

Commentary on the 2016 and 2017 Commission Accounts

An IWC Secretariat Paper

1. Introduction

- 1.1. Financial Regulation C.5. requires that the Commission's accounts are independently audited on an annual basis and presented to the Commission accordingly.
- 1.2. The signed, audited 2016 and 2017 accounts are published and available for the Commission's scrutiny.
- 1.3. This paper seeks to provide a commentary on these documents, explaining the key issues outlined in the technical statements, including:
 - 1.3.1. Compliance with International Financial Reporting Standards (IFRS) and financial best practices
 - 1.3.2. Significant transactions executed in this time period
 - 1.3.3. Analysis of the financial situation across this period

2. Compliance

- 2.1. In 2016, the Commission became compliant with International Financial Reporting Standards (IFRS). Applying these standards brings IWC's accounting practices in to line with those of similar IGOs and also many Governments.
- 2.2. Achieving this compliance has resulted in the Commission's accounts for 2016 and 2017 receiving for the first time an 'unqualified' opinion from the auditor, which means that it is their assessment that the accounts show a 'true and fair' view of the financial position of the IWC.
- 2.3. As part of adopting IFRS, accounting rules required that the 2015 accounts be 'restated' so that 2016 position could be considered alongside it in a comparable format and this is given in the 2016 accounts document.

3. Significant Transactions during the Intersessional Period & Issues to Note

Red House Purchase

- 3.1. In 2016 the Commission purchased its headquarters building, The Red House for £1m, £800,000 of which was financed with a loan. The Commission agreed at IWC 66 that the loan would be repaid from surplus cash balances and this transaction was completed on 27th February 2017.
- 3.2. This repayment has resulted in a saving being made in relation to interest costs, however depreciation will still be chargeable.

Severance Pay Provision

- 3.3. As part of compliance with IFRS, the Commission's provision for 'severance pay' of £461,500 was transferred to the General Fund in 2016. This is due to the transaction being found not to meet the definition of a 'present obligation' under *International Accounting Standard 37 — Provisions, Contingent Liabilities and Contingent Assets*.
- 3.4. This transaction represents a balance sheet adjustment and does not represent new funds, rather, a correction of the allocation of existing funds.

Reduction in Bad Debts

- 3.5. In 2016, the Commission's debtors reduced by over a quarter, demonstrating an improvement in recovery of income. The estimated risk of remaining debtors being written off also reduced substantially, leading to a material reduction in the Commission's bad debt provision.
- 3.6. This adjustment was c.£350k and is shown in the 2016 income and expenditure statement according to accounting rules, however it does not represent new income to the Commission, rather, it is a change in accounting estimates.
- 3.7. Bad debt provision will be adjusted annually based on a professional assessment of the likelihood of recovering funds and may go up as well as down depending on the Commission's collection rate and circumstances.

4. Financial Position 2016 & 2017

2016

- 4.1. A deficit budget was set for the 2016 financial year, with an anticipated overspend of just over £127,000.¹
- 4.2. At 31/12/2016 there was a net surplus of £222,782 for the 2016 financial year, however, £351,843 was in relation to reducing the provision for bad debts which for accounting reasons had to be declared on the income and expenditure account. As this transaction relates to existing resources, when it is removed from consideration, the underlying loss for the year was £129,061.

Net surplus after movements in reserve:	£222,782
Adjustment for bad debt provision:	<u>(£351,843)</u>
Underlying loss for 2016:	(£129,061)

- 4.3. The underlying loss position shows the position of the Commission's finances as at the end of 2016 as if the changes in accounting estimate had not occurred. This underlying position is in line with the deficit budget that was set.

2017

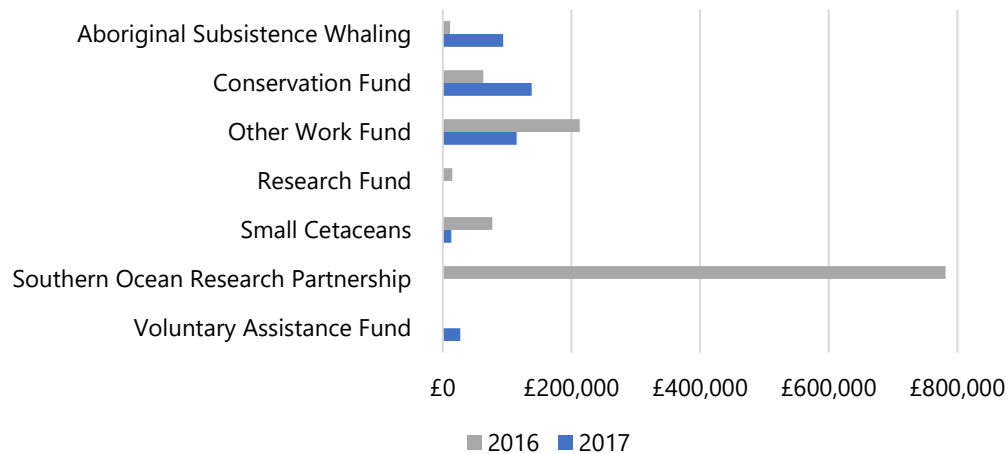
- 4.4. A 'balanced budget' was set for the 2017 financial year, which means income and expenditure were expected to be equal.
- 4.5. The final overspend for 2017 was £9,344. This is c.£17k less than the overspend that was originally expected, and the difference was primarily due to the Executive Secretary recruitment process being underspent, along with savings from the 'interim' period where the Communications Officer 'acted up' to the Executive Secretary role. Whilst there were departmental variations to forecast, overall, expenditure was broadly in line with the forecast position.
- 4.6. Meetings expenditure was also in line with expectations, with an overspend of c.£30k covered from the Meeting Fund. Had the Meeting Fund not been utilised, the general overspend would have been higher by this amount.

