

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

Marine and Aviation Insurance (War Risks) Fund 2003-2004

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Foreword

History

- 1 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

- 2 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.

Review of activities

- 3 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 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.
- 4 No premia are charged to shipowners unless the Secretary of State considers there to be a particular risk, either generally, or in a specific geographical location. 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.
- 5 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

- 6 During the year of account, a total £3,126 was received for the sale of wrecks and salvage. There have been no claims against the fund during this period.
- 7 The fund is administered by the Department for Transport.

David Rowlands
Accounting Officer
Department for Transport

5 January 2005

Statement on Internal Control

- 1 This statement is given in respect of the Marine and Aviation Insurance (War Risks) Fund account and incorporates all the transactions pertinent to that account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility of signing this account.
- 2 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.
- 3 Officials regularly consult Ministers on risk. Submissions to Ministers incorporate assessments of key risks, whether to the operation of the transport system, including public perceptions, or to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.
- 4 The Department's Board includes one Agency Chief Executive. The membership of the Department's Audit Committee includes non-executive representatives of Agency Audit Committees.
- 5 Key internal control processes were established in the Department in the period between the creation of the Department in May 2002 and March 2003. This statement describes these and the further developments, particularly on risk management processes, which took place in the central Department in 2003-2004 to meet the standards set by HM Treasury.

The purpose of the system of internal control

- 6 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 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 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

- 7 The following structures have been put in place to lead risk management in the Department.

A Board, which sets the strategic direction of the Department and ensures delivery against its objectives. The Board identifies, monitors and manages high level corporate risks. It leads on strategy and delivery, in support of the policy objectives set by Ministers. It holds Group Directors and Agency Chief Executives accountable for performance against Public Service Agreements (PSAs) and other key targets, and for the proper use of resources in line with the Department's aims and objectives. The Board was supported in these functions for a limited period by a Performance, Delivery and Risk Committee; its responsibilities have now reverted to the Board.

An Executive Committee, which is responsible for the corporate management of the Department. The Committee seeks to ensure that the resources available to the Department are managed as effectively as possible to meet identified risks and corporate governance standards.

An Audit Committee, which met four times during the year to monitor and review the Department's processes for managing risk, control, governance and assurance, and once to review the Department's draft Resource Accounts. In line with best practice, the Committee is chaired by a non-executive member of the Board and includes the non-executive Chairs of the Highways Agency and the Driver, Vehicle and Operator Group Audit Committees.

- 8 The central Department has developed and improved its approach to risk identification, assessment and management. A working group, with membership comprising senior officials in key business areas, provided strategic direction to the risk strategy. A Risk Improvement Manager was appointed in March 2003 to oversee the embedding of risk management within the Department, and became responsible for the delivery of a number of work streams within the strategy. The Department also appointed external consultants with expertise in risk management to support the development of new systems and deliver a tailored programme of risk awareness training.
- 9 Good progress has been made in integrating risk management into the Department's business planning and performance reporting processes, which are the core management processes within the Department. The Department's 2003-2004 business plan identified critical milestones for delivery, along with the associated risks and the key performance indicators for each of the Department's priorities, which formed the basis for performance and risk reviews during the year. The Department's performance monitoring system was developed to enable the Board to track and manage progress against the risks to PSA targets and other priority objectives.
- 10 Guidance on managing risk was published on the Department's intranet in July 2003. The guidance provides practical advice to staff on identifying, assessing, addressing and monitoring risks, and contains risk register templates for recording and reporting risk. A programme of risk workshops has been run over the course of the year to take staff involved in the delivery of priority objectives through the stages of the risk management process and to help them to establish and use risk registers. The workshops are supported by a core presentation that outlines the benefits of risk management and explains the process for managing risk.

The risk and control framework

- 11 All staff are required to manage risks to the achievement of their objectives in a systematic and consistent way. The Department's risk management strategy, published in June 2003, sets out the process that staff are required to follow. Risk assessments were carried out by the Board and in all Directorates during the course of the 2003-2004 business planning round, and in many parts of the Department these have now been carried out down to Divisional and team level. Risk reviews are carried out as part of monthly performance reviews, and information is recorded in risk registers.
- 12 A Board level workshop in April 2003 identified seven categories of 'unacceptable outcome' that form the basis of the Department's risk appetite, and these categories have been developed into the matrix used to assess risks as part of the reporting template. Further work is planned during 2004 to refine the measures used and to improve consistency of risk assessments across the Department. A review of risks by the Performance, Delivery and Risk Committee in March 2004 identified the following risk priorities for the Department
 - inadequate financial resources;
 - escalating costs;
 - failure of delivery partners;
 - industrial action affecting transport services;
 - terrorism;
 - inadequate skills and capabilities; and
 - failure to secure the legislative programme.

