

Marine and Aviation Insurance (War Risks)
Fund Account 2014-15

Marine and Aviation Insurance (War Risks) Fund Account 2014-15

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

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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, as given effect by the Merchant Shipping Act 1995, together provide the legal framework 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% re-insurance for British registered merchant ships and larger fishing vessels and 100% per cent re-insurance 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 re-insured 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 have not been any receipts of premiums or payments of claims in recent years. Where insurance claims have been paid from the fund for hulls of lost vessels and cargoes, ownership of the hulls and cargoes rests with the Crown, under normal insurance rules of subrogation. 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.

Any future costs or liabilities associated with Crown ownership of wrecks following the payment of insurance claims under the 1952 Act would not fall to the Marine Aviation Insurance War Risk Fund Account.

Administration of fund

During the year of account, a total of £68,512 was received for on-going salvage operations. There have been no claims against the fund during 2014-15 and there are none outstanding from previous years.

The fund is administered by the Department for Transport.

The account for 2014-15 reflects a reduction in the salvage and salvage contractor activities.

The account for 2013-14, recognised a portion of the proceeds from the salvage operation to recover a valuable cargo of silver bullion from the wreck of the *SS Gairsoppa*. The *SS Gairsoppa* was reportedly torpedoed and sunk on 16 February 1941. The wreck and cargo are owned by the Secretary of State for Transport, by virtue of the HM Government War Risks Scheme in place during World War 2. Her Majesty's Government paid out on the claims following the loss of the ship in 1941 and through subrogation, the hull and cargo of the vessel became property of HMG.

In 2009, under a competitive tender, an American salvage company Odyssey Marine Exploration Inc. was awarded the contract to salvage the wreck. In return for salvage services, the salvor receives a proportion of the "salved value". Odyssey Marine Exploration was awarded the contract as they offered the best rate of return to HMG at 20%. At this time it is not possible to assign an exact monetary value to the proceeds, as it is dependant on the success of the salvage operation and sale of the silver bullion.

Philip Rutnam
Accounting Officer
Department for Transport

15 April 2016

Statement of the Secretary of State's and Accounting Officer's 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.

HM Treasury has appointed the Permanent Secretary for the Department 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 *Managing Public Money*

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.

Philip Rutnam
Accounting Officer
Department for Transport

15 April 2016

Governance Statement

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 to which the rest of this statement refers. There are no risks identified specifically for this account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility for 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 *Managing Public Money*.

Purpose of Report

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 2015 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 Board, which monitors performance and risk and making choices (or recommendations to Ministers) on priorities across the DfT family. Significant risks to key objectives are identified by managers within the Department and escalated to the Board. The Department's Board is formed of Directors General, Non-Executive members and Ministers.

The Department's Group Audit Committee monitors and reviews the processes for managing risk, control, governance, and assurance across the DfT family, and includes a non-executive chair, who is also a member of the Board and three further non-executive members from the wider DfT family. The specific business of the Marine and Aviation Insurance (War Risks) Fund has not been subject to consideration by any Group Audit Committee during the year.

The DfT Group Risk Management Framework is embedded in Departmental processes. This Framework establishes the criteria for Board-level risks and specifies the responsibilities of the Director General groups in relation to improving risk management within their groups. Each group has a risk management framework which is documented and communicated. Business Partner Teams (BPTs) have continued to support their respective Director General on implementing and updating policies and procedures to improve the identification and mitigation of Board- and group-level risks. Risk management guidance is available to staff on the departmental intranet.

Risk and Control Framework

The Treasury published an updated *Corporate governance in central government departments: Code of good practice 2011*; the Department's practices are consistent with the principles set out in this Code.

The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Directors General and Directors; and the in-year and end-of-year reporting arrangements. The Corporate Governance Framework includes the risk management framework which is described above, detailing how risks are escalated to the Department's Board for attention. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources and each Director General group has a documented risk management framework for their area.

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 Group Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Department's Audit and Risk Assurance Division (Internal Audit) operates to standards defined in the Government Internal Audit Standards. The work of the Audit Risk and Assurance Division is based upon its analysis of the risks to which the Department is exposed. The annual audit plan was discussed and endorsed by the Department's Group Audit Committee and approved by me. The work completed in connection with the annual audit plan provides me, as the Department's Principal Accounting Officer, with an independent opinion 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.

Each year the Group Head of Internal Audit (HIA) provides me with a report on internal audit activity in the Department. This report includes the HIA's independent opinion on the adequacy and effectiveness of the Department's governance, risk management and internal control arrangements.

The Group Audit Committee has received 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.

Directors General and Directors have reviewed internal control within their areas of responsibility within the central Department and have completed management assurance returns which are communicated to the Group Audit Committee for review at six months and at the year end. The Group Audit Committee reviewed the responses provided and considered their importance. No significant weaknesses have been identified relating to the business related to the Marine and Aviation Insurance (War Risks) Act.

Departmental Position

This document provides an abridged Governance Statement for the purposes of the Marine and Aviation Insurance (War Risks) White Paper Account. For a more in depth and comprehensive account of risk management, governance, and internal controls within DfT, please refer to the Governance Statement outlined in the Departmental Annual Report and Accounts 2014-15.

Philip Rutnam
Accounting Officer
Department for Transport

15 April 2016

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

I certify that I have audited the financial statements of the Marine and Aviation Insurance (War Risks) Fund Account for the year ended 31 March 2015 under the Marine and Aviation Insurance (War Risks) Act 1952. The financial statements comprise the Receipts and Payments Account. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Secretary of State's and Accounting Officer's Responsibilities, the Secretary of State is responsible for the preparation of the financial statements in accordance with the Marine and Aviation Insurance (War Risks) Act 1952. My responsibility is to audit, certify and report on the financial statements in accordance with the Marine and Aviation Insurance (War Risks) Act 1952. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Marine and Aviation Insurance (War Risks) Act Fund Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Marine and Aviation Insurance (War Risks) Fund Account; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Marine and Aviation Insurance (War Risks) Fund Account for the year ended 31 March 2015; and
- the financial statements have been properly prepared in accordance with the Marine and Aviation Insurance (War Risks) Act 1952 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

25 April 2016

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Receipts and Payment Account for the year ending 31 March 2015

| | 2014-15 £ | 2013-14 £ |
|---|---------------|--------------|
| Operating Receipts | | |
| Insurance Premiums | - | - |
| Received from salvage contractors | 68,512 | 5,189,422 |
| Operating Payments | | |
| Payments against approved claims | - | - |
| Surplus for the financial year | 68,512 | 5,189,422 |
| Surplus surrendered to the Consolidated Fund | 68,512 | 5,189,422 |

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

Philip Rutnam
Accounting Officer
Department for Transport

15 April 2016

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

DG Ref: 11120

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