

Presented pursuant to Acts 29 and 30 Vict., c.39, s.22, and 11 and 12 Geo. 5, c.52, ss.4 and 6

Appropriation Accounts 1997–98

**Volume 1: Class I
Ministry of Defence**

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Appropriation Accounts 1997–98

Volume 1: Class I Ministry of Defence

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The Comptroller and Auditor General

The Comptroller and Auditor General is the head of the National Audit Office employing some 750 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Introduction

The 1997-98 Appropriation Accounts are being published in 18 Volumes:

Volume	Class	Title
1	I	Ministry of Defence
2	II	Foreign and Commonwealth Office
3	III	Ministry of Agriculture, Fisheries and Food, and the Intervention Board—Executive Agency
4	IV	Trade and Industry and Export Credits Guarantee Department
5	V	Transport
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12	XII	Department of Social Security
13	XIII	Scotland and the Forestry Commission
14	XIV	Wales
15	XV	Northern Ireland
16	XVI	Departments of the Chancellor of the Exchequer
17	XVII	Cabinet Office: Office of Public Service and Science etc
18	XVIII, XVIII A and XVIII B	Cabinet Office: other services, Privy Council Office and Parliament, etc; House of Commons; National Audit Office

Reports on accounts and subjects under consideration

Each volume

Each of the 18 volumes will contain my report on the accounts within it.

Revenue accounts

In volume 5 I will also report upon the revenue generated by the Motor Tax Account—Class V, Vote 4 (Driver Vehicle Licensing Agency); and in volume 16 I will report upon the results of my examination of the Customs & Excise and Inland Revenue accounts—Class XVI, Votes 3 and 4.

Summary of transactions

A summary of the transactions contained within all 18 volumes is included in the last published volume. The summary will include:

- a summary of Excess Votes required
- a statement of outturn of all Votes and the amount to be surrendered; and
- a statement of the payment of extra receipts to the Consolidated Fund and of the adjustment of balances on the 1996-97 Votes.

The General Report

Once all 18 volumes have been published a final document is produced: *Financial Auditing and Reporting: 1997-98 General Report of the Comptroller and Auditor General*. The General Report brings together the results of financial audit work undertaken by the National Audit Office over the last twelve months and highlights issues arising from it. A number of areas will be covered including:

- Accounting and Auditing Developments
- Audit of Assets
- Audit of Receipts of revenue
- Financial Management and Control
- Inspection Visits
- Resource Accounting
- Summary of Stock and Stores examinations

John Bourn
Comptroller and Auditor General

National Audit Office
30 October 1998

Report of the Comptroller and Auditor General

Ministry of Defence: Votes A

1 The Statement on page 3 shows that the maximum numbers maintained during 1997-98 for the Naval, Army, and Air Force Services in all active and reserve categories were within the respective numbers voted by Parliament. Strength returns supporting this statement have been furnished to my officers.

Class I, Vote 1: Loss on an Information Technology Project

2 The Class I, Vote 1 appropriation account for 1997-98 includes a note describing a loss of £34.6 million arising from a decision not to proceed with an information technology project. The project related to the development of a computer system designed to meet the needs of the Defence Intelligence Staff in handling large quantities of classified information.

3 Table 1 below summarises the history of the project. Treasury approval was given in February 1988, and in July of that year the Ministry of Defence (the Department) awarded a fixed price contract valued at £32.1 million for the supply and installation of the necessary equipment. The planned date for site acceptance testing was 31 October 1991. By 1991 however, it had become clear that the programme was well behind schedule, and in April 1992 the contractor entered a claim for additional costs. Following negotiations with the contractor, the Department agreed to amend the completion date to 31 January 1993.

Table 1: Chronology of events

Date	Event
February 1988	Treasury approval given for project.
July 1988	Contract awarded, with planned date for site acceptance testing of 31 October 1991.
April 1992	Contractor enters claim for additional costs and, following negotiations, Department agrees to revised completion date of 31 January 1993.
November 1993	Site acceptance testing completed.
July 1994	User trials completed.
January 1995	Department formally accepts system.
May 1995	System ready for use.
May 1995 to October 1996	Review of system to examine whether it could be modernised.
November 1996	Project abandoned.

4 Site acceptance testing was finally completed in November 1993, some 40 weeks behind the renegotiated programme schedule and more than two years later than originally planned. User trials were completed in July 1994, and these confirmed that the system met the contracted requirements. The Department formally accepted the system in January 1995, and by May 1995 it was ready to be used operationally. By then however, general developments in information technology and health and safety legislation meant that the system could not meet the developing needs of the Defence Intelligence Staff, which had been validated by a Defence Costs Study. Specifically, the original specification had not included a requirement for the system to be capable of being linked to other computer systems. By 1995 this requirement was viewed as essential. The limitations of the system also meant that users could not view on screen several files at once or merge and edit easily the information contained in separate computerised documents, as was possible with systems developed more recently, and the word processing facility included as part of the system was incompatible with others in use in the Department.

5 In view of the shortcomings of the system, the Department decided not to commission it into use, but instead to undertake a fundamental review to see how it could be modernised to meet their revised business requirements. From their review, the Department concluded that the system hardware was obsolete, and that the signals-handling equipment which formed part of the system was susceptible to failure. In November 1996 the project was abandoned.

6 The Department's analysis of the project's history identified a number of problem areas which they recognised must be avoided in similar future projects. These included:

- a lack of recognition by the Department at the outset of the complexity of the information system required;
- insufficient Departmental involvement with the contractor, particularly when it became evident that the project was in severe difficulties;
- that the information system should have been introduced in phases and designed to be sufficiently flexible to allow for technological advances.

7 The Department have thus acknowledged that there were failings in their management of this project, and have written off the associated costs of £34.6 million. Following their decision to abandon the project, in April 1997 they

acquired a replacement system, using an alternative design and modern off-the-shelf hardware. The cost of the replacement system, which is currently operating successfully, was £6 million, which included £1.8 million in liquidated damages received in work and goods in kind from the original contractor.

