

Presented pursuant to Section 5(4) of the Marine and Aviation Insurance (War Risks) Act 1952

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# Marine and Aviation Insurance (War Risks) Fund Accounts 2005-2006

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## Foreword

### History

This fund was established under Section 5 of the Marine and Aviation Insurance (War Risks) Act 1952 with the transfer of the balance of a fund previously set up for the purpose of Part 1 of the War Risks Insurance Act 1939. Any receipts or payments arising by virtue of or in fulfilment of obligations under these Acts are required to be paid into, or out of, the fund.

### Statutory background

The Minister of Transport was empowered under the Marine and Aviation Insurance (War Risks) Act 1952 to insure and re-insure ships, aircraft and cargoes against war risks and in certain circumstances other risks. These powers rest with the Secretary of State for Transport.

The Marine Insurance Act 1906 and Salvage Convention 1989 together provide the legislation to cover the Fund's income from salvage and salvage contractors, the main source of income in recent years.

### Review of activities

The current agreements with the UK Shipowners Mutual Insurance Associations came into effect on 20 February 1988. The new agreements, which replaced those dating from 1954, took account of the changes in shipping and insurance practices in the intervening years. They afford a 95 per cent reinsurance for British registered merchant ships and larger fishing vessels and 100 per cent reinsurance in respect of small fishing vessels against war risks arising from hostilities involving the UK. In addition to the cover previously available under the 1954 agreements, non-British registered ships may, subject to the Secretary of State's approval, now be reinsured through the Associations, but in time of war only.

No premiums are charged to shipowners unless the Secretary of State considers there to be a particular risk, either generally, or in a specific geographical location. There has not been any discernable activity in terms of the receipt of premiums or the payment of claims in recent years. Receipts from the sale of hulls of vessels lost during the Second World War and from the salvage of their cargoes are proper to this fund.

It is provided under the Marine and Aviation Insurance (War Risks) Act that any deficiency in the fund shall be met out of monies provided by Parliament, and that any excess over the amount likely to be required to meet liabilities of the fund shall be paid into the Consolidated Fund.

### Administration of fund

During the year of account, a total £4,981 was received for the sale of wrecks and salvage. There have been no claims against the fund during this period.

The fund is administered by the Department for Transport.

*David Rowlands*  
Accounting Officer  
Department for Transport

15 September 2006

## The Department's Statement on Internal Control 2005-2006

### Scope of responsibility

Management and preparation of this account and the underlying accounting transactions are subject to the control environment of the Department for Transport (DfT) to which the following statement refers. There are no risks identified specifically for the Marine and Aviation Insurance (War Risks) annual account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility of signing this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve departmental 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 the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. The Department's Board includes the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security is the Board's 'Risk Management Champion'; and
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards.

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family.

Officials consult regularly with Ministers on risk. Submissions to Ministers incorporate assessments of key risks, including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

The Department's Risk Improvement Manager is responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. During 2005-2006 a programme of risk management workshops and other events was delivered.

### The risk and control framework

The Treasury published its Code of Good Practice on Corporate Governance in Central Government Departments in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

Directors General and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department has in place risk registers, and a corporate risk log which is reviewed by the Board on a bi-monthly basis.

Early in the year, the central Department put in place a comprehensive 'Corporate Governance Framework', which included the framework of accountabilities, the roles and responsibilities of Directors General and Directors, and the end of year reporting arrangements. The Framework set out the responsibilities of Directors General and Directors for risk management. The Framework was supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and the management of resources.

During the year, the Department agreed a framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control. This will be implemented fully in 2006-2007

The Department has a number of well-established programmes for involving the public in managing the risks associated with transport.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement is in place.

The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports regularly to the Board the Committee's views on the effectiveness of internal control.

The effectiveness of the Department's Audit Committee was reviewed jointly with the National Audit Office in June 2005. The recommendations of that review have been agreed and implemented.

The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government's Internal Audit Standard. It provides an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports are provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment is also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

Directors General and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship. The responses confirmed that Directors General regarded their Units as substantially compliant with the structure of internal control.

### Group audit opinion

The Group Head of Internal Audit has provided the following opinion for 2005-2006

- "I can provide substantial assurance that risk management processes are working well in the Department and the Agencies. The Department has made significant improvements during the year and there are plans in place to further strengthen and improve these practices. Agencies continue to embed risk management as part of decision making and management processes.

- Internal controls, including financial controls, have continued to improve during the year so that I am able to provide substantial assurance on internal control in all parts of the organisation other than in the Highways Agency. Significant effort has been made to improve internal controls in the Highways Agency and management is working on a continuous programme to improve controls further. However some of our audits identified scope for improvement. Accordingly I am able to provide partial assurance on internal control arrangements in the Highways Agency. Notwithstanding this level of assurance, no weaknesses were identified that are sufficiently significant or material to require disclosure in the Statement on Internal Control.
- Improvements have been made to the Governance process in the Department and in the agencies during the year leading me to provide substantial assurance.”

*David Rowlands*  
Accounting Officer  
Department for Transport

15 September 2006

## Statement of Accounting Officers' responsibilities

Under Section 5(4) of the Marine and Aviation Insurance (War Risks) Act 1952, the Secretary of State for Transport is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The account is prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the end of the year.

The Treasury has appointed David Rowlands as the Principal Accounting Officer for the Department for Transport (DfT) with overall responsibility for preparing the DfT's accounts and for transmitting them to the Comptroller and Auditor General. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, and for safeguarding assets are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting' (TSO).

In preparing the accounts, the Accounting Officer is required to comply with the Financial Reporting Manual prepared by HM Treasury, and in particular to

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

*David Rowlands*  
Accounting Officer  
Department for Transport

15 September 2006



# The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I have audited the financial statements of the Marine and Aviation Insurance (War Risks) Fund for the year ended 31 March 2006 under the Marine and Aviation Insurance (War Risks) Act 1952. These comprise of a receipts and payments account and the related note. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the financial statements in accordance with the Marine and Aviation Insurance (War Risks) Act 1952 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Marine and Aviation Insurance (War Risks) Act 1952 and Treasury directions made thereunder. I report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Marine and Aviation Insurance (War Risks) Fund has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to other information.

I review whether the statement on pages 3 to 5 reflects the Marine and Aviation Insurance (War Risks) Fund's compliance with Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls or form an opinion on the effectiveness of the Marine and Aviation Insurance (War Risks) Fund's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and whether the accounting policies are appropriate to the Marine and Aviation Insurance (War Risks) Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Marine and Aviation Insurance (War Risks) Fund for the year ended 31 March 2006 and have been properly prepared in accordance with the Marine and Aviation Insurance (War Risks) Fund Act 1952 and directions made thereunder by Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

John Bourn  
Comptroller and Auditor General

19 September 2006

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## Receipts and Payments Account for the year ended 31 March 2006

	<b>2005-2006</b>	2004-2005
	£	£
<b>Operating receipts</b>		
Insurance premiums	<b>0</b>	0
Received from salvage contractor – wrecks and salvage	<b>4,981</b>	2,850
<b>Operating payments</b>		
Payments against approved claims	<b>0</b>	0
<b>Surplus for the financial year</b>	<b>4,981</b>	2,850
Surplus surrendered to the Consolidated Fund	<b>4,981</b>	2,850

No statement of balances is given as any excess of receipts over payments after settlement of approved claims is surrendered to the Consolidated Fund.

### *Notes to the Account*

- 1 This Account is drawn up in a form directed by the Treasury

*David Rowlands*  
Accounting Officer  
Department for Transport

15 September 2006

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