5. General & Voluntary Funds

- 5.1. The graphs below indicate the total voluntary contributions provided in each fund during 2016 and 2017.

¹ See document IWC/65/07Rev.

Voluntary Contributions Received 2016 & 2017



- 5.2. In total, £1.161m of voluntary contributions were received in 2016, and a further £397k was received in 2017.
- 5.3. A summary of activities on each fund is given in **Annex 1**. Detailed information regarding income and expenditure on each fund has been provided to the relevant Sub-Committees.

6. Improvements to Financial Management

- 6.1. Since the last Commission meeting a number of improvements to financial management have been achieved including:
- ✓ Securing an 'unqualified' audit opinion for 2 consecutive years
 - ✓ Substantial reduction in the use of purchase cards and improvements to procurement practice
 - ✓ Secretariat savings have been achieved, including:
 - Reduction in consultancy & audit fees by using 'in-house' financial and HR expertise
 - Introducing a cheaper and more effective telephony system
 - Savings on leasing of equipment
- 6.2. The Commission is currently experiencing financial challenges and as a result, the Bureau agreed an action plan provided by the Secretariat which would seek to mitigate the impact of this and improve financial transparency. These actions were listed in Circular IWC.CCG.1280 and included:
- ✓ Stricter financial controls and financial oversight
 - ✓ Increased detail and transparency in financial reporting
 - ✓ The introduction of a currency & risk strategy (F&A Agenda Item 3.5)
- 6.3. Further details in relation to budget strategy and managing financial risks can be found in F&A Agenda Item 8.2.1.
- 6.4. Commissioners are encouraged to contact the Secretariat if they have any comments or suggestions relating to improved financial management and reporting.

7. Recommendations

- 7.1. **Note** the audited accounts for 2016 and 2017 as well as the associated commentary in this report.
- 7.2. **Recommend** the adoption of the 2016 and 2017 accounts to the Finance & Administration Committee.

Annex 1 - Summary Position on Commission Funds 2016 & 2017

	Voluntary Funds								Core Funds				Total	
	Aboriginal Subsistence Whaling Fund	Conservation Fund	Conservation Management Plan Fund	Gray Whale Tagging Fund	Other Work Fund	Small Cetaceans Fund	Sponsored Publications Fund	Southern Ocean Research Partnership	Voluntary Assistance Fund	Meeting Fund	Red House Refurbishment Fund	Research Fund		General Fund
Opening Balance 1/1/2016	(10,380)	65,002	192,453	7,213	125,151	105,392	41,960	19,259	23,288	147,953	-	203,102	1,226,378	2,146,771
Voluntary Contributions Received	11,355	63,106	-	-	212,881	76,908	-	781,833	-	-	-	14,725	-	1,160,808
Net Surplus/(Deficit) Against Core Budget	-	-	-	-	-	-	-	-	-	11,001	66,340	65,364	222,781	365,486
Expenditure on Voluntary-Funded Projects	(3,822)	(65,023)	(6,774)	-	(98,979)	(20,477)	-	(15,825)	-	-	-	-	-	(210,900)
Currency & Bank Charges & Interest Income	-	-	53	-	23	1	11	-	-	-	-	2,016	-	2,104
Transfers Between Funds	2,847	-	-	-	(2,847)	-	-	-	-	-	-	-	-	-
Other Transfers	-	-	-	-	-	-	-	-	-	-	-	-	513,633	513,633
Closing Balance 31/12/2016	-	63,085	185,732	7,213	236,229	161,824	41,971	785,267	23,288	158,954	66,340	285,207	1,962,792	3,977,902
Voluntary Contributions Received	93,937	138,096	-	-	114,721	13,122	-	-	27,066	-	-	-	-	386,942
Net Surplus/(Deficit) Against Core Budget	-	-	-	-	-	-	-	-	-	(39,126)	(16,381)	(52,082)	(9,967)	(117,556)
Expenditure on Voluntary-Funded Projects	(11,290)	(19,473)	(45,094)	-	(71,775)	(59,648)	-	(81,135)	(16,836)	-	-	-	-	(305,251)
Currency & Bank Charges & Interest Income	179	279	81	16	601	52	91	1,501	73	538	-	129	-	3,540
Transfers Between Funds	-	4,664	(10,510)	-	5,336	-	-	-	-	-	(1,718)	510	1,718	-
Other Transfers	-	-	-	-	-	-	-	-	-	118,125	-	-	-	118,125
Closing Balance 31/12/2017	82,826	186,651	130,209	7,229	285,112	115,350	42,062	705,633	33,591	238,491	48,241	233,764	1,954,543	4,063,702