Overspend on the Class I, Vote 2 Cash Limit

8 Each of Votes 1, 2 and 3 within Class I is treated as a separate cash limit for expenditure control purposes. Together the three cash limits make up the Block Defence Cash Limit and are managed as a block budget. The cash limit for Class I, Vote 2, which was reduced from £4,806.6 million to £4,695.1 million during the year, was overspent by £2.3 million (0.05 per cent). After allowing for underspends on Class I, Votes 1 and 3 of £24.0 million and £203.5 million respectively, the Block Defence Cash Limit of £21,141.0 million was underspent by £225.2 million.

9 At the end of January 1998, when the Department made their final forecast of the likely outturn for the year, they projected an underspend of £20 million against the Vote 2 cash limit. However, in the period immediately before the year end expenditure by the Chief of Fleet Support was higher than expected (mainly because of the transactions processed through the UK Defence Procurement Office in Washington and streamlined procedures for receiving goods at RAF Stafford), leading him to spend more than his budget for the year. Whilst the other two Top Level Budget holders covered by the Vote contained their expenditure within their allocated budgets, one spent more than he had forecast in January 1998. As a result, the Department were unable to avoid breaching the cash limit for the Vote as a whole.

10 Following excesses of expenditure over net Estimates incurred on Class I, Votes 1, 2 and 3 in 1996-97 (HC 251-1 of 1997-98), the Department have already introduced measures designed to control expenditure on the Defence Votes more effectively, particularly at the year end. In the light of the overspend against the cash limit incurred on Vote 2 in 1997-98, the Department will be examining what further lessons may be learned regarding the control and monitoring of their expenditure.

Excess of Expenditure over Net Estimate on Class I, Vote 4: Defence: Armed Forces Retired Pay, Pensions, etc

11 The appropriation account for Class I, Vote 4 shows expenditure of £4.4 million (0.2 per cent) in excess of the Estimate which, as decreased by a Supplementary Estimate presented in February 1998 (HC 511 of 1997-98), amounted to £2,035.8 million. There were surplus receipts of classes authorised to be used as Appropriations in Aid of £17.1 million. The Department propose to ask Parliament to authorise £4,433,346.80 of the surplus receipts to be put towards meeting the excess expenditure, leaving a token sum of £1,000 to be voted as a further supply grant.

12 The excess of expenditure over the net Estimate arose because of higher than expected spending on:

- *normal terminal grants* – these are lump sums paid to service personnel on retirement;
- *preserved pensions coming into payment* – pensions due to former service personnel once they reach retirement age;
- *resettlement grants* – amounts paid to enable servicemen to resettle into civilian life; and
- *airmen's commutation costs* – payments made to service personnel who elect to receive a lump sum on leaving the service, rather than to preserve their pension entitlements.

13 Although the amount of the overspend represents a small proportion of the net Estimate, the Department nevertheless recognise that it should have been avoided. They are reviewing the causes of the overspend, and have undertaken to strengthen their monitoring arrangements where this is found to be necessary.

Control over Suspense Accounts

14 My report on the 1996-97 Defence appropriation accounts (HC 251-I of 1997-98) referred to the Department's management and control of suspense accounts, including the proposed write-off of an unreconciled debit balance of

£16.3 million on an Army pay suspense account. Following further investigation during 1997-98 as to the make up of this balance, the amount which could not be reconciled was finalised at £19.6 million: this amount has been written off in the appropriation account for Class I, Vote 1, 1997-98. In September 1998 the Department were still investigating an unexplained balance on a successor pay disbursement suspense account. They expected to finalise the position on this account during 1998-99.

15 My report on the 1996-97 accounts noted that the Department recognised that the overall management of suspense accounts needed to be improved. In July 1997 they launched a major review which required all Senior Finance Officers with responsibility for suspense accounts to confirm that:

- the operational purpose of each suspense account under their control remained valid;
- steps would be taken to address and resolve problem suspense accounts, and to provide details of how and when this would be achieved;
- each suspense account had a clearly identified owner and that the posting of transactions was both controlled and auditable.

16 The initial findings of the review indicated that some of the management and control failings identified in my report were being rapidly resolved. To assist progress, the Department established teams specifically tasked with reconciling problem suspense accounts. Further work resulted in improved guidance to staff on the operation of suspense accounts and has made accountability for their control and reconciliation clear. In September 1998, the Department were developing more effective reporting processes to enable rigorous management review of suspense accounts by Senior Finance Officers and centrally. The Department also plan to address improved training, education and support arrangements.

17 As part of their examination of the appropriation accounts for 1997-98 my staff reviewed all 165 suspense accounts with balances in excess of £1 million at the end of the year. These accounts represented 95 per cent by value of all suspense account balances held by the Department. Of the accounts examined, eight had already been identified by the Department as having reconciliation problems. In addition, my staff found a further 13 accounts where reconciliation difficulties were not being correctly reported or addressed. In nine of these cases, it was

generally minor elements that could not be reconciled. Two others were subsequently reported by the account holders as having reconciliation difficulties which were being addressed. The remaining two accounts were, in September 1998, being investigated by the Department. Reconciliation problems had resulted mainly from a lack of adequate training for those operating the accounts and insufficient senior management review.

18 It is clear that the Department are acting to remedy the problems they have experienced with suspense accounts, and that the actions they have already taken are beginning to result in improvements. But the monitoring work done by the Department, and my staff's examination of those accounts with large balances at the end of the financial year, have shown that some problems still remain. It is important that suspense accounts are operated efficiently and accurately, particularly with the introduction of Resource Accounting from 1 April 1998. My staff will therefore continue to monitor the position on the Department's use and management of suspense accounts closely during 1998-99.

