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OF RELIABILITY

ABRO

2007/08 | ANNUAL REPORT & ACCOUNTS

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# Army Base Repair Organisation (ABRO) Annual Report & Accounts 2007-08

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of the Government Resources  
and Accounts Act 2000

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Since my appointment as Chairman of ABRO in 2006, I have been immensely impressed by the energy and enthusiasm of all the employees across the various businesses. They consistently produce a level of service to their customers that justifies their reputation as best in their class. This is recognition that spans the globe and is not restricted to just the UK.

Acknowledgment by Ministers and officials within MOD that the skills base, equipment expertise and support capabilities that are inherent in the ABRO employees are critical to the delivery of the UK's Defence Industrial and Technology Strategies was the single most defining factor for the future of the business since ABRO's creation. The announcement of merger with the DARA Business Units to create the new Defence Support Group ("DSG") is one that will see both organisations united with a common vision and mission.

This trading period has been one of great challenges for individuals and for the business. The contributions from many of the ABRO senior team who have now moved on to pursue other opportunities and interests should not go unrecognised. The new team, under the leadership of Archie Hughes, is formidable and one that will need to take important decisions to ensure the future success of ABRO as part of the new DSG.

There have been many highlights during the year with ABRO continuing to promote its abilities to a wide and diverse audience within MOD and industry. With the focus now strategically sighted on defence the business must innovate and explore new business opportunities within the UK defence market. There are still significant prospects within this sector for ABRO by taking a more robust and positive line in opening up partnering arrangements with industry.

ABRO employees should take pride in what they achieved during the year and my fellow Trading Fund Board colleagues and I share this pride. Delivering an impressive output has, unfortunately, not been enough to secure a successful trading year. The high costs incurred in meeting the output meant the business missed one of its main performance targets, which subsequently delivered a loss for the business. I have every confidence that with effective and prudent management we shall not see this repeated in future years.

I shall continue to provide the support, guidance and counsel to the Trading Fund Board, which is expected of me since accepting the appointment of Chairman of DSG in July last year. I look forward to working with you all as, together, we move forward with the merger process and channel our energies and resources into making the new organisation the success it deserves to be.

A handwritten signature in black ink, appearing to read 'Jamie Pike'. The signature is fluid and cursive, written in a professional style.

**Jamie Pike**  
Chairman

8 July 2008

“This year has been one of major significance for the ABRO businesses and their employees.”

**Archie Hughes**  
Chief Executive



The reporting year started with the Defence Equipment and Support Minister, Lord Drayson, announcing his intention to merge ABRO with the retained DARA business units to create a single new Trading Fund. The new Defence Support Group (DSG) would combine the land and air capabilities of both organisations and focus exclusively on supporting the UK Armed Forces.

The clear direction placed by the Minister on ABRO to concentrate its activities on its MOD customer is unambiguous and sent out an unequivocal message that diverting our resources on non-defence related business was not part of our future remit. This shift in emphasis away from commercial ventures provides the business with the definitive strategic direction needed to help secure its future.

The pressures on employees to maintain increased levels of output whilst working with colleagues in DARA to achieve a successful merger within very tight timescales were immense and should not be underestimated. The ABRO employees rose to meet the challenge with a professionalism and positive mind-set that is the hallmark of their reputation within the defence industry. The merger announcement was welcomed by the various Trade Unions who saw this change of emphasis as a positive step towards helping secure ABRO's long-term future within MOD ownership.

There have been a number of notable ABRO achievements throughout the year that remain testament to the skills and commitment of our employees as they support their service colleagues on the Front Line. When offered the opportunity to deploy on operations in Afghanistan and Iraq, the number of ABRO employees wanting to be considered was remarkable. Over the period more than 30 employees have taken their chance to work in life threatening conditions to support the battle critical equipment of the men and women involved in combat operations. ABRO employees working in these types of circumstances are gaining recognition across our customer community and adding immense value to ABRO's hard won reputation. For too long we have underplayed the major role our employees have in operational environments when working under extreme pressure in totally alien conditions.

It is not only in the fields of combat that the ABRO employees are making their mark. The success of the Bulldog Mark 3 Upgrade programme speaks volumes for the ABRO teams that have delivered such noteworthy results. This achievement was one that caught the attention of Lord Drayson who travelled to Bovington and helped celebrate delivery of the 250th vehicle by receiving the vehicle documentation on behalf of the customer.

Testament to the value our Armed Forces place on the operationally critical support our teams in ABRO provide are the words of praise that come from all quarters within the UK military and industry.

“There are numerous examples I could quote of the superb support that ABRO has provided over the past year. I am conscious none of this could have happened without the dedication of the ABRO workforce.”

**General Sir Redmond Watt** KCVO CBE ADC Gen

Two important developments emerged during the reporting period. The first saw the transfer into ABRO of staff involved in the engineering activities of the Defence Storage and Distribution Agency (DSDA) at Stafford. These activities are now part of a wider review of key activities at ABRO's Donnington site and DARA's Sealand site, which will eventually help define the future shape and size of DSG.

The second involves the transfer of Defence Equipment and Support (DE&S) staff in Sapphire House at Telford currently employed in procurement activities. They will, starting in 2008/09, form part of DSG's enhanced procurement group aimed at delivering cost benefits to the customer and increasing the business portfolio of DSG.

Whilst the sterling performance put in by ABRO's employees in meeting customers requirements should quite rightly be commended, a major disappointment from a business perspective was the fact that the costs incurred in delivering this output were so great that ABRO posted an operating loss during the financial year.

This poor result has adversely affected the Return on Capital Employed Key Target set by our Owner which is one measure against which ABRO's success is calculated at the end of each financial year. Subsequent investigations have revealed a significant control weakness in the business reporting and management information systems, which did not provide adequate warning that the risk of cost overruns was becoming more likely. Plans are already in place and action is underway to strengthen business and risk reporting systems and to ensure this failure to achieve our business goals is not repeated in the future.

Accountability and transparency of costs are critical to the future of the ABRO businesses and work is now underway to shape them to best deliver the benefits and synergies of merger with the creation of DSG. This will involve a major transformation and change programme, which will equip and empower the employees to take the business decisions necessary to deliver their planned performances.

I have every confidence that the teams will rise to the many challenges that lie ahead and embrace change with the same positive attitude and outlook that reflects the high standard of service they provide to their customers.



**Archie Hughes**  
Chief Executive

8 July 2008

ABRO is a defence engineering business providing its customers with a range of high quality support services across a broad spectrum of vehicles and equipment types. It has been operating as a Trading Fund of the Ministry of Defence since 2002.

**ITS RANGE OF SERVICES INCLUDE:**

- Maintenance, Repair and Overhaul
- Complex Service and Repair
- Assembly, Integration and Test
- Calibration
- Diagnostics
- Fleet Management
- Mobile Support Teams
- Obsolescence Management
- Re-manufacture
- Workshop Management

ABRO has provided an unrivalled repair, maintenance and re-manufacture service to its military customer since the early 20th century.

Its prime role is to support the British Armed Forces.

At the heart of the business is an experienced and flexible workforce of 2,500 people with a diverse skill base. Operating from a network of strategically located sites throughout the UK, ABRO provides comprehensive support to its customer base.

Turnover is in excess of £147 million and during the course of a typical year work is carried out on over 1,000 product lines of military and commercial vehicles and equipments as well as completing in excess of 55,000 ad hoc repair tasks.

ABRO's aim is to continue to offer high quality flexible and responsive engineering services to all its customers and partners, effectively and efficiently at the best possible value for money.

On 22 May 2007 it was announced in both Houses by MOD Ministers that ABRO would merge with the retained DARA business units to create a new single defence support group with the primary objective of supporting MOD and the Armed Forces. Ministers expected the new Trading Fund to be fully operational by 1 April 2008.

The new Trading Fund has been established and is called "The Defence Support Group".

**BUSINESS ACTIVITY**

ABRO continued to provide support to British Armed Forces, carrying out a heavy workload of both base overhaul programmes and support to military operations.

During the year the Stafford Engineering Wing workshop was absorbed into ABRO and an engineering support team provided to the British Army training facility in Canada.



## ABRO | FINANCIAL PERFORMANCE

### OVERVIEW

ABRO completed its 6th year of business as a Trading Fund within the UK MOD. The 2007/08 year proved extremely challenging and ended with an Operating Loss as the costs incurred in delivering the increased output grew at a faster rate than the growth in sales.

### OPERATING RESULTS

Sales, excluding notional income in respect of pre-Merger trading by Engineering Wing Stafford, were £144.2M (2007 - £137.2M) an increase of 5.1%

The principal customer remains the MOD, who took £127M (88%) of sales.

Sales to the MOD grew by 7.5% during the year whilst sales to third party customers declined by 9.9%.

Loss before interest was £2.3M (2007 Profit £4.9M). This loss generated a negative Return on Capital resulting in a failure to achieve this Key Target.

Loss after interest was £3.1M (2007 Profit £4.3M) and a dividend of £4.5M (2006/07 £3.9M) was paid to the MOD out of retained earnings from previous years.

The Balance Sheet underwent significant change at the year end. In accordance with Treasury requirements the long term loan and Public Dividend Capital became immediately repayable at the year end resulting in these balances being reclassified as short term creditors (effect on year end Creditors £36.6M).

Cash balances deteriorated during the year with the operating cash inflow of £0.6M (2007 £7.8M) being consumed by the dividend (£4.5M), interest (£0.8M), routine Loan Repayment (£2.1M) and capital expenditure (£1.2M) giving a net cash outflow of £8.0M (2007 £68K inflow).

