below.

8.4 Credit risk

8.4.1 The Supplementary Fund's credit risk is spread widely, and its risk management policies limit the amount of credit exposure to any counterparty and include minimum credit quality guidelines. The guidelines include market and capital strength measures in addition to the credit rating provided by the three rating agencies. Credit default swaps (CDS) and CET 1 capital ratio are the additional measures that are 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.

8.4.2 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.

8.4.3 Contributions receivable are comprised primarily of amounts due from contributors in Member States. The Supplementary Fund Protocol places an obligation on Member States to ensure that contributors fulfil their obligation to pay contributions.

Liquidity risk

8.4.4 The Supplementary Fund Protocol provides the Assembly the authority to levy contributions that may be required to balance the payments to be made by the Supplementary Fund.

8.4.5 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.

Interest rate risk

8.4.6 The Supplementary Fund places its cash investments in term deposits with fixed interest rates under strict investment guidelines. The Financial Regulations of the Supplementary 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.

8.4.7 The average interest rate earned on investments in 2018 was 0.85%. A variation of 0.25% to the average interest rate would result in an increase or decrease of £3 057 to the amount of interest earned in the year.

Note 9 — Contributions

At its session in October 2017, the Supplementary Fund Assembly decided to levy contributions of £1.5 million (2017 contributions payable in 2018) with respect to the General Fund and to reimburse £850 000 to those contributors in the 19 Member States who contributed to the 2006 levy to the Supplementary Fund. Since there have been no incidents requiring the payment of compensation by the Supplementary Fund, no decision was made to raise levies for Claims Funds.

Note 10 — Statement of Comparison of Budget and Actual Amounts

- 10.1 The Supplementary Fund's budget and accounts 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.
- 10.2 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, timing, and entity differences.
- 10.3 There are no reconciling items between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V) and the actual amounts in the Statement of Financial Performance (Statement II) for the year ended 31 December 2018.

Note 11 — Related parties and key management personnel

- 11.1 The Director of the 1992 Fund is *ex officio* Director of the Supplementary Fund and the Supplementary Fund is administered by the 1992 Fund Secretariat. The Director is assisted by a Management Team in the day-to-day running of the Secretariat and the aggregate remuneration paid to key management personnel of the 1992 Fund is in Note 28 to the 2018 Financial Statements of the 1992 Fund.

Related parties

- 11.2 The Supplementary Fund is a related party to the 1992 Fund, to which it pays a management fee of £34 000 (2017: £34 000). At year end, an additional £24 041 was payable to 1992 Fund.

Note 12 — Events after reporting date

- 12.1 The Supplementary Fund's reporting date is 31 December 2018. On the date of signing of these accounts, there have been no material events, favourable or unfavourable, incurred between the reporting date and the date when the Financial Statements were authorised for issue that would have impacted these statements.
- 12.2 The date of authorisation for issue is the date of certification by the External Auditor.