John Bourn
Comptroller and Auditor General

30 October 1998

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Statement of Accounting Officers' responsibilities

Section 22 of the Exchequer and Audit Departments Act 1866 requires all departments to prepare accounts of the appropriation of supply grants comprised in each year's Appropriation Act. The Treasury appoint an Accounting Officer for each Vote and determine the form of the accounts. The accounts are prepared on a cash basis and must properly present the expenditure and receipts for each Vote in the financial year. The relevant responsibilities of Accounting Officers, including their responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

**Class I
Ministry of Defence
Votes A Statement**

Votes A

Maximum numbers of personnel to be maintained for service with the Armed Forces

	Numbers Voted by the House of Commons	Maximum Numbers Maintained	
Officers, Men and Women for NAVAL SERVICE	51,440	45,337	1 April 1997
Officers, Men and Women for ARMY SERVICE	130,410	117,905	31 March 1998
Officers, Men and Women for AIR FORCE SERVICE	59,140	56,958	1 April 1997

Maximum numbers of personnel to be maintained for service with the Reserve Forces

	Numbers Voted by the House of Commons	Maximum Numbers Maintained	
Reserve Naval and Marine Forces	18,170	15,111	1 March 1998
Special Members of the Reserve Naval Forces	—	—	
Reserve Land Forces	112,579	94,761	1 May 1997
Special Members of the Reserve Land Forces	6,000	—	
Reserve Air Forces	23,305	21,034	1 April 1997
Special Members of the Reserve Air Forces	105	—	

Kevin Tebbit
Accounting Officer

21 September 1998

Volume 1: Class I
Ministry of Defence

Class I:

Page	No. of Vote	Service	Estimated Gross Expenditure	Authorised Appropriations in Aid	Supply Grant
			£000	£000	£000
8	1	Defence: Operational and support costs	11,770,659	1,625,272	10,145,387
22	2	Defence: Logistics services	5,330,871	524,233	4,806,638
29	3	Defence: Systems procurement and research	6,633,224	279,626	6,353,598
39	4	Defence: Armed forces retired pay, pensions etc	2,035,765	913,989	1,121,776
		Total	25,770,519	3,343,120	22,427,399

Ministry of Defence

Gross Expenditure	Appropriations in Aid Applied	Net Expenditure	Gross Expenditure compared with Estimate: Saving or (Excess)	Deficiency of Appropriations in Aid	Amount to be surrendered	Extra Receipts payable to Consolidated Fund	No. of Vote
£000	£000	£000	£000	£000	£000	£000	
11,693,615	1,625,272	10,068,343	77,044	—	77,044	23,351	1
5,187,308	489,898	4,697,410	143,563	34,335	109,228	1,364	2
6,429,768	279,626	6,150,142	203,456	—	203,456	46,043	3
2,040,199	913,989	1,126,210	(4,434)	—	—	17,105	4
25,350,890	3,308,785	22,042,105	424,063 (4,434)	34,335		87,863	
Total amount to be surrendered					389,728		
Actual total amount to be surrendered					<u>£389,728,999.03</u>		

Reconciliation of the amount to be surrendered	£000
Supply Grant	22,427,399
Less: Net Expenditure	22,042,105
	<u>385,294</u>
Amount for which Parliamentary authority is required	
*Vote 4 Excess Vote	4,434
	<u>389,728</u>

*See Report paragraphs 11 to 13.

Defence: Operational and support costs

See also Report of the Comptroller and Auditor General

Summary of Outturn, and the Account of the sum expended, in the year ended 31 March 1998, compared with the sum granted, for expenditure by the Ministry of Defence on personnel costs etc of the armed forces and their reserves and cadet forces etc; personnel costs etc of Defence Ministers and of civilian staff employed by the Ministry of Defence; movements, stores, supplies and services; spares and maintenance; plant and machinery; charter of ships; research; lands and buildings; works services; contingent liabilities; services provided by other Government departments; sundry services, subscriptions, grants and other payments including those abroad such as assistance to foreign and Commonwealth governments for defence related purposes; set up costs, loans and funding to trading funds.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000
Defence Budget						
A	1,130,464	27,505	1,102,959	1,135,666	30,068	1,105,598
B	520,336	3,038	517,298	513,405	4,610(a)	508,795
C	3,106,880	227,455	2,879,425	3,097,084	227,199	2,869,885
D	1,844,086	170,502	1,673,584	1,824,763	172,254	1,652,509
E	579,376	49,562	529,814	580,103	51,010	529,093
F	1,082,586	41,568	1,041,018	1,122,435	47,702(b)	1,074,733
G	683,068	98,455	584,613	692,741	96,739	596,002
H	743,465	76,855	666,610	660,035	69,237	590,798
I	2,067,321	219,556	1,847,765	2,061,851	226,398	1,835,453
J	—	700,000	(700,000)	—	700,000	(700,000)
K	7,545	10,776	(3,231)	—	5,511(c)	(5,511)
Other expenditure not included in the control total						
L	5,045	—	5,045	5,045	—	5,045
M	487	—	487	487	—	487
Total	11,770,659	1,625,272	*10,145,387	11,693,615	1,630,728	**10,062,887

Summary of Outturn—*continued*

*The original cash limit on this vote was subsequently reduced to £10,092,344,000.

**This figure is £5,456,000 less than the net total of expenditure on the Appropriation Account, being the difference between the Appropriations in Aid realised (£1,630,728,000) and those authorised to be applied (£1,625,272,000).

In line with Estimates, expenditure—except on contracted-out services—is included gross of VAT. Any recoveries of such VAT are credited to Appropriations in Aid. Expenditure on contracted-out services is included net of VAT recoveries.

Explanations of the Causes of Variations between Estimated and Actual Appropriations in Aid

- (a) Mainly an underestimate of receipts from the sale of used vehicles following the introduction of more efficient administrative arrangements for the delivery of replacement vehicles.
- (b) Mainly faster progress on the disposal of lands and buildings and an underestimate of recoveries from the Assisted House Purchase and Long Service Advance of Pay Schemes.
- (c) Deferral to 1998-99 of an early repayment of a Meteorological Office Loan.