Stock increased by £3.8M and year end work in progress by £1.2M, of the increase in stock, £2.7M is attributable to a revaluation of stocks at the end of the year, the revaluation surplus being credited to revaluation reserve. This revaluation of stocks of spares will lead to a more accurate material cost base for 2008/09. Debtors at the year increased by £ 2.4M due mainly to a large sales volume in the last month of the year, debtor days reduced to 39 (2007 49).

### CAPITAL INVESTMENT

Expenditure on capital projects amounted to £1.2M during the year (2007 £1.0M). This expenditure was incurred mainly in projects aimed at improving the manufacturing infrastructure which should safeguard and extend capacity.

### DIVIDEND

ABRO paid a dividend of £4.5M to the MOD during the year, bringing the total of dividends paid since the start of the Trading Fund to £20.4M.

### PERFORMANCE AGAINST KEY TARGETS 2006/07

The following five key targets were agreed with the Minister of State for the Armed Forces. Performance against each target has been subject to inspection by the National Audit Office.

TITLE	TARGET	OUTTURN
Key Target 1: Financial Performance	Achieve at least a 3.5% Return On Capital Employed (ROCE)	Not Achieved
Key Target 2: Environment	To meet agreed programme for achieving ISO 14001:2004 certification at main ABRO sites	Achieved
Key Target 3: Schedule Adherence	To meet Customer agreed targets for delivery schedules on Critical Programme lines and LAND load tasks	Achieved
Key Target 4: Efficiency	To improve real turnover per indirect employee by 3% against 2006/07	Achieved
Key Target 5: Creation of New Organisation	Carry out the actions necessary to support the merger of ABRO, retained DARA Business Units and approved DSDA engineering activities such that a new combined trading fund is fully operational by April 2008	Achieved

**KEY TARGETS 2008/09**

From 1 April 2008 ABRO's assets, liabilities and trading activities transferred to the newly formed Defence Support Group. Key targets for this new Trading Fund have been agreed and are noted below:

**DEFENCE SUPPORT GROUP KEY TARGETS FY 2008/09**

**BACKGROUND**

The Defence Support Group (DSG) is a new Trading Fund formed through the merger of ABRO, DARA's Electronics and Large Aircraft business units, and certain other defence support facilities. DSG has been retained in MOD ownership to support delivery of the Defence Industrial Strategy by securing access to in-house capacity and capability for the maintenance, repair, overhaul and upgrade of strategically important Land and Air in-service equipment (deploying personnel to operational theatres if required), and to build a similar capability to support future MOD equipment acquisition and support strategies.

As a newly vested Trading Fund, DSG has adopted Key Targets for its first year of trading that will drive achievement against its Top Level objectives and ensure that the benefits of merger are realised.

TITLE	TARGET
Key Target 1: Quality	To deliver an improved quality performance by achieving fewer than 4 attributable major customer concerns within DSG's Air Business and reducing upheld customer complaints within the Land Business by 5% against the 2007/08 outturn
Key Target 2: Financial Performance	To achieve at least a 3.5% Return on Capital Employed
Key Target 3: Business Transformation	To establish a transformation plan, approved by the DSG Trading Fund Board, by December 2008 that fully exploits the synergies and benefits of merger, including numerical targets for improvements in cost and performance for subsequent years
Key Target 4: Efficiency	To improve overall efficiency by at least 4% against 2007/08 outturn
Key Target 5: Delivery	To meet delivery targets as agreed with the Customer as follows: <ul style="list-style-type: none"> <li>• Air Business – To achieve 95% of Customer Programmes; and</li> <li>• Land Business – To meet Customer agreed targets for delivery schedules on Critical Programme lines (94% Sep 08, 94% Dec 08 and 97% Mar 09) and LAND Load tasks (92% Jun 08, 92% Sep 08, 92% Dec 08, and 92% Mar 09)</li> </ul>

**MERGER WITH ENGINEERING WING STAFFORD OF THE DEFENCE STORAGE AND DISTRIBUTION AGENCY**

On 1 December 2007 ABRO took over responsibility for the activities of the Engineering Wing Stafford of the Defence Storage and Distribution Agency (DSDA).

This resulted in 126 employees transferring from DSDA to ABRO.

The Stafford Engineering Wing ("Stafford") is engaged primarily in providing a repair, maintenance and construction service for a variety of equipment for Integrated Project Teams supporting the Royal Air Force.

In the year ABRO achieved sales turnover of £1.8M through Stafford and post merger Stafford generated an operating profit of £89K. However, accounting for this transaction under merger accounting in accordance with Treasury Policy led to an additional £2.8M of costs being reported in respect of Stafford, together with associated revenue of the same figure. These additional costs and revenues arose prior to the transfer of responsibility to ABRO and had no effect on the reported loss, the 2007 figures were re-stated on the same basis (cost and revenue adjustment £5.0M).

## PEOPLE

### EMPLOYMENT POLICIES

ABRO continues to maintain the strong conviction that in order to remain competitive, the workforce must mirror the diversity of the communities within which it operates. It continues to pursue talented employees, without regard to ethnic background, religion, age, disability or gender, who will provide the expertise, passion, pace and imagination to drive the business forward to a prosperous future. It is ABRO's policy to provide equal employment opportunities and appropriate training and career development for any employees who are or have become disabled.

ABRO achieved Investors in People in 1999 and continues to maintain accreditation.

### EMPLOYEE INVOLVEMENT

ABRO is committed to excellent working relations with the Trade Unions, through both formal consultation and the more informal day to day contact at local and national levels. ABRO continues to seek to maximise communications at all levels in order to involve employees in the decision-making process of the business.

## OCCUPATIONAL RISK & THE ENVIRONMENT

ABRO is committed to meeting its obligations, responsibilities and adhering to all existing legislation on health, safety and environment requirements.

Statistics show that positive action in encouraging all staff to take appropriate steps to reduce accidents has resulted in a decrease in the total number of incidents across the sites and these remain well below the HSE's national incidence rates.

ABRO is committed to compliance with the Environmental Protection Act and the Environment Act and with all other existing environmental legislation. It is in the process of having all main sites certified to BS EN ISO 14001 (Environment) OHSAS 180001 (Health and Safety) and PAS 99 (Integrated Management Systems).

At present the Bovington and Catterick sites have all three certificates, Donnington, Colchester, Stirling and Warminster are in the process of attaining them.

ABRO has maintained BS EN ISO 9001:2000 certification.

## STRATEGY

From the 1 April 2008 the operating activities of ABRO formed part of the new Defence Support Group. The new Trading Fund will concentrate exclusively on supporting the UK Armed Forces and no resources will be diverted on to non-defence related business.

**RISKS AND UNCERTAINTIES**

The business activities of ABRO transferred to the newly created DSG from 1 April 2008. The MOD is carrying out process change in the ways in which it procures and supports several equipment lines, within DSG the former ABRO businesses will need to ensure that they are fully aligned with changing MOD processes in order to ensure full utilisation of production capacity.

ABRO has demonstrated flexibility of approach in the past and it is expected that this will continue so as to enable future changes in customer requirements to be successfully dealt with.

**INFORMATION RISK MANAGEMENT**

Summary of Protected Personal Data Related Incidents Formally Reported to the Information Commissioner’s Office in 2007 - 08.

DATE OF INCIDENT	NATURE OF INCIDENT	NATURE OF DATA INVOLVED	NUMBER OF PEOPLE POTENTIALLY AFFECTED	NOTIFICATION STEPS
None	None	None	None	None

**SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2007 - 08**

Incidents deemed by the Data Controller not to fall within the criteria for report to the information Commissioner’s Office but recorded centrally within ABRO are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

CATEGORY	NATURE OF INCIDENT	TOTAL
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	None
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	None
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	None
IV	Unauthorised disclosure	None
V	Other	None

**YEAR - ON YEAR TOTAL NUMBERS OF PROTECTED PERSONAL DATA RELATED INCIDENTS PRIOR TO 2007 - 08**

Total number of protected personal data related incidents formally reported to the Information Commissioner's Office, by category number.

	I	II	III	IV	V	TOTAL
2006 - 07	None	None	None	None	None	None
2005 - 06	None	None	None	None	None	None
2004 - 05	None	None	None	None	None	None

**TOTAL NUMBER OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS, BY CATEGORY NUMBER**

	I	II	III	IV	V	TOTAL
2006 - 07	None	None	None	None	None	None
2005 - 06	None	None	None	None	None	None
2004 - 05	None	None	None	None	None	None

ABRO's activities passed to the new Trading Fund, DSG on 1 April 2008. DSG will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvements of its systems.

## **ABRO | REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ON ABRO'S STATEMENT OF PERFORMANCE AGAINST 2007 - 2008 KEY PERFORMANCE TARGETS**

The Chief Executive of ABRO has asked me to validate performance against the 2007 - 2008 Key Targets.

### **RESPECTIVE RESPONSIBILITIES OF ABRO, THE CHIEF EXECUTIVE AND THE AUDITOR**

ABRO and the Chief Executive are responsible for the measurement and reporting of the Trading Fund's performance against the Key Targets.

I examine and conclude on whether the Trading Fund has:

- Provided full details of performance against all ABRO's Key Targets;
- Ensured that all performance information is reliable and fairly presented.

### **BASIS OF CONCLUSION**

The validation includes an examination, on a test basis, of evidence relevant to the amounts and disclosures of the outturns and achievements included within the Statement. It also includes an assessment of the significant judgements and methodologies made by ABRO and the Chief Executive in the Statement's preparation.

### **CONCLUSION**

The Statement of Performance above includes all ABRO's 2007 - 08 Key Targets and it reliably and fairly presents the Agency's performance against the Key Targets. I have no observations to make on this Statement.