- 13 Improvements have been made to both the risk management and business planning processes to identify the Department's main dependencies on delivery partners, including its agencies and sponsored bodies, and to highlight the need for the risks relating to these relationships to be actively assessed and addressed.
- 14 The business planning and performance reporting processes, which form the core of the Department's management processes, have been the main means for embedding risk management within the Department during 2003-2004. The Departmental business plan provided the basis for performance and risk reporting during 2003-2004 and risks identified during the year were used to refresh the Department's corporate risk register in March 2004. A monthly performance reporting process, including reports on risks to Departmental objectives, was established in summer 2003 under the Performance, Delivery and Risk Committee (see paragraph 7) and is now the subject of direct scrutiny by the Board. Directors are required to ensure that robust arrangements are in place for reviewing and reporting risks within their areas, as part of wider governance and reporting arrangements.
- 15 A centre of excellence for programme and project management (PPM) was established in May 2003, and this has provided the focus for embedding good practice, including risk management practice, at programme and project levels. In September 2003, responsibilities for embedding PPM, risk management and business planning were brought together into a single Division, and these are now managed as part of a single programme. A risk network, involving the Department and its executive agencies, has been in operation throughout 2003-2004 to share information and promote more consistent management of risks within the Department and its agencies.
- 16 At the beginning of the year, the Department implemented a comprehensive 'Stewardship Pack', which included the framework of accountabilities, the roles and responsibilities of Heads of Unit (Directors) and the end of year reporting arrangements. These set out Directors' responsibilities for risk management. This pack was supported by new delegation arrangements at Head of Unit level to improve accountability and the management of resources. Delegations from the Treasury to the Department were reviewed comprehensively towards the end of the year, and delegations from the Accounting Officer to Directors were reissued in the 2004-2005 Stewardship Pack.
- 17 The Department's risk management strategy, published in June 2003, outlined responsibilities at all levels of the Department for managing risk. Directors' and Divisional Managers' responsibilities for managing risks are set out in the Department's risk strategy and in stewardship packs. Since March 2003, Directors have been required to submit a signed declaration that they comply with the requirements set out in the stewardship pack.
- 18 The Department and its agencies have a number of well-established programmes for involving the public in managing the risks associated with transport.
- 19 The Department identified, in a letter of 24 June 2003 to the Treasury, the main elements of the programme of work proposed in the central Department for 2003-2004 to comply with Treasury guidance on the requirements for reporting on risk management in the statement on internal control. This programme has been completed, except for two items that were superseded by additional guidance from the Treasury. I am therefore satisfied that the procedures necessary to implement Treasury guidance on risk management were fully in place in the central Department by 31 March 2004.
- 20 Further work, to improve implementation and embedding of risk management skills and processes, is planned for the remainder of 2004-2005. This will be delivered through the development of a new risk management framework to support the Department's existing risk strategy; through improvements to the stewardship reporting process to clarify and increase accountabilities for risk management; and through the provision of a targeted programme of interventions (part of a wider programme of improvements to business management within the Department) to improve risk management practice and increase knowledge and skills across the Department.

Review of effectiveness

- 21 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.
- 22 Since April 2003, the Department's Risk Improvement Manager has carried out six-monthly assessments of progress towards implementing the risk improvement programme to inform the Department's contribution to the report to the Chief Secretary. Since October 2003, assessments have been based on the risk management framework developed by the Treasury in 2003. The results of these assessments have been used to inform priorities for the Department's risk improvement programme.
- 23 The Audit Committee receives summaries of Internal Audit reports and considers the Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports the Committee's views on the effectiveness of internal control to the Board regularly throughout the year.
- 24 The Department's Audit, Risk and Assurance Division (Internal Audit) operated to standards defined in the Government's Internal Audit Standard. It provided an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports were provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment was also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.
- 25 Directors produced end of year stewardship reports that confirmed they were substantially compliant with the Department's risk and resource management procedures, and explained any issues and problems arising. The Finance Director collated the results of these reports, together with his commentary, in a report on stewardship to the Accounting Officer.
- 26 A series of actions have been taken in the central Department to address the significant control problems identified in 2002-2003. A programme of work to improve financial management has been undertaken to address problems revealed in the production of the accounts for 2002-2003 and other control issues unresolved since the creation of the Department in the machinery of government changes in May 2002. Work on the 2003-2004 accounts has not revealed any significant problems. Actions to improve risk management, in line with wider government initiatives, are described in the preceding paragraphs.
- 27 The Group Head of Internal Audit has provided the following opinion for 2003-2004
 - the risk management processes in the Department were introduced in 2003 after the machinery of government changes. Whilst these processes are working well at some levels, it is recognised that more work is required to apply these processes consistently across all levels of management;
 - significant effort has been made to improve financial management and controls in the Department and management is working on a continuous programme to improve controls further; and
 - improvements have been made to the Governance process across the Department during the year and these arrangements are working reasonably well.

David Rowlands
Accounting Officer
Department for Transport

5 January 2005

Statement of Accounting Officers responsibilities

- 1 Under Section 4(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.
- 2 The Treasury has appointed David Rowlands as the Principal Accounting Officer for the Department for Transport (DfT) with the 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 the responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting' (TSO).
- 3 The Principal Accounting Officer confirms that all the proper accounting procedures were followed during the preparation of this annual account, in compliance with Treasury's requirements.

David Rowlands
Accounting Officer
Department for Transport

5 January 2005

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

I certify that I have audited the financial statements on page 10 under the Marine and Aviation Insurance (War Risks) Act 1952. These financial statements have been prepared in the form and on the basis determined by Treasury.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 7, the Accounting Officer is responsible for the preparation of 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. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments of the Fund and are properly prepared in accordance with the Marine and Aviation Insurance (War Risks) Act 1952 and Treasury directions made thereunder, and 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 Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 3 to 6 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Fund's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Accounting Officer in the preparation of the financial statements.

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 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 Secretary of State for Transport in respect of the Marine and Aviation Insurance (War Risks) Fund for the year ended 31 March 2004 and the balances held at that date and have been properly prepared in accordance with Section 5(4) of the Marine and Aviation Insurance (War Risks) 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 conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

18 February 2005

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Receipts and Payments Account for the year ended 31 March 2004

	2003-2004 £	2002-2003 £
Operating receipts		
Insurance premiums	0	0
Received from salvage contractor - Wrecks and Salvage	3,126	0
Operating payments		
Payments against approved claims	0	0
Surplus for the financial year	<u>3,126</u>	0
Surplus surrendered to the Consolidated Fund	<u>3,126</u>	0

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

5 January 2005

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