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section A:				
Commander-in-Chief Fleet				
A2 Direct expenditure: other current	1,119,409	1,123,957	—	4,548
A3 Direct expenditure: capital	11,055	11,709	—	654
Section B:				
General Officer Commanding (Northern Ireland)				
B2 Direct expenditure: other current	508,698	503,470	5,228	—
B3 Direct expenditure: capital	11,638	9,935	1,703	—
Section C:				
Commander-in-Chief Land Command				
C2 Direct expenditure: other current	3,077,903	3,063,298	14,605	—
C3 Direct expenditure: capital	28,718	33,636	—	4,918
C4 Grants and transfers: current	259	150	109	—
Section D:				
Air Officer Commanding-in-Chief RAF Strike Command				
D2 Direct expenditure: other current	1,820,925	1,801,640	19,285	—
D3 Direct expenditure: capital	23,161	23,123	38	—
Section E:				
2nd Sea Lord/Commander-in-Chief Naval Home Command				
E2 Direct expenditure: other current	567,292	569,425	—	2,133
E3 Direct expenditure: capital	12,084	10,678	1,406	—

Explanations of the Causes of Variations between Expenditure and Grant.

- B3 Mainly slippages in the implementation of an extension to a new computer network and in the purchase of family quarters because of difficulties with planning permission.
- C3 Mainly faster progress on the LAND Command Support System Information Technology Project and an underestimate of expenditure on Defence Accommodation Stores in Germany.
- E3 Mainly an overestimate of costs on Information Technology equipment in support of the introduction of Resource Accounting and Budgeting.

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section F:				
Adjutant General (Personnel and Training Command)				
F2 Direct expenditure: other current	1,066,015	1,103,080	—	37,065
F3 Direct expenditure: capital	16,571	19,355	—	2,784
Section G:				
Air Officer Commanding-in-Chief RAF Personnel and Training Command				
G2 Direct expenditure: other current	673,284	682,729	—	9,445
G3 Direct expenditure: capital	9,784	10,012	—	228
Section H:				
2nd Permanent Under Secretary of State				
H2 Direct expenditure: other current	696,854	617,253	79,601	—
H3 Direct expenditure: capital	41,471	37,642	3,829	—
H4 Grants and transfers: current	5,140	5,140	—	—
Section I:				
Vice Chief of the Defence Staff				
I2 Direct expenditure: other current	1,807,450	1,801,537	5,913	—
I3 Direct expenditure: capital	117,175	123,409	—	6,234
I4 Grants and transfers: current	142,696	136,905	5,791	—
Section K:				
Loans and grants to and repayments from the Meteorological Office				
K2 Direct expenditure: other current	7,325	—	7,325	—
K3 Direct expenditure: capital	220	—	220	—

Explanations of the Causes of Variations between Expenditure and Grant.

- F3 Mainly the misattribution of funding within Section F on equipments purchased in support of the introduction of Resource Accounting and Budgeting.
- H2 The attribution of provision to the Subhead consistent with the total Estimates provision on Vote 1 which could not be reduced even though the full level of expenditure was no longer expected. Foreign exchange adjustments resulting from conversions of US Dollars and Deutschmarks purchased in 1996-97 to the 1997-98 General Accounting Rate.
- K2 Entirely due to the misattribution of funding consequent to a computing error.

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Other expenditure not included in the control total				
Section L:				
2nd Permanent Under Secretary of State				
L4 Grants and transfers: current	3,978	3,978	—	—
L5 Grants and transfers: capital	1,067	1,067	—	—
Section M:				
Vice Chief of the Defence Staff				
M4 Grants and transfers: current	487	487	—	—
Gross Total	£000			
Original	11,767,000			
Supplementary	3,659			
	11,770,659	11,693,615	145,053	68,009
			Surplus <u>77,044</u>	
Deduct				
Z Appropriations in Aid				
Original	1,621,614			
Supplementary	3,658			
	1,625,272	1,625,272		
Net Total				
Original	10,145,386			
Supplementary	1			
	10,145,387	10,068,343		

Actual surplus to be surrendered

£77,044,142.94

Explanatory Notes on Expenditure and Receipts

	Current £000	Capital £000
1 Expenditure items		
Section A: Commander-in-Chief Fleet	1,135,666	—
Responsible for the delivery of an operationally capable Fleet, which comprises the Submarine Flotilla, the Surface Flotilla, the Naval Aviation Command, the Royal Marines Command, the Royal Fleet Auxiliary Command and the Headquarters and related infrastructure.		
<i>Note: Expenditure related to personnel, stores and services, equipment, transportation, fuel and utilities, lands, buildings and works services, contract ship repairs, and general administrative expenses.</i>		
Section B: General Officer Commanding (Northern Ireland)	513,405	—
Provision of appropriate resources for the effective deployment of forces and the direction of military operations in Northern Ireland in order to support the Royal Ulster Constabulary.		
<i>Note: Expenditure related to personnel, stores and services, equipment, transportation, fuels and utilities, lands, buildings and works services, and general administrative expenses.</i>		
Section C: Commander-in-Chief Land Command	3,097,084	—
Provision of operationally effective forces for all defence roles, whether in the UK, the NATO region, or worldwide.		
<i>Note: Expenditure related to personnel, stores and services, equipment, transportation, fuels and utilities, lands, buildings and works services, and general administrative expenses. Other expenditure includes costs related to reserve and cadet forces, and contributions to certain international activities.</i>		
Section D: Air Officer Commanding-in-Chief RAF Strike Command	1,824,763	—
Provision of operationally capable air forces for the effective defence of the UK and the protection of dependant territories, to contribute to NATO and allied air force structures, and to support the promotion of the UK's national and international defence interests.		
<i>Note: Expenditure related to personnel, stores and services, equipment, transportation, fuels and utilities, lands, buildings and works services, and general administrative expenses. Other expenditure included support of USAF in the UK.</i>		
Section E: 2nd Sea Lord/Commander-in-Chief Naval Home Command	580,103	—
Ensuring that sufficient motivated Naval manpower, trained to the required standards, is available and is deployed in peace, crisis, major crisis and war. The 2nd Sea Lord's primary outputs are filled billets, trained regular and reserve personnel, policy on terms and conditions of service, pay delivery and personnel support.		
<i>Note: Expenditure related to personnel, stores and services, equipment, fuels and utilities, lands, buildings and works services, and general administrative expenses. Other expenditure included certain special payments and grants in aid.</i>		