**TJ Burr**  
Comptroller and Auditor General

National Audit Office  
151 Buckingham Palace Road  
London  
SW1W 9SS

11 July 2008

## ABRO | REMUNERATION REPORT

*(Information not subject to audit)*

### REMUNERATION COMMITTEE

The Remuneration Committee is a sub committee of the ABRO Board. The Committee determines and agrees (where the trading fund has authority to do so) or advises (where the MOD has the authority to do so) the framework and broad policy for the remuneration of executive directors. Committee members are all independent Non-Executives of ABRO's Board, with one Non-Executive appointed to act as Chairman. The Chief Executive and Board Chairman are invited to attend meetings to assist the Committee in their deliberations as appropriate. No director is involved in the determination of his/her own remuneration package. Although Executive Directors who are members of the Senior Civil Service (SCS) are governed by the wider MOD SCS scheme, the Committee may review their targets and performance and make recommendations to the Chief Executive to provide consistency with the basis of awards for the Executive Directors on fixed term appointments.

### REMUNERATION POLICY

The Review Body on Senior Salaries provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration of senior civil servants taking account of evidence it receives about wider economic considerations and the affordability of its recommendations. Further work about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

Executive Directors in ABRO either are members of the MOD or are recruited from industry as Fixed Term Appointments (FTAs). For those directors who are part of the SCS, basic salary and annual increases, which could include a bonus payment, are performance related and set by the MOD's Main Pay Committee. The basic salaries for directors on FTAs are reviewed annually in line with Cabinet Office provisions applying to senior appointments and are not on standard performance related terms.

The annual increase is generally close to the indicators for inflation and was applied at 2.6% in 2007/08. Directors on FTAs are eligible to a non-consolidated performance related bonus payment based on recommendations made to the Remuneration Committee by their Reporting Officer on achievement against objectives. Bonus payments are calculated as a percentage of basic salary and contractually agreed.

Remuneration for ABRO's Non Executive Directors is set at a fixed annual rate determined by the Department's Permanent Under Secretary and paid monthly in arrears. Fees are set on the basis that the role should require around 40 days work per year. This excludes the Non-Executive director representing the interests of the MOD's Finance Director whose services are not charged to ABRO. Non-Executive Directors are not involved in any discussion about their own remuneration and all payments made are non-pensionable.

Pension benefits for ABRO's executive directors are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under the three schemes are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement). Further details about the CSP arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)



**MANAGEMENT**

The Minister of State for Defence Equipment and Support announced the creation of a new Trading Fund with effect 1 April 2008 through the merger of ABRO with the retained business units from its sister Trading Fund DARA. During the financial year, there were a number of changes to the ABRO Board with some Executive Directors appointed to both ABRO and DARA Trading Fund Boards. The remuneration of directors holding appointments to both Boards was paid by DARA and details have been disclosed within the DARA 2007/08 Report and Accounts.

Executive Directors serving on the ABRO Board during 2007/08 were:

APPOINTMENT	NAME	SCS/FTA	DATE OF APPOINTMENT	UNEXPIRED TERM (FTA)
Chief Executive	Peter Moore	FTA	August 2005 to July 2007	N/A
Finance Director	Stuart Ash	FTA	October 2001 to September 2007	N/A
Operations Director	David Mather	FTA	September 2002	6 months
Sales & Marketing Director	Ian Metcalf	FTA	January 2006 to March 2008	N/A
Deputy Chief Executive	Malcolm Westgate	SCS	April 2002 to January 2008	N/A
Chief Executive	Archie Hughes <sup>1</sup>	FTA	July 2007	30 months
Finance Director	Steve Hall <sup>1</sup>	SCS	October 2007	N/A
Commercial Director	Alan Lewis <sup>1</sup>	SCS	October 2007	N/A
Human Resources Director	Derek Owen <sup>1</sup>	SCS	October 2007	N/A
Director Support Services	John Reilly <sup>1</sup>	SCS	October 2007	N/A

<sup>1</sup> Dual appointment, remuneration disclosed within DARA 2007/08 Report and Accounts.

Non Executive Directors serving on the ABRO Board during 2007/08 were:

APPOINTMENT	NAME	DATE OF APPOINTMENT	UNEXPIRED TERM
Non Executive Chairman	Jamie Pike	September 2006	18 months
Non Executive Director Audit Committee Chairman	Michael Jones	January 2003	21 months
Non Executive Director, Remuneration Committee Chairman	Richard Holroyd	January 2003	9 months
Non Executive Director	David Barrass	May 2007	25 months
Non Executive Director (MOD)	Tim Johnson <sup>1</sup>	May 2005 to July 2007	N/A
Non Executive Director (MOD)	Keith Norris <sup>1</sup>	July 2007 to December 2007	N/A
Non Executive Director (MOD)	Terence Jagger <sup>1</sup>	January 2008	N/A

<sup>1</sup> This position is resourced and remunerated by the Ministry of Defence.



## SERVICE CONTRACTS

The Ministry of Defence holds the contracts for all ABRO executive directors. Directors who are members of the SCS hold appointments that are open - ended and made in accordance with the Civil Service Commissioner's Recruitment Code. This requires appointment to be on merit and based on fair and open competition, but also includes the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk). Members of the SCS recruited or promoted to the grade before 2 April 1990 have a 3 month notice period, members recruited or promoted to the grade before this time have a 1 month notice period.

When recruiting a director on a Fixed Term Appointment, the Ministry of Defence employs recruitment consultants to search for suitable candidates based upon a specification drawn up by senior officials. Short listed candidates are then interviewed by a selection panel, usually comprising the Chief Executive and/or Chairman and a representative from the Shareholder Executive. The successful candidate will be chosen on merit and appointed to the Board for a period of three years. A 6-month notice period is required from all ABRO FTAs.

Early termination of an executive director's appointment, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme whether the director was a member of the SCS or on a FTA. Details of the Civil Service Compensation Scheme can be found at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

Remuneration, reward, and pension details for directors serving on the ABRO Board during 2007/08 who were resourced by ABRO are provided below. Details for directors serving on the ABRO Board whose remuneration remained the responsibility of DARA have been disclosed within the DARA 2007/08 Report and Accounts.

## INFORMATION SUBJECT TO AUDIT

### REMUNERATION

EXECUTIVE DIRECTORS	REMUNERATION <sup>1</sup> 2007/08 £K	COMPENSATION FOR LOSS OF OFFICE <sup>2</sup> £K	TOTAL REMUNERATION 2007/08 £K	TOTAL REMUNERATION <sup>3</sup> 2006/07 £K
Peter Moore (to Sep 07)	80 - 85	140 - 145	225 - 230	130 - 135
Stuart Ash (to Sep 07)	50 - 55		50 - 55	95 - 100
David Mather	110 - 115		110 - 115	110 - 115
Ian Metcalf (to Mar 08)	135 - 140	35 - 40	170 - 175	105 - 110
Malcolm Westgate (to Jan 08)	70 - 75		70 - 75	85 - 90

<sup>1</sup> Remuneration includes: gross salary; performance pay or bonuses; overtime; reserved rights to London Weighting or London allowances; recruitments and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. No non-cash benefits were made to any directors in 2007/08.

<sup>2</sup> Payments funded centrally by the Ministry of Defence and reflect the offer of compensation made under the Civil Service Compensation Scheme as a result of early termination of a Fixed Term Appointment.

<sup>3</sup> Remuneration as per note 1. No compensation payments or non-cash benefits were made in 2006/07.

**ABRO | REMUNERATION REPORT (Continued)**

NON - EXECUTIVE DIRECTORS	FEES 2007/08 £K	FEES 2006/07 £K
Jamie Pike (from Sep 06)	40 - 45	20 - 25
Michael Jones (from Jan 03)	20 - 25	5 - 10
Richard Holroyd (from Jan 06)	20 - 25	10 - 15
David Barrass (from May 07)	15 - 20	-
Tim Johnson <sup>1</sup>	N/A	N/A
Keith Norris <sup>1</sup>	N/A	N/A
Terence Jagger <sup>1</sup>	N/A	N/A

<sup>1</sup> This position is resourced and remunerated by the Ministry of Defence.

**PERFORMANCE AND REWARD**

EXECUTIVE DIRECTORS	BONUS PAYMENTS FOR 2006/07 PAID IN YEAR 2007/08 £K	BONUS PAYMENTS FOR 2007/08 PAID IN YEAR 2007/08 £K	BASIS OF BONUS	2007/08 BONUS AS % OF 2007/08 SALARY	2006/07 BONUS AS % OF 2006/07 SALARY
Peter Moore (to Sep 07)	10 - 15	5 - 10	Assessment of achievement against objectives as % of salary	9	9
Stuart Ash (to Sep 07)	5 - 10	0 - 5	Assessment of achievement against objectives as % of salary	8	9
David Mather	5 - 10	Not yet known	Assessment of achievement against objectives as % of salary	Not yet known	9
Ian Metcalf (to Mar 08)	15 - 20	10 - 15	Assessment of achievement against objectives as % of salary	13	17
Malcolm Westgate (to Jan 08)	5 - 10	Not yet known	Governed by wider MOD SCS scheme	Not yet known	10

## PENSION BENEFITS

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service as an ABRO Director to which the disclosure applies.

The CETV and other pension details include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the CSP arrangements and for which a transfer payment commensurate to the additional pension liabilities being assumed has been received. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The reported real increase in CETV reflects the increase in effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

The accrued pension and lump sum quoted is the pension and lump sum the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

EXECUTIVE DIRECTORS	PETER MOORE	STUART ASH	DAVID MATHER	IAN METCALF	MALCOLM WESTGATE
Real increase / (decrease) in pension £K	(0 - 2.5)	0 - 2.5	0 - 2.5	0 - 2.5	(0 - 2.5)
Real increase / (decrease) in pension £K	0 - 2.5	0 - 2.5	0 - 2.5	0 - 2.5	(2.5 - 5.0)
Accrued pension £K	0 - 5	5 - 10	5 - 10	0 - 5	35 - 40
Accrued lump sum £K	0	15 - 20	0 - 5	0 - 5	115 - 120
CETV at 01/04/2007 £K	50	144	118	23	944
CETV at 31/3/2008 £K	68	161	164	47	1,013
Real increase in CETV as funded by employer (nearest £K)	16	12	25	17	(30)

Due to certain factors being incorrect in last years' CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

## NON - EXECUTIVE DIRECTORS

Non Executive Directors (NEDs) are not employees and all payments are non-pensionable.