Explanatory Notes on Expenditure and Receipts—continued

	Current £000	Capital £000
1 Expenditure items (continued)		
Section F: Adjutant General (Personnel and Training Command)	1,122,435	—
Manning the Army with individually trained, well motivated men and women, retention and conditions of service matters, the provision of medical, education, chaplaincy, provost, legal, staff and personnel and support services, and welfare policy for Army personnel and their dependants; the development of training policy for all Army personnel, and the provision of individual training and associated facilities.		
<i>Note: Expenditure related to personnel, stores and services, equipment, fuels and utilities, lands, buildings and works services, and general administrative expenses. Other expenditure included certain special payments and grants in aid.</i>		
Section G: Air Officer Commanding-in-Chief RAF (Personnel and Training Command)	692,741	—
Recruitment, selection, training, manning, manpower planning, career management, welfare, and conditions of service matters for RAF personnel (regular and reserve) and, where appropriate, their dependants; and for the setting of policy and functional standards for all ceremonial, provost, legal, primary medical, nursing and chaplaincy services in the RAF.		
<i>Note: Expenditure related to personnel, stores and services, equipment, fuels and utilities, lands, buildings and works services, and general administrative expenses. Other expenditure includes certain special payments and grants in aid for the Royal Air Force Museum.</i>		
Section H: 2nd Permanent Under Secretary of State	660,035	—
Directing, in conjunction with the Vice Chief of the Defence Staff, the construction of an annual Defence Programme to give effect to UK Defence Policy within available resources, and monitoring the delivery of the Programme in year; scrutiny of major equipment projects in the context of the overall Defence Programme; promoting efficient and effective management throughout the Department, including the introduction of Resource Accounting and Budgeting; providing the central support services, including the Defence estate, central Civilian Management, security, policing and accountancy services, necessary to enable Departmental Objectives to be met. For accounting purposes, costs of the Chief Scientific Advisor (CSA), his staff and related expenditure, are included within the 2nd PUS TLB. CSA is responsible for providing scientific advice as a contribution to the formulation of defence policy, including proposals for the procurement of Defence equipment and managing the Corporate Research Programme. This TLB holder also has responsibility for repayment of interest charges under the Armed Forces (Housing Loans) Acts which is expenditure not included in the control total and therefore is part of Section L of Vote 1. Additionally, the loans and grants to the Meteorological Office shown as Section J of Vote 1 are the responsibility of this TLB Holder.		
<i>Note: Expenditure related to personnel and general administrative expenses. Other expenditure included corporate provision for civilian redundancy, compensation payments, legal costs and insurance, rent and maintenance of the civil element of the Defence estate.</i>		

Explanatory Notes on Expenditure and Receipts—continued

1 Expenditure items (continued)	Current £000	Capital £000
Section I: Vice Chief of the Defence Staff	2,061,851	—
<p>The formulation, in conjunction with other staffs, of defence policy, plans and commitments appropriate to the Government's security objectives, international obligations and defence resources; ensuring, with improving value for money, that the current and future effectiveness of the UK Armed Forces, including Service plans for operational deployments and transition to war, is consistent with the Government's Defence Strategy; administration and support of the overseas garrisons; provision of intelligence assessments; arms control monitoring; defence communication and information systems strategy; and responsibility for the Military Survey Defence Agency.</p> <p><i>Included in this TLB Holder's grant in aid is a payment to Commonwealth War Graves Commission (CWGC). The payment is included in Section I of Vote 1 except for an element in respect of VAT paid by the CWGC for UK expenditure which is expenditure not included in the control total and is, therefore, part of Section M of Vote 1.</i></p> <p><i>Note: Expenditure related to personnel, stores and services, equipment, transportation, fuels and utilities, lands, buildings and works services, including the married quarters estates, and general administrative expenses. Other expenditure included arms control monitoring, equipment support costs, UK telecommunication infrastructure projects, medical supplies, certain special payments and grants in aid, and subscriptions contributions and expenditure to certain international activities.</i></p>		
Section L: 2nd Permanent Under Secretary of State	5,045	—
<p>Repayment and interest charges under the Armed Forces (Housing Loans) Acts.</p>		
Section M: Vice Chief of the Defence Staff	487	—
<p>VAT paid by the Commonwealth War Graves Commission for UK expenditure.</p>		
Total	<u>11,693,615</u>	<u>—</u>

Explanatory Notes on Expenditure and Receipts—continued

2 Receipts payable to the Consolidated Fund	Estimated £000	Realised £000
(i) Receipts of classes authorised to be used as Appropriations in Aid	1,625,272	1,630,728
(ii) Receipts of other classes	13,344	17,895 (a)
Gross total	<u>1,638,616</u>	<u>1,648,623</u>
Appropriated in Aid		<u>1,625,272</u>
Net total		<u>23,351</u>
Actual sum payable separately to the Consolidated Fund		<u>£23,350,540.09</u>

(a) Mainly an accounting error in respect of a commercial dispute settlement (see Vote 3) and profit share in respect of the Married Quarters Estate disposal agreement.

Details of Receipts	Current £000	Capital £000
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ: Commander-in-Chief Fleet	22,912	7,156

Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; medical, education, training and other services; recoveries of Service pay and civilian staff costs; utility charges; accommodation stores; rents and other charges for land and buildings and NATO contributions towards the cost of works services; recovery from HM Customs and Excise of input VAT.

Subhead BZ: General Officer Commanding (Northern Ireland)	2,282	2,328
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Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; accommodation stores and services; education, training and other services; recoveries of Service pay and civilian staff costs; utility charges; rents and other charges for land and buildings; recovery from HM Customs and Excise of input VAT.

Subhead CZ: Commander-in-Chief Land Command	182,087	45,112
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Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; accommodation stores and services; movements; medical, education, training and other services; recoveries of Service pay and civilian staff costs; utility charges; rents and other charges for land and buildings; sale and rental of reserve and cadet forces property; recovery from HM Customs and Excise of input VAT.

Explanatory Notes on Expenditure and Receipts—continued

	Current £000	Capital £000
Subhead DZ: Air Officer Commanding-in-Chief RAF Strike Command	147,210	25,044
<i>Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; accommodation stores and services; movements; medical, education, training and other services; recoveries of Service pay and civilian staff costs; pensions paid to locally engaged civilians abroad; utility charges; rents and other charges for land and buildings; NATO contributions towards the cost of works services; payment for works services provided to non-exchequer bodies and other Government Departments; land and buildings and for personnel and services provided to the USAF; use by the Royal Family of 32 (TR) Squadron aircraft; recovery from HM Customs and Excise of input VAT.</i>		
Subhead EZ: 2nd Sea Lord/Commander-in-Chief Naval Home Command	46,069	4,941
<i>Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; movements; accommodation stores; medical, education, training and other services; recoveries of Service pay and civilian staff costs; utility charges, rents, sales and other charges for land and buildings; pay advance recoveries; purchase of discharge repayments; accommodation charges; education receipts; Portsmouth Heritage Trust receipts; recovery from HM Customs and Excise of input VAT.</i>		
Subhead FZ: Adjutant General (Personnel and Training Command)	30,167	17,535
<i>Note: Mainly receipts and refunds relating to: sales of fuels; accommodation stores; education, training and other services; recoveries of Service pay and civilian staff costs; purchase of discharge; utility charges; rents and other charges for land and buildings; recovery from HM Customs and Excise of input VAT.</i>		
Subhead GZ: Air Officer Commanding-in-Chief RAF Personnel and Training Command	94,528	2,211
<i>Note: Mainly receipts and refunds relating to: sales of fuels; movements; telecommunications and postage; accommodation stores and services; education, training and other services; recoveries of Service pay and civilian staff costs; purchase of discharge; occupation of Service accommodation; utility charges; rents and other charges for land and buildings; disposal of lands and buildings; payments for works services provided to other Government Departments; receipts and refunds from personnel on loan; receipts from the CAA; sales of RAF News; recovery from HM Customs and Excise of input VAT.</i>		

Explanatory Notes on Expenditure and Receipts—continued

	Current £000	Capital £000
Subhead HZ: 2nd Permanent Under Secretary of State	45,311	23,926
<i>Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; movements; computer services; recoveries of Service pay and civilian staff costs; utility charges; rents and other charges for land and buildings; miscellaneous services; corporate telecommunications; financial and legal services; works services provided to the US forces; recovery from HM Customs and Excise of input VAT.</i>		
Subhead IZ: Vice Chief of the Defence Staff	220,647	5,751
<i>Note: Mainly receipts and refunds relating to: sales of fuels and equipment; utility charges; recoveries of Service pay and civilian staff costs; pensions paid to locally engaged civilians abroad; movements; accommodation stores and services; rents and other charges for land and buildings; medical services; telecommunications and postage; education, training and other services; works services provided to non-exchequer bodies; NATO contributions towards the cost of the UK's NATO activities; NATO infrastructure projects; recovery from HM Customs and Excise of input VAT.</i>		
Subhead JZ: Sale of Married Quarters Estate	—	700,000
<i>Note: Receipts from sale of the Married Quarters Estate.</i>		
Subhead KZ: Repayments from the Meteorological Office	—	5,511
<i>Note: Recovery of working capital loan to Meteorological Office.</i>		
Total	791,213	839,515
(ii) Receipts of other classes	Current £000	Capital £000
Accrued interest on short term bank deposits of foreign currency	11,540	—
Payment by a Company following a compromise settlement	3,164	—
Balance of the proceeds of the sale of Married Quarters Estate in England and Wales	—	1,836
Gain on foreign currency exchange rate transactions	800	—
Recovery of CILOR from NATO users nations for F/Y 1990/91	267	—
Accrued interest on sterling bank accounts held at Lloyds Bank plc	102	—
Refund of overpayment by MOD in 1988/89 for Joint Police Authority for Northern Ireland/MOD works project	—	67
Commission sharing rebate payable to MOD under a Hotel Booking Service Contract	41	—
Unidentified credit transaction in Sub Accountants Foreign Currency Italian Lira Account	36	—
Balance remaining after end of year reconciliations with the Inland Revenue and DSS	27	—
Monies due to MOD in respect of an employee employed via a placement scheme	9	—
Money received in foreign currency by RAF Unit for use in daily expenditure	3	—
Refund due to a settlement of a Third Party Claim	3	—
Total	15,992	1,903