## APPROVAL

The Directors' Remuneration Report has been approved by the ABRO Chief Executive



**Archie Hughes**  
Chief Executive

8 July 2008

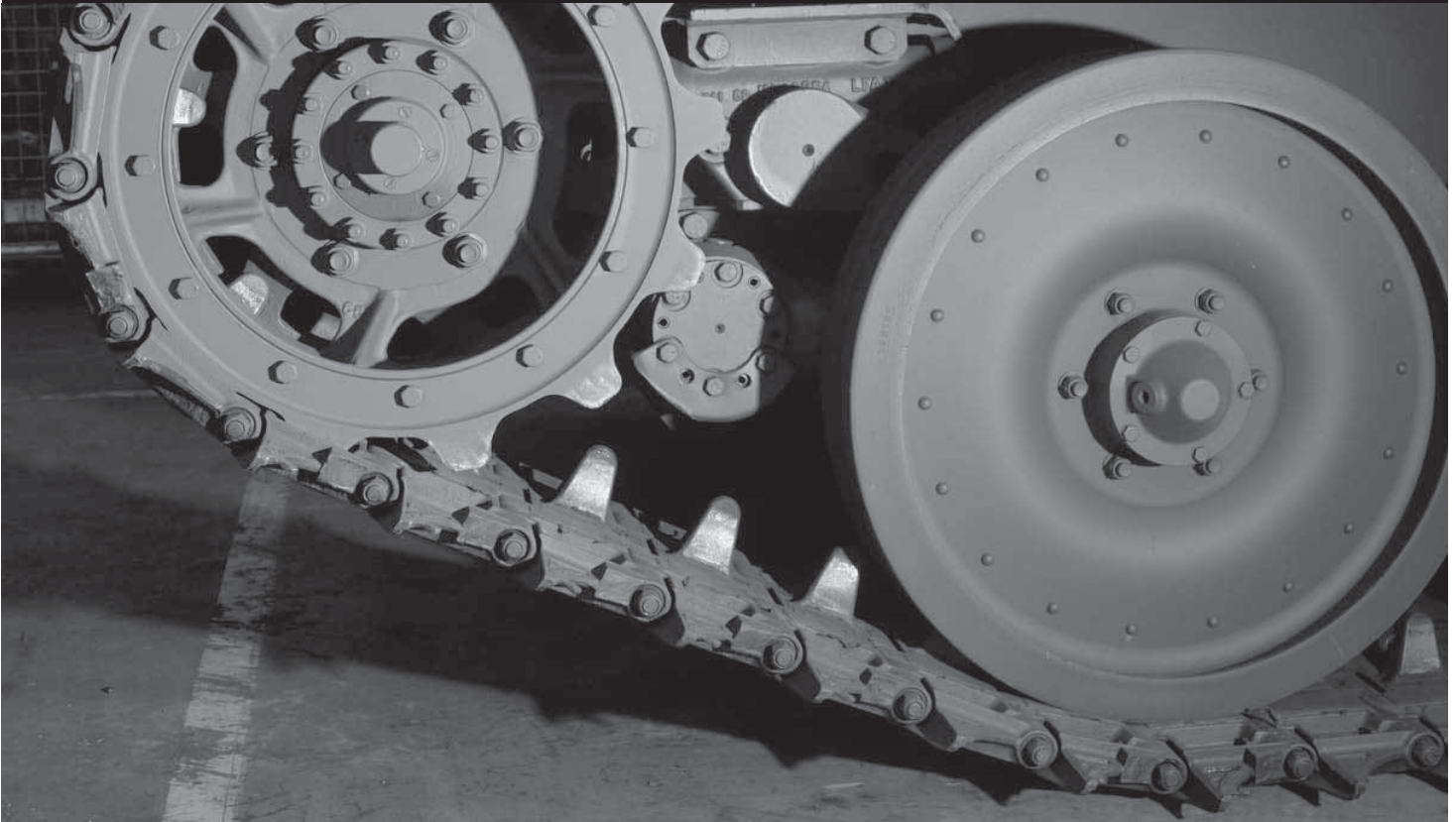
## ABRO | STATEMENT OF ABRO'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds act 1973 the Treasury has directed ABRO to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of ABRO at the year end and of its profit and loss, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the Treasury, including 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 Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that ABRO will continue in operation.

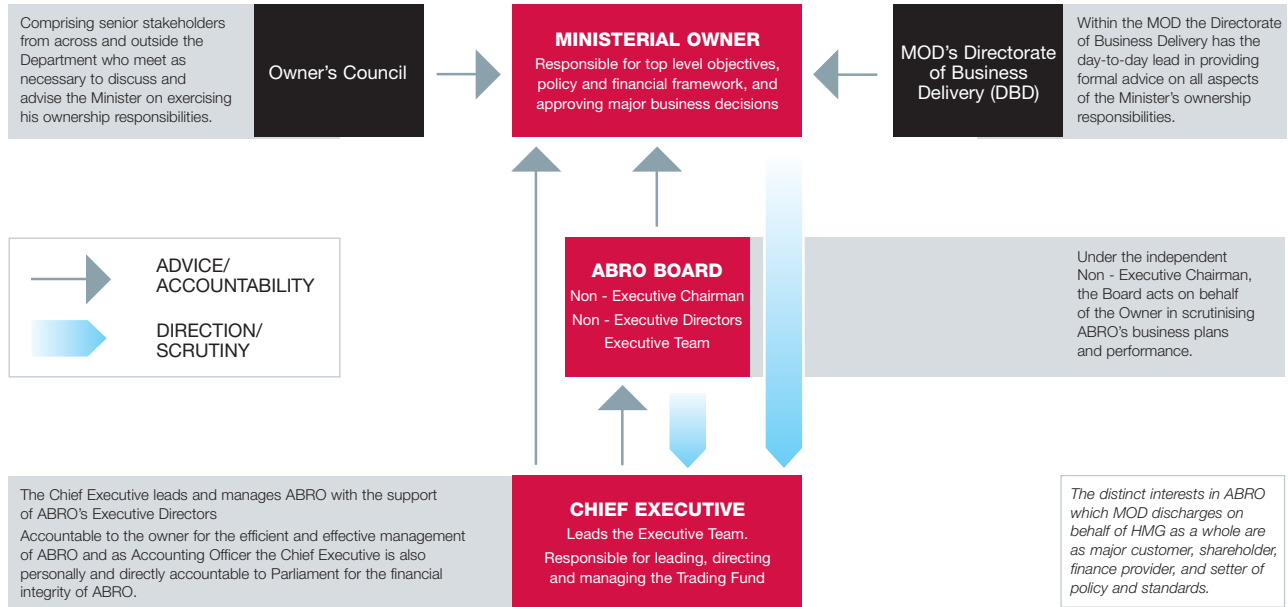
The Treasury has appointed the Chief Executive of ABRO, as the Accounting Officer for ABRO. His relevant responsibilities in this role, including his responsibility for propriety and regularity of the public finances for which he is answerable and for keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Managing Public Money".



**1. SCOPE OF RESPONSIBILITY**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of ABRO'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.

ABRO's governance arrangements draw upon best practice in both the public and private sectors. The central features of the current governance arrangements are illustrated below with full details published within our Framework Document<sup>1</sup>:



**GOVERNANCE OF ABRO**

<sup>1</sup> Available from Libraries of the Houses of Parliament

**2. 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 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 ABRO 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. The system of internal control has been in place in ABRO for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

**3. CAPACITY TO HANDLE RISK**

The ABRO Business Risk Management Strategy sets out roles and responsibilities at all levels for the risk management process and is published, along with a detailed business process on ABRO's Lean Integrated Management System. The ABRO Board remains committed to ensuring that risk is assessed and addressed across the business.

Whilst risks are managed within ABRO at the lowest level at which they are controllable, a corporate risk register is maintained and has been reviewed regularly by the Executive Management Team and the ABRO Trading Fund Board. Each corporate level risk is "owned" by an individual Executive Director who is responsible for managing the risk and ensuring that associated mitigating factors are implemented. In preparation for the creation of the Defence Support Group through the merger of ABRO with DARA's retained business units on 1 April 2008, and my intention that the merged Trading Fund represent good practice from within both ABRO and DARA, ABRO's corporate risk register was converted in January to DARA's Active Risk Management system.

#### 4. THE RISK AND CONTROL FRAMEWORK

In addition to the corporate level risk register, ABRO operates a comprehensive risk register within operations with individual risk registers for each Business Stream aligned to Key Targets and corporate objectives. The risk strategy and supporting standard operating procedure, available on ABRO's business management system, provides details on how to identify, record, assess, mitigate and report risks to the business. It includes roles and responsibilities for risk management, a sample risk register, and assessment definitions.

Other systems in place to support the identification and management of risk are:

- Business Continuity Planning has remained a key element of ABRO's risk management strategy in 2007/08 with desk top exercises undertaken at all sites to test the robustness of plans and share lessons learnt.
- The creation and maintenance of project risk registers forms part of ABRO's bid management process.