Explanatory Notes on Expenditure and Receipts—continued

Losses Statement	£000
Total (14,411 cases)	36,529
Details (cases over £100,000)	
Cash Losses	
Unreconcilable balance within a pay-related suspense account arising from bookkeeping errors in previous financial years, now written off following a detailed internal investigation. Fraud or theft is not suspected. An unreconciled balance on a successor pay-related suspense account is also being investigated and a further write-off is expected during 1998-99. Strengthened management and accounting procedures have been put in place to prevent similar losses in future	19,553
Additional expenditure incurred through a failure to increase the contributory element of a travelling allowance paid to service personnel during the period October 1991 to March 1994 has been written off	331
A combined cash loss of amounts held in four suspense accounts. These consist of an overpayment made to a contractor in March 1996 amounting to £110,716.99—attempts to recover are still continuing—and unreconcilable balances amounting to £142,831.16. The losses, which were due to poor bookkeeping procedures in previous years, have been written off. Controls are now in place to prevent a recurrence of this type of loss in future	254
Incorrect balance in a suspense account arising from bookkeeping errors in previous financial years now written off	237
A number of Ministry of Defence Fire Officers were overpaid from November 1993 to August 1996 as a result of the failure, due to an administrative oversight, to implement an increase in their salary abatement rate to take account of membership of a non-contributory pension scheme. The total value of the overpayment was £157,775.46 of which £10,580.98 relates to Defence Research Agency/Defence Evaluation and Research Agency staff; of the remainder £91,085.37 is attributable to Vote 1 (see also Votes 2 and 3)	91
A claim against a company that went into receivership in 1993 has been abandoned. The total value of the claim is £333,817.18 of which £24,953.01 related to an overpayment to the company on Vote 1 (see also Votes 2 and 3)	25
Stores Losses	
The breakdown of ammunition accounting procedures in Bosnia during the period April 1994 to June 1996 resulted in a loss amounting to £4,109,000. A Board of Inquiry found that there was no evidence of misappropriation, fraud, theft or loss in transit but that the most likely cause was poor stores accounting. A number of the Board of Inquiry's recommendations aimed at preventing a similar loss have been implemented	4,109
A building and stores were destroyed by fire in June 1995. A Board of Inquiry determined that the fire was caused by an electrical fault on a four ton truck. Vehicle modifications have been carried out to prevent any recurrence of such a fault	1,767
A high voltage auxiliary unit was lost in transit between an RAF station and a stores unit. Proof of receipt could not be established and despite extensive searches the item could not be found. Fraud or theft is not suspected and action has been taken to prevent a recurrence of this type of loss	218

Explanatory Notes on Expenditure and Receipts—continued

	£000
As a result of a road traffic accident in August 1993 two army vehicles were damaged due to culpable negligence. A Regimental Enquiry found that the soldiers involved had been discharged from the Army before disciplinary action could be taken and have recommended changes to procedure to prevent a recurrence	111
Repairable damage caused to a vehicle in a road traffic accident in February 1997. Following an investigation the driver was found guilty of dangerous driving and fined for negligence	104
Transfer of Land and Buildings	
Total (20 cases)	344
Details	
Discount on sales of surplus married quarters to service personnel (12 cases)	177
Discount on sales of surplus married quarters to civilian personnel (7 cases)	117
Discount on the sale of a surplus married quarter on the Open Market (1 case)	50

Other Notes

A decision in 1996 not to proceed with an Information Technology Project has resulted in a constructive loss amounting to £34,600,000. Due to delays in development of the project, new computer technology had overtaken the original specification and continuation would have resulted in an obsolete system. A replacement project is underway which includes £1,800,000 of liquidated damages received in kind from the contractors.

Land and buildings to a total value in excess of £100,000 were gifted to the Government of Gibraltar.

There were 22 instances of supplies and services being provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British naval ports totalling £37,494 (see also Vote 2)

Kevin Tebbit
Accounting Officer

21 September 1998

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 8 to 20 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page vii the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them, and to report my opinion to you.

Basis of Opinion

I conducted my audit in accordance with 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 expenditure and receipts have been applied to the purposes intended by Parliament and 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.

Opinion

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class I, Vote 1 for the year ended 31 March 1998; and
- in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

30 October 1998

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

Defence: Logistics services

See also Report of the Comptroller and Auditor General

Summary of Outturn, and the Account of the sum expended, in the year ended 31 March 1998, compared with the sum granted, for expenditure by the Ministry of Defence on logistics services for the armed forces and the related personnel costs; spares, repair, maintenance, stores and supply services; associated capital facilities and works; contractors' redundancy costs; services provided by other Government departments; sundry services, subscriptions and grants; and set-up costs, loans and funding to trading funds.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£000	£000	£000	£000	£000	£000
Defence Budget						
A	2,397,442	306,393	2,091,049	2,360,741	297,587	2,063,154
B	1,114,903	39,788	1,075,115	1,105,278	40,579	1,064,699
C	1,818,526	178,052	1,640,474	1,721,289	151,732(a)	1,569,557
Total	<u>5,330,871</u>	<u>524,233</u>	<u>*4,806,638</u>	<u>5,187,308</u>	<u>489,898</u>	<u>4,697,410</u>

*The original cash limit on this Vote was subsequently reduced to £4,695,074,000.

In line with Estimates, expenditure—except on contracted-out services—is included gross of VAT. Any recoveries of such VAT are credited to Appropriations in Aid. Expenditure on contracted-out services is included net of VAT recoveries.

Explanation of the Cause of Variation between Estimated and Actual Appropriations in Aid

(a) Mainly a technical accounting error and slippage in receipts from an Overseas Government.

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section A:				
Chief of Fleet Support				
A2 Direct expenditure: other current	2,298,703	2,262,894	35,809	—
A3 Direct expenditure: capital	91,422	89,204	2,218	—
A4 Grants and transfers: current	7,317	8,643	—	1,326
Section B:				
Quartermaster General				
B2 Direct Expenditure: other current	1,026,917	1,026,689	228	—
B3 Direct Expenditure: capital	87,986	78,589	9,397	—
Section C:				
Air Officer Commanding-in-Chief				
RAF Logistics Command				
C2 Direct expenditure: other current	1,746,741	1,660,676	86,065	—
C3 Direct expenditure: capital	71,785	60,613	11,172	—
Gross Total	£000			
Original	5,275,673			
Supplementary	55,198			
	5,330,871	5,187,308	144,889	1,326
			Surplus of Gross Estimate over Expenditure <u>143,563</u>	
Deduct	Estimated	Realised		
Z Appropriations in Aid	£000	£000		
Original	469,036			
Supplementary	55,197			
	524,233	489,898		Deficiency of Appropriations in Aid realised <u>34,335</u>
Net Total				Net Surplus
Original	4,806,637			<u>109,228</u>
Supplementary	1			
	4,806,638	4,697,410		

Actual surplus to be surrendered

£109,228,384.29**Explanation of the Causes of Variations between Expenditure and Grant.**

A4 Mainly an underestimate of Annual Compensation Payments for staff previously employed at the Devonport Dockyard.