- Appropriate insurance arrangements are in place.
- ABRO's anti fraud and theft strategy continues to be promoted with no new instances of fraud reported. Four petty thefts were reported during the year, whilst no culprits have yet been identified, following each incident, internal controls were reviewed and strengthened as necessary.
- ABRO has in place systems to protect personal data and to investigate and report any incidents relating to personal protected data. A summary of any incidents relating to protected personal data is shown in the Management Commentary. DSG as part of the merger process is consolidating its information management systems, including the protection of data through IT systems. Policies and procedures controlling the storage of information and access to the IT system are being revised to accommodate the DSG policies and uploaded into the new DSG Business System, where all policies and procedures are held.

#### 5. 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 ABRO 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 result of my review of the effectiveness of the system of internal control by the Trading Fund and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The key elements of the mechanisms in place to maintain and review the effectiveness of ABRO's system of internal control are:

##### THE ABRO TRADING FUND BOARD

Comprised of an independent Non-Executive Chairman, three Non-Executive Directors and the full Executive Team, of 6 Directors and myself. The Trading Fund Board met 6 times during the financial year to support and constructively challenge myself and my Executive Team in both the development of business strategies and in assessing ABRO's performance. In addition, I hold monthly meetings with my Executive Team to review and assess performance against business objectives, and actions underway to address issues or manage risks.

##### AUDIT COMMITTEE

The Audit Committee meets at least quarterly and consists of ABRO's Non-Executive Directors, one of which is appointed as Chairman. The meetings are attended by representatives from the National Audit Office (NAO) and Mazars, who work in partnership with the NAO as ABRO's external auditors; Defence Internal Audit; ABRO's Head of Internal Audit, and relevant personnel from within the business as guided by the agenda. The Audit Committee supports the Trading Fund Board in discharging their responsibilities for issues of risk, control and governance by reviewing the comprehensiveness of the assurances in meeting the needs of both the Board and the Accounting Officer, and reviewing the reliability and integrity of these assurances.

##### REMUNERATION COMMITTEE

ABRO's Remuneration Committee meets at least twice a year to advise the Trading Fund Board on matters relating to remuneration. Membership consists of ABRO's Non-Executive Directors, one of which is appointed as Chairman with certain meetings attended by the Chief Executive and Chairman if required by the agenda. However, no Director is involved in the determination of his/her own remuneration package.

##### INTERNAL AUDIT

The internal audit service reviews the effectiveness of ABRO's internal control environment and is provided by an in-house team supplemented by the MOD's Defence Internal Audit (DIA). The annual audit programme is developed on a risk basis and agreed by the Audit Committee. Assignments are carried out in accordance with Government Internal Audit Standards and findings and reports are presented to the Audit Committee as well as the sponsoring Director.

##### OTHER ASSURANCE PROVIDERS

Through the Audit Committee, the Board receives reports by other internal assurance providers on quality, health and safety, environmental protection, security, business continuity, and anti-fraud/theft. In addition, ABRO is subject to review by other independent bodies including BSI, Environment Agency, Defence Fraud and Analysis Unit (DFAU) and the Defence Security Standards Organisation (DSSO) which examines ABRO's approach to both security and business continuity.



## 6. SIGNIFICANT CONTROL WEAKNESSES

### UPDATE ON CONTROL WEAKNESSES IDENTIFIED IN 06/07 REPORT & ACCOUNTS

This year has seen further improvements to the ABRO Material Management System enabling Operations to better guarantee component availability for repair and overhaul of the vehicles, however work still needs to be done in linking the Material Management System and the Finance System to ensure that they mutually support one another in accurately projecting provisions, particularly for slow moving and obsolete stock reserves. During the year, the continued improvements in the materials management system justified an increase of £1.3M to the stock provision. However, as a result of weaknesses in the linkage between the materials and financial reporting systems, management were not provided with adequate warning of this requirement and therefore were unable to take any action to mitigate the impact the provision would have on the end of year outturn. This weakness will be addressed as part of the wider failings within the business/risk reporting systems noted below.

### SIGNIFICANT CONTROL WEAKNESSES IDENTIFIED IN 2007/08

Despite delivering sales of £7.7M above plan and achieving its schedule adherence targets ABRO's last year of trading ended in a loss before interest of £2.3M. Analysis has confirmed increases in stock provision, purchase price variance & material costs, and an over optimistic view of Direct Labour Utilisation as the main causes. Although these areas were reflected in both corporate and operational risk registers the business reporting and management information systems did not provide adequate warning that the mitigation actions were failing to reduce the inherent risk exposure as planned. Whilst these risks may have been unavoidable, the failure of business/risk reporting systems and supporting management information to provide adequate early warning of their increasing probability is seen as a significant control weakness. Action is underway to strengthen business/risk reporting systems, and improve the credibility, usefulness, and reliability of the underlying management information.

**Archie Hughes**  
Chief Executive

8 July 2008

**STATUTORY BACKGROUND**

These accounts have been prepared in accordance with a direction given by HM Treasury in line with section 4(6) of the Government Trading Funds Act 1973 and in accordance with the Government Financial Reporting Manual (FRoM).

**PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES DURING THE YEAR**

The principal activities were the repair, remanufacture and engineering support of a wide range of land based weapon systems, support equipment and ancillaries for the United Kingdom Armed Forces.

The principal activities are described in more detail in the Management Commentary on pages 8 - 13.

ABRO became a Trading Fund on 1 April 2002, having previously been a vote funded agency of the Ministry of Defence.

**DIVIDEND**

A Dividend of £4.5 Million was paid to the Ministry of Defence during the year.

**FIXED ASSETS**

The financial effect of changes to Fixed Assets during the year are shown in note 7 to the accounts.

**MARKET VALUE OF LAND**

The land assets were professionally revalued by GVA Grimley at 31 March 2006. Those sites which are expected to be fully utilised were valued on an existing use basis, sites which were expected to have their activities significantly reduced or curtailed were valued at open market value where this could be determined. There is no significant difference between the open market value and the book value of land.

**DIRECTORS**

The Executive Directors who served during the year were:

Mr Archie Hughes	Chief Executive (Appointed July 2007)
Mr David Mather	Director Land Equipment
Mr John Reilly	Director Air & Support Services (Appointed October 2007)
Mr Steve Hall	Finance Director (Appointed October 2007)
Mr David Owen	Human Resources Director (Appointed October 2007)
Mr Alan Lewis	Commercial Director (Appointed October 2007)
Mr Peter Moore	Chief Executive (Left September 2007)
Mr Malcolm Westgate	Deputy Chief Executive (Left January 2008)
Mr Stuart Ash	Finance Director (Left September 2007)
Mr Ian Metcalf	Sales and Marketing Director (Left March 2008)

The non – executive Directors were:

Mr Jamie Pike	Chairman
Mr Richard Holroyd	
Mr Michael Jones	
Mr Tim Johnson	(Left July 2007)
Mr David Barrass	(Appointed May 2007)
Mr Keith Norris	(July 2007 to December 2007)
Mr Terence Jagger	(Appointed January 2008)

**DIRECTORS' INTERESTS**

No Director held any company directorship or other significant interest which may conflict with their management responsibilities.

During the year Mr Archie Hughes, Mr Steve Hall, Mr John Reilly, Mr David Owen and Mr Alan Lewis were also directors of DARA. Their positions as directors of DARA did not conflict with their management responsibilities in ABRO.

**PENSION LIABILITIES**

Civilian staff are covered by the provisions of the Principal Civil Service Pensions Schemes (PCSPS). Details of how pensions liabilities are treated in the accounts are shown in note 1 F to the accounts on page 29.

**CREDITOR PAYMENT POLICY**

It is the ABRO's policy to comply with the Companies Act 1985, (Miscellaneous Accounting Amendments) Regulations 1996 (SI 1996/189), and the Confederation of British Industry's prompt payment code on creditors.

It is ABRO's policy to pay its suppliers within contracted payment terms or in the absence of specially agreed terms within 30 days of receipt of a valid invoice.

During the year ended 31 March 2008 95% of ABRO's payments were made within this policy.

**AUDITORS AND COST OF AUDIT**

ABRO's annual accounts are audited by the Comptroller and Auditor General. ABRO's auditor is the National Audit Office. The cost of the audit of the Annual Accounts was £75,000 and the audit of the Key Targets was £5,000. No payment was made to the auditor for any other service.

As Accounting Officer of ABRO, the Chief Executive is responsible for the disclosure of relevant audit information and can confirm that:

- there is no relevant audit information of which the auditors are unaware;
- he has taken all necessary steps to ensure that he is aware of the relevant audit information; and
- he has taken all necessary steps to establish that the auditors are aware of the information.



**Archie Hughes**  
Chief Executive

8 July 2008



# ABRO | 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 ABRO for the year ended 31 March 2008 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. The financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## RESPECTIVE RESPONSIBILITIES OF ABRO, CHIEF EXECUTIVE AND AUDITOR

ABRO and the Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Responsibilities of the Chief Executive and ABRO.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited 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 give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information which comprises the Chairman's Foreword, the Chief Executive's Statement, Directors' Report, the Management Commentary and the unaudited part of the Remuneration Report, included in the Annual Report is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if ABRO has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects ABRO's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of ABRO's corporate governance procedures or its risk and control procedures.

I read the other financial information in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Foreword, Chief Executive's Statement, Directors' Report, the Management Commentary, and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or other material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## BASIS OF AUDIT OPINIONS

I conduct my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes an examination, on a test basis, of evidence relevant to the amounts, disclosures, and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by ABRO and Chief Executive in the preparation of these financial statements, and of whether the accounting policies are most appropriate to ABRO'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial statements conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## OPINIONS

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of ABRO's affairs as at 31 March 2008 and of its loss for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises the Chairman's Foreword, Chief Executive's Statement, Directors' Report, the Management Commentary, and the unaudited part of the Remuneration Report, included within the Annual Report, is consistent with the financial statements.

## OPINION ON REGULARITY

In my opinion, in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## REPORT

My report on these financial statements is on page 42.

**TJ Burr**  
Comptroller and Auditor General

National Audit Office  
151 Buckingham Palace Road  
London  
SW1W 9SS

11 July 2008

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008**

	NOTE	2007/08 £'000	2006/07 RESTATED £'000
<b>Turnover</b>	2	147,014	142,183
Cost of sales	3.1	(135,680)	(123,856)
<b>Gross Profit</b>		<b>11,334</b>	<b>18,327</b>
Operating expenses	3.1	(13,245)	(13,168)
<b>Operating (Loss)/Profit</b>		<b>(1,911)</b>	<b>5,159</b>
Loss on disposal of fixed assets		(73)	(253)
Merger costs	3.2	(305)	-
<b>(Loss)/Profit on ordinary activities before interest</b>		<b>(2,289)</b>	<b>4,906</b>
Interest receivable and similar income	5	417	647
Interest payable and similar charges	6	(1,181)	(1,303)
<b>(Loss)/Profit for the financial year</b>		<b>(3,053)</b>	<b>4,250</b>
<b>Dividend</b>		(4,500)	(3,900)
<b>Transfer (from)/to General Reserve</b>		<b>(7,553)</b>	<b>350</b>

There were no discontinued operations in 2007/08 or 2006/07.

On 1 April 2008 ABRO merged with the retained business units of DARA to form the Defence Support Group ("DSG"), all the ABRO operations will continue in DSG.

The notes on pages 29 to 41 form part of these accounts

## BALANCE SHEET AT 31 MARCH 2008

	NOTE	31 - MAR - 08 £'000	31 - MAR - 07 RESTATED £'000
<b>Fixed Assets</b>			
Tangible Assets	7	35,432	35,008
<b>Current Assets</b>			
Stocks	8	21,527	16,592
Debtors	9	34,898	32,463
Cash at Bank and in Hand	10	3,728	11,746
		60,153	60,801
<b>Current Liabilities</b>			
Creditors:			
amounts falling due within one year	12	(68,794)	(26,468)
Net current (liabilities)/assets		(8,641)	34,333
<b>Total assets less current liabilities</b>		26,791	69,341
<b>Total capital employed</b>		26,791	69,341
<b>Financed by:</b>			
Public dividend capital		-	19,405
Long term loans	13	-	19,389
Revaluation reserve	14	17,886	14,129
General reserve	15	8,905	16,418
<b>Total government funding</b>	20	26,791	69,341

The notes on pages 29 to 41 form part of these accounts.



**Archie Hughes**  
Chief Executive  
8 July 2008

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2008

	2007/08 £'000	RESTATED 2006/07 £'000
<b>(Loss)/profit for the financial year</b>	<b>(3,053)</b>	<b>4,250</b>
Unrealised revaluation surplus	3,797	2,004
<b>Total recognised gains and losses relating to the year</b>	<b>744</b>	<b>6,254</b>

The notes on pages 29 to 41 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	2007/08 £'000	RESTATED 2006/07 £'000
<b>Reconciliation of operating loss to cash inflow from operating activities</b>		<b>Restated</b>
Operating (loss)/profit	<b>(1,911)</b>	<b>5,159</b>
Merger costs	(305)	-
Depreciation (Note 7)	1,789	1,779
Permanent diminution in value and reclassifications of Fixed Assets (Note 7)	49	55
Decrease/(increase) in stocks	(2,250)	4,039
Increase in debtors	(2,435)	(750)
Increase/(decrease) in creditors	42,327	(2,483)
Public Dividend Capital transferred to creditors	(19,405)	-
Long Term Loan transferred to creditors	(17,235)	-
<b>Net Cash Inflow from operating activities</b>	<b>624</b>	<b>7,799</b>
<b>Cash Flow Statement</b>		
Net Cash Inflow from operating activities	624	7,799
Returns on investments and servicing of finance (Note 19a)	(764)	(656)
Capital expenditure (Note 19a )	(1,224)	(1,020)
	<b>(1,364)</b>	<b>6,123</b>
Dividend paid	<b>(4,500)</b>	<b>(3,900)</b>
Net cash flow before use of liquid resources and financing	<b>(5,864)</b>	<b>2,223</b>
Financing (Note 19a)	(2,154)	(2,155)
<b>(Decrease)/increase in cash and bank balance</b>	<b>(8,018)</b>	<b>68</b>
(Decrease)/increase in cash	(8,018)	68
Cash inflow from movement in debt	2,154	2,155
<b>(Increase)/reduction in net debt (Note 19b )</b>	<b>(5,864)</b>	<b>2,223</b>
Net debt at 1 April 2007	(9,797)	(12,020)
Net debt at 31 March 2008	(15,661)	(9,797)

The notes on pages 29 to 41 form part of these accounts.

NOTES TO THE ACCOUNTS FOR  
THE YEAR ENDED 31 MARCH 2008

1.1 ACCOUNTING POLICIES

**A. Basis of Accounting**

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 18th December 2006, pursuant to section 4(6)(a) of the Government Trading Funds Act 1973 and in accordance with the Government Financial Reporting Manual (FRm). They follow the accruals concept of accounting and the historical cost convention, Modified to include revaluation of Fixed Assets and Stocks as set out in notes D and E below. Subject only to compliance with the requirements set out in the Accounts Direction, the accounts also:

a. comply with the accounting and disclosure requirements of Companies Act 1985, insofar as they are appropriate and the disclosure and accounting requirements contained in "The Government Financial Reporting Manual" and any other guidance which the Treasury may issue;

b. comply with generally accepted accounting practice in the United Kingdom (UK GAAP) and

c. comply with the accounting standards issued by the Accounting Standards Board except to the extent that they are advised inapplicable by the Treasury.

**B. Value Added Tax**

Since the transition to Trading Fund status on 1 April 2002 the Trading Fund has been separately registered for VAT.

**C. Turnover**

Turnover represents the invoiced value of sales net of VAT.

**D. Fixed Assets and Depreciation**

i. Land and Buildings

a. Department Estate is treated as an asset of the Trading Fund although legal ownership rests with the Secretary of State for Defence. The policy reflects the Trading Fund's position as the beneficial user of the property.

b. An Independent valuation of the Departmental Estate assets of the Trading Fund was carried out at 31 March 2006 by GVA Grimley. The valuations were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes Issued by the Royal Institution of Chartered Surveyors. The valuation is on the basis of Existing Use Value except for one site where Depreciated Replacement Cost was adopted and those sites where there is expected to be a significant curtailment or reduction in activities where an Open Market Valuation was adopted.

c. In order to meet HM Treasury requirements for Current Cost Accounting, assets have been re-valued annually to reflect their current cost, in the years between professional valuations, using indices provided by the Financial management Shared Service Centre (FMSSC) of the Ministry of Defence.

d. Leasehold property is treated in the manner set out by Statement of Standard Accounting Practice Number 21 (SSAP21). Major refurbishment expenditure is capitalised.

ii. Plant, machinery and vehicles, IT and Comms equipment

a. Plant, machinery and vehicles, IT and Comms equipment are capitalised where the useful life exceeds one year and the cost of acquisition exceeds £5,000.

b. A full valuation of all items of plant, machinery and vehicles held by ABRO was carried out at 31 March 2006 by Messrs GVA Grimley. This valuation was based on Depreciated Reinstatement Cost.

c. The valuation of capitalised plant and equipment including computers has been reviewed annually and indexation rates provided by Corporate Financial Controller of the Ministry of Defence are applied.

iii. Depreciation

a. Freehold land is not depreciated.

b. Depreciation on buildings, plant and equipment and office equipment is calculated to write off the cost or valuation of assets by equal instalments over their estimated useful lives which are periodically reviewed for obsolescence. The lives assumed for the main categories of asset are as follows:

Asset Category	Estimated Useful Life
Buildings	50 yrs
Plant and Equipment	5 - 20 yrs
Computers	3 - 7 yrs
Vehicles	5 - 20 yrs

Where additional Capital Expenditure is made within an existing building the additional expenditure is written off over the remaining life of the existing building.

**E. Stocks and work in Progress**

i) Valuation

Stocks are valued at the lower of cost or net current replacement cost, if materially different, and net realisable value. For work in progress these costs include both direct costs and attributable overheads based on normal levels of activity. Net realisable value is the estimated price at which stocks can be sold in the normal course of business after allowing for all costs to bring them from their existing state to a finished condition.

ii) Provision for obsolete surplus and defective stocks – significant estimation technique  
Provision is made, where necessary, for obsolete, surplus and defective stocks. The provision is based on 100% provision against the value of any stocks considered to be obsolete. Provision is also made against any surplus stocks.

Surplus stocks are estimated on the basis of projected consumption using historical trends. Stock is analysed into four categories based on frequency of usage. Any stock balance remaining in the two lowest usage categories after five years projected usage is the subject of a 100% provision less a nominal amount for disposal proceeds.

**F. Pensions**

Civilian staff are covered by the provisions of the Principal Civil Service Pensions Schemes (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. However, since ABRO is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid to the Paymaster General at rates determined from time to time by Government Actuary (see Note 4). Service personnel are deemed to be on loan to ABRO, which carries no liability for their pension other than insofar as these form a constituent element of the monthly loan service charge paid to the Ministry of Defence for their services.

Full provision for early retirements is normally made in the year of retirement.

**G. Foreign Currencies**

Assets and liabilities denominated in a foreign currency are translated at the rate(s) of exchange ruling at the balance sheet date. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Income and Expenditure account.

**H. Treatment of Operating Leases**

All expenditure incurred in respect of operating leases is charged to operating expenses in the year in which they arise. ABRO has no finance leases.

**1.2 TRANSFER OF FUNCTIONS OF ENGINEERING WING STAFFORD OF THE DEFENCE STORAGE AND DISTRIBUTION AGENCY (DSDA)**

On 1 December 2007 the functions of the Stafford Engineering Wing of DSDA were transferred to ABRO, this transfer has been merger accounted, by the restatement of comparative figures to include the functions transferred as if they had been part of ABRO throughout the current and prior period. The costs arising in DSDA have been adjusted to reflect the prevailing accounting policy of ABRO in respect of recovering costs through invoiced revenue in accordance with its status as a Trading Fund. This revenue has been included in turnover.

The effects of this transfer of functions are shown in the tables below:

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008 SHOWING THE EFFECT OF THE STAFFORD MERGER

	2007/08				2006/07		
	ABRO EXCL STAFFORD £'000	STAFFORD PRE MERGER £'000	STAFFORD POST MERGER £'000	TOTAL £'000	TOTAL RESTATE D £'000	PRE MERGER ABRO £'000	PRE MERGER STAFFORD £'000
<b>Turnover</b>	142,458	2,805	1,751	147,014	142,183	137,209	4,974
<b>Cost of Sales</b>	(131,213)	(2,805)	(1,662)	(135,680)	(123,856)	(118,882)	(4,974)
<b>Gross Profit</b>	11,245	-	89	11,334	18,327	18,327	-
<b>Operating expenses</b>	(13,245)	-	-	(13,245)	(13,168)	(13,168)	-
<b>Operating (Loss) /Profit</b>	(2,000)	-	89	(1,911)	5,159	5,159	-
<b>Loss on disposal of Fixed Assets</b>	(73)	-	-	(73)	(253)	(253)	-
<b>Costs associated with merger with DARA</b>	(305)	-	-	(305)	-	-	-
<b>Interest</b>	(764)	-	-	(764)	(656)	(656)	-
<b>(Loss)/Profit for the financial year</b>	(3,142)	-	89	(3,053)	4,250	4,250	-

EFFECTS ON NET ASSETS OF THE STAFFORD MERGER

	ABRO EXCL STAFFORD £'000	STAFFORD PRE MERGER £'000	STAFFORD POST MERGER £'000	TOTAL £'000	TOTAL RESTATE D £'000	PRE MERGER ABRO £'000	PRE MERGER STAFFORD £'000
<b>Net assets</b>	24,349	-	89	24,438	69,341	69,341	-

## 2. TURNOVER

The analysis of activity by business segment was as follows:

	2007/08 £'000	RESTATED 2006/07 £'000
<b>Sales Direct to MOD</b>	<b>127,122</b>	<b>118,238</b>
<b>Sales to Third Parties</b>	<b>17,087</b>	<b>18,971</b>
<b>Invoiced Sales</b>	<b>144,209</b>	<b>137,209</b>
<b>Notional revenue transferred from DSDA in respect of pre-merger trade of Engineering Wing Stafford</b>	<b>2,805</b>	<b>4,974</b>
<b>Reported Turnover</b>	<b>147,014</b>	<b>142,183</b>

All turnover relates substantially to the same class of business i.e. repair, maintenance and overhaul.

There were no discontinued operations in 2007/08 or 2006/07.

On 1 April 2008 ABRO merged with the retained business units of DARA to form the Defence Support Group ("DSG"), all the ABRO operations will continue in DSG

## 3.1 COST OF SALES AND OPERATING EXPENSES

	2007/08 £'000	RESTATED 2006/07 £'000
Cost of sales	<b>135,680</b>	<b>123,856</b>
Operating expenses	<b>13,245</b>	<b>13,168</b>
	<b>148,925</b>	<b>137,024</b>

Cost of Sales has been defined as that expenditure which is directly related to services or products being supplied to customers. This will include direct materials and labour and fixed and variable overheads to the extent that they relate specifically to production.

Operating expenses include all costs relating to the general management of the business.

### 3.1 COST OF SALES AND OPERATING EXPENSES (CONTINUED)

These costs are further analysed by expenditure type as follows:

	NOTE	2007/08 £'000	2006/07 RESTATED £'000
Staff costs	4	70,978	67,929
Supplies and services consumed		61,408	53,657
Accommodation costs		9,056	7,202
Depreciation and impairment charges		1,838	1,834
Operating lease and similar hire purchase rentals:			
Plant and machinery		326	223
Other		504	820
Auditors' Fees:			
Audit		75	70
Non audit		5	5
Other expenses		4,735	5,284
<b>Total cost of sales and operating expenses</b>		<b>148,925</b>	<b>137,024</b>

There were no net gains or losses from foreign currency transactions charged.

Included in these costs are the following relating to Engineering Wing Stafford:

	2007/08 £'000	2006/07 £'000
Staff costs	3,548	3,931
Supplies	253	154
Accommodation	490	245
Other	176	644
<b>Total</b>	<b>4,467</b>	<b>4,974</b>

### 3.2 MERGER COSTS

On 22 May 2007 it was announced in both Houses by MOD Ministers that ABRO would merge with the retained DARA business units to create a new single defence support group with the primary objective of supporting MOD and the Armed Forces. The new Trading Fund became operational on 1 April 2008.

During the year costs of £305,000 were incurred in preparation work for the new Trading Fund, these costs were principally consultancy and re-branding costs.



#### 4. STAFF COSTS AND NUMBERS

a. Disclosure of information related to Directors is dealt with in the Remuneration Report.

b. The average number of employees during the period was made up as follows:

	2007/08	2006/07 RESTATED
Industrial Staff	1,845	1,927
Non Industrial Staff	477	524
Service Personnel	1	1
Agency temporary and contract staff	169	101
	<b>2,492</b>	<b>2,553</b>

On 1 December 126 staff transferred to ABRO from DSDA in respect of Engineering Wing Stafford.

The average employee numbers for 2008 include 189 for Engineering Wing Stafford (2007 Restated 255).

c. Total staff costs for the year were as follows:

	2007/08 £'000	2006/07 RESTATED £'000
Salaries, wages and allowances	53,359	52,550
Social security costs	3,809	3,989
Pension costs	9,143	8,639
Agency staff costs	4,667	2,751
	<b>70,978</b>	<b>67,929</b>

#### PENSION BENEFITS

Pension benefits for civilian employees are provided through the Civil Service Pension arrangements.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but ABRO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007 - 08, employers' contributions of £9,143,000 were payable to the PCSPS (2006 - 07 £8,639,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008 - 09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009) The contribution rates are set to meet the cost of the benefits accruing during 2007 - 08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £40,174 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,720, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £4114. Contributions prepaid at that date were £nil.

Four individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £9,536.

One post within ABRO is occupied by a serving member of the Armed Forces. Salary cost for this employee is charged to ABRO by the MOD. Apart from the element included in this charge, ABRO carries no liability for the pension costs of this individual.

## 5. INTEREST RECEIVABLE

Interest receivable of £417,000 (2006/07 £647,000) shown on the face of the Profit and loss Account relates to amounts received from balances held in interest bearing accounts with commercial bankers and with the Paymaster General.

## 6. INTEREST PAYABLE

	2007/08 £'000	2006/07 £'000
Interest Payable on loans wholly repayable within five years	1,181	-
Interest Payable on loans not wholly repayable within five years	-	1,303
Total interest payable and similar charges	1,181	1,303

## 7. TANGIBLE FIXED ASSETS

	FREEHOLD LAND AND BUILDINGS £'000	PLANT, MACHINERY & VEHICLES £'000	IT & COMMS EQUIPMENT £'000	ASSETS IN COURSE OF CONSTRUCTION £'000	TOTAL £'000
<b>Cost or Valuation:</b>					
At 1 April 2007	29,741	4,875	1,362	755	36,733
Additions	122	479	251	372	1,224
Disposals	-	(98)	-	-	(98)
Permanent diminutions in value	-	(6)	(34)	(9)	(49)
Revaluations	1,059	109	(45)	-	1,123
Reclassifications	384	370	0	(754)	-
<b>At 31 March 2008</b>	<b>31,306</b>	<b>5,729</b>	<b>1,534</b>	<b>364</b>	<b>38,933</b>
<b>Depreciation:</b>					
At 1 April 2007	750	626	349	-	1,725
Charged	744	641	404	-	1,789
Disposals	0	(24)	-	-	(24)
Backlog depreciation	18	13	(20)	-	11
<b>At 31 March 2008</b>	<b>1,512</b>	<b>1,256</b>	<b>733</b>	<b>-</b>	<b>3,501</b>
<b>Net Book Value:</b>					
<b>At 31 March 2008</b>	<b>29,794</b>	<b>4,473</b>	<b>801</b>	<b>364</b>	<b>35,432</b>
At 1 April 2007	28,991	4,249	1,013	755	35,008

## VALUATION

Qualified valuers revalue assets every five years. GVA Grimley carried out an independent valuation as at 31 March 2006. The valuations were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. For Land and Buildings the valuation was on the basis of Existing Use Value except for one case where Depreciated Replacement Cost was adopted and three sites where activity levels are expected to be curtailed or significantly reduced for which open market value was used.

For Plant, Machinery and Vehicles the valuation was based on Depreciated Reinstatement Cost.

In order to meet HM Treasury's requirements for Current Cost Accounting, assets are revalued annually to reflect their current cost using indices provided by the Financial Management Shared Service Centre (FMSSC) of the Ministry of Defence.

## WHOLE OF GOVERNMENT ACCOUNTS

No dwellings are included in Freehold Land and Buildings.

Plant, Machinery and Vehicles includes transport equipment with a net book value of £381,000 (2007 £327,000).

## 8. STOCKS

	31 - MAR - 08 £'000	31 - MAR - 07 £'000
Raw Materials and Consumables	14,822	12,004
Work in progress	8,402	7,243
Provision for obsolete and surplus stock	(1,697)	(2,655)
	<b>21,527</b>	<b>16,592</b>

## 9. DEBTORS

	31 - MAR - 08 £'000	31 - MAR - 07 £'000
Trade debtors	31,735	29,624
Other debtors	1,449	2,311
Prepayments and accrued income	1,720	535
Provision for bad and doubtful debts	(6)	(7)
Total Debtors and Prepayments	<b>34,898</b>	<b>32,463</b>

## 10. CASH AT BANK AND IN HAND

	31 - MAR - 08 £'000	31 - MAR - 07 £'000
Cash in Commercial Bank Current Accounts	3,726	6,889
Current accounts with H.M. Paymaster General	-	4,855
Cash in Hand	2	2
	<b>3,728</b>	<b>11,746</b>

## 11. DERIVATIVES

### INTEREST RATE RISK

ABRO finances its operations through a mixture of retained profits and government borrowings. ABRO borrowings are all at fixed rates of interest, no financial instruments are used to manage ABRO's exposure to interest rate fluctuations.

### LIQUIDITY RISK

All of ABRO's borrowings at the year end are repayable within one year. Arrangements have been put in place with the Ministry of Defence to ensure that the repayment schedule can be met.

### FOREIGN CURRENCY RISK

All foreign currency balances at the year end were translated at the exchange rate in operation at the year end. Any exchange rate differences were taken to the Profit and Loss Account. ABRO has incurred expenditure in foreign currencies and these transactions have been translated into sterling at the exchange rate in operation at the date at which the transaction occurred.

There were no derivatives or financial instruments contracted and no hedging transactions during the year.

ABRO has taken advantage of the exclusion to disclose short term debtors and creditors as per FRS 13.

## 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 - MAR - 08 £'000	31 - MAR - 07 £'000
Loan due for repayment within 12 months	19,389	2,154
Trade creditors	14,971	9,436
Other creditors	967	842
Value added tax	4,814	4,560
Other taxes and social security	1,467	1,326
Accruals and other deferred income	7,781	8,150
Public Dividend capital due for immediate repayment	19,405	-
	<b>68,794</b>	<b>26,468</b>

In accordance with HM Treasury instructions the Long Term Loan and Public Dividend Capital balances became immediately repayable as at 31 March 2008 and for this reason are shown as short term creditors. These movements are shown as reductions in Government Funding in Note 20.

### 13. LONG TERM LOANS

Government loan, repayable by instalments, and bearing interest at 5.625% per annum.

	31 - MAR - 08 £'000	31 - MAR - 07 £'000
Analysis of repayments:		
Between 1 and 2 years	-	2,154
Between 2 and 5 years	-	6,463
After 5 years	-	10,772
	-	19,389

The balances on the ABRO loan accounts are immediately repayable at the balance sheet date and are shown as such in creditors.

### 14. REVALUATION RESERVES

	2007/08 £'000	2006/07 £'000
Balance as at 1 April	14,129	12,262
Revaluation of Fixed Assets	1,123	1,397
Backlog Depreciation	(11)	-
Revaluation of stocks	2,685	607
Realised element to General Reserve	(40)	(137)
Revaluation Reserve as at 31 March	17,886	14,129

### 15. GENERAL RESERVE

	2007/08 £'000	2006/07 RESTATED £'000
Balance as at 1 April	16,418	15,931
(Loss)/profit for the year	(3,053)	4,250
Dividend	(4,500)	(3,900)
Realised element of the Revaluation Reserve	40	137
Balance as at 31 March	8,905	16,418

## 16. CAPITAL COMMITMENTS

31 - MAR - 08  
£'000

31 - MAR - 07  
£'000

### Contracted for but not provided for in the accounts:

Commitments for capital expenditure

91

199

## 17. CONTINGENT LIABILITIES

There are no contingent liabilities (2007 Nil).

## 18. OPERATING LEASE COMMITMENTS

At 31 March 2008 ABRO had annual commitments under non-cancellable operating leases as set out below.

	2008 LAND AND BUILDINGS £'000'S		2007 LAND AND BUILDINGS £'000'S	
		OTHER £'000'S		OTHER £'000'S
Operating leases which expire:				
Within one year	-	5	400	137
In the second to fifth Years inclusive	-	407	-	342
Over 5 years	-	-	-	-
<b>Total commitments</b>	-	<b>412</b>	<b>400</b>	<b>479</b>

As at 1 April 2008 all liabilities under these leases pass to the new Defence Support Group.

## 19. NOTES TO CASH FLOW STATEMENT

### Note 19(a) Gross cash flows

	2007/08 £'000	2006/07 £'000
<b>Returns on investment and servicing of finance</b>		
Interest received	417	647
Interest paid	(1,181)	(1,303)
	<b>(764)</b>	<b>(656)</b>
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(1,224)	(1,020)
Receipts from sales of tangible fixed assets	-	-
	<b>(1,224)</b>	<b>(1,020)</b>
<b>Financing</b>		
Repayment of long term borrowings	(2,154)	(2,155)
	<b>(2,154)</b>	<b>(2,155)</b>

### Note 19(b) Gross cash flows

	AT 1 APRIL 2007 £'000	CASH FLOW IN YEAR £'000	OTHER CHANGES IN YEAR £'000	AT 31 MARCH 2008 £'000
Cash in hand and at bank	11,746	(8,018)	-	3,728
Bank overdraft	-	-	-	-
	11,746	(8,018)	-	3,728
Debt due within 1 year	(2,154)	2,154	(19,389)	(19,389)
Debt due after 1 year	(19,389)	-	19,389	-
Total debt	(21,543)	2,154	-	(19,389)
Net Debt	(9,797)	(5,864)	-	(15,661)

## 20. RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2007/08 £'000	2006/07 RESTATED £'000
1 April	69,341	69,140
(Loss)/Profit for year before dividend	(3,053)	4,250
Revaluation reserve movement in year	3,757	1,867
Realised element of the revaluation reserve	40	137
Movement in long term loan	(19,389)	(2,153)
Public Dividend Capital repayable	(19,405)	-
Dividend paid	(4,500)	(3,900)
<b>Government Funding per Balance Sheet</b>	<b>26,791</b>	<b>69,341</b>

In accordance with HM Treasury instructions the Long Term Loan and Public Dividend Capital balances became immediately repayable as at 31st March 2008 and are shown in creditors due within 1 year in Note 12.

## 21. RELATED PARTY TRANSACTIONS

The Ministry of Defence is regarded as a related party. During the year ABRO has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent department.

None of ABRO's Board Members, key managerial staff or other related parties have undertaken any material transactions with ABRO during the year.

## 22. POST BALANCE SHEET EVENTS

For the purposes of FRS 21 these financial statements are authorised for issue on 16 July 2008, which is the date on which the accounts are due to be laid before the Houses of Parliament.

On 1 April 2008 ABRO was wound up and its assets and liabilities and all of its operations were transferred to a new Trading Fund the Defence Support Group.

There have been no other post Balance Sheet events.



### 23. LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments made during the year ended 31 March 2008.

### 24. INTRA GOVERNMENT BALANCES

As at 31 March 2008 the analysis of Debtor and Creditor balances was as follows:

	DEBTOR BALANCES £'000	CREDITOR BALANCES £'000
Central Government	28,937	52,205
Local Government	429	1
NHS Trusts	12	-
Bodies External to Government	5,520	16,588
Total	34,898	68,794

These amounts are included in Debtors and Creditors respectively.

### **Introduction**

The Army Base Repair Organisation (ABRO) was established as a Trading Fund of the Ministry of Defence in 2002 to provide engineering and logistical support and repair services to the Armed Forces.

In a Ministerial Announcement on 22 May 2007, the Minister of State (Defence Equipment and Support) informed Parliament of the intention to create a single Defence Support Group (DSG) as trading Fund of the Ministry of Defence, comprising the businesses contained in ABRO along with the Large Aircraft and Electronics businesses of the Defence Aviation Repair Agency (DARA).

### **Creation of the Defence Support Group and Transfer of Assets and Liabilities Contained in ABRO**

Parliament approved the creation of the DSG with effect from 1 April 2008, and under orders laid by Ministers, approved the transfer of the assets and liabilities remaining in the ABRO Trading Fund as at 31 March 2008 into the new DSG Trading Fund. As part of this process ABRO repaid long term loans of £19.39 million and Public Dividend Capital of £19.41 million which the Secretary of State has since reissued to the DSG, as the successor body.

I am required to report to Parliament to ensure that the transfer of assets and liabilities took place in accordance with Parliamentary intention. As a result of my audit I am able to confirm the transfer of assets totalling £95.59 million and liabilities of £68.79 million into the DSG Trading Fund, and also that they are correctly recorded in the financial records of DSG. I am also able to confirm that ABRO's long term loans and Public Dividend Capital were redeemed in accordance with the Government Trading Funds Act (1973) as part of the winding up of the ABRO Trading Fund.

### **Basis of Account**

ABRO comprised four business units which are described in pages 8 to 13 of the annual report. These businesses have all been transferred into DSG as ongoing operations, and therefore, I consider the going concern basis applied to these accounts to be appropriate, and in accordance with International Standard on Auditing (UK and Ireland) 570 (Going Concern).

As a result of my examination, I am satisfied that the assets and liabilities of ABRO have been transferred to the DSG in accordance with Parliamentary intention, and that the accounts give a true and fair position of ABRO's financial position as at 31 March 2008. I therefore report my findings to Parliament without qualifying my opinion on the 2007 - 08 financial statements of ABRO.

**TJ Burr**  
Comptroller and Auditor General

National Audit Office  
151 Buckingham Palace Road  
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11 July 2008





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