B3 Mainly slower progress, reduced requirements and changes in the classification of a number of Information Technology Projects.

C3 Mainly a reprofiling of deliveries of the Logistics Information Technology System and slower progress on other Information Technology Projects.

Explanatory Notes on Expenditure and Receipts

1 Expenditure items	Current £000	Capital £000
Section A: Chief of Fleet Support	2,360,741	—
Supporting the Fleet in peace, crisis and war by providing available, capable and safe ships, submarines and aircraft; both in-service and planned. In addition, to provide joint service support to the Army and RAF for rationalised ranges of materiel.		
<i>Note: Expenditure related to ship and submarine repair, aircraft repair; procurement of spares and repairs for weapons, engines and other equipment; stores; contracted out operational and technical support services; hydrographic services; food; personnel; infrastructure and estate, transportation; telecommunications; information systems; salvage and mooring services; plant and machinery, utilities and other administrative expenses.</i>		
Section B: Quartermaster General	1,105,278	—
Sustainment of the Army in peace and war through the provision of logistic policy and plans, in-service management of equipment, weapons and ammunition; storage and distribution; design, production and issue of clothing; postal and courier services; transport and movements; engineering logistic resources; and joint service support to the RN and RAF for rationalised ranges of materiel.		
<i>Note: Expenditure related to military and civilian personnel, spares and repair, clothing, general stores, information technology, works services and property management, and other general administrative expenses.</i>		
Section C: Air Officer Commanding-in-Chief RAF Logistics Command	1,721,289	—
Management of all support for RAF aircraft, communications, airborne and ground systems; the planning of support for new equipments; the provision of logistic support for the RAF; and Joint Service support to the RN and Army for rationalised ranges of materiel.		
<i>Note: Expenditure related to personnel, RAF storage and distribution services, equipment, transportation, fuels and utilities, lands, buildings and works services, and general administrative expenses. Other expenditure included equipment support costs, RAF third line aircraft and avionics repair, furniture and other accommodation stores, and Central European Pipeline System.</i>		
Total	<u>5,187,308</u>	<u>—</u>
2 Receipts payable separately to the Consolidated Fund	Estimated £000	Realised £000
Receipts of other classes not authorised to be used as Appropriations in Aid	3,002	1,364(a)
Actual sum payable separately to the Consolidated Fund		<u>£1,364,278.23</u>
(a) Mainly slippage in payments from a Non-Departmental Public Body and a collaborative project.		

Explanatory Notes on Expenditure and Receipts—continued

Details of Receipts	Current	Capital
(i) Receipts of classes authorised to be used as Appropriations in Aid	£000	£000
Subhead AZ: Chief of Fleet Support	275,725	21,862
<i>Note: Mainly receipts and refunds relating to the disposal sale of ships, submarines, aircraft, material, food, fuel, land and buildings; recovery of VAT and food charges; oil tank hire; recovery of working capital loan; recoveries for various services for NATO and other miscellaneous receipts from sales, rents and other charges.</i>		
Subhead BZ: Quartermaster General	24,270	16,309
<i>Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; accommodation stores and services; movements; training and other services; recoveries of Service pay and civilian staff costs; utility charges; rents and other charges for land and buildings; sales of clothing; sale and disposal of spares and equipment; recoveries from contract repair work; recovery from HM Customs and Excise of input VAT.</i>		
Subhead CZ: Air Officer Commanding-in-Chief RAF Logistics Command	143,104	8,628
<i>Note: Mainly receipts and refunds relating to: sales of fuels; telecommunications and postage; commercial exploitation levies; movements; education, training and other services; recoveries of Service pay and civilian staff costs; utility charges; rents and other charges for land and buildings; sale and disposal of spares and equipment; NATO contributions towards the cost of works services and equipment, including aircraft spares; operation of the Government Pipeline and Storage System; recovery from HM Customs and Excise of input VAT.</i>		
Total	<u>443,099</u>	<u>46,799</u>
	Current	Capital
(ii) Receipts of other classes	£000	£000
Interest due to MOD on repayment of Deemed and Working Capital Loans made to the Hydrographic Office Trading Fund	—	1,222
Payments relating to "Debtors Enhancements" for services provided by MOD on behalf of the DERA	139	—
Refund of salvage monies which cannot be awarded under the 10 year rule and Government Discount scheme	3	—
Total	<u>142</u>	<u>1,222</u>

Explanatory Notes on Expenditure and Receipts—continued

Losses Statement	£000
Total (5,320 cases)	8,316
Details (cases over £100,000)	
Cash Losses	
A claim against a company in respect of a contract for equipment placed in 1986 has not been pursued. The equipment proved unsatisfactory and had to be procured, at extra cost, elsewhere. The cost has been reduced by a settlement of £58,750 from the original contractor.	1,910
A claim against a company that went into receivership in 1993 has been abandoned. The total value of the claim is £333,817.18 of which £81,184.62 relates to a claim abandoned on Vote 2 (see also Votes 1 and 3).	81
A number of Ministry of Defence Fire Officers were overpaid from November 1993 to August 1996 as a result of the failure, due to an administrative oversight, to implement an increase in their salary abatement rate to take account of membership of a non-contributory pension scheme. The total value of the overpayment was £157,775.46 of which £10,580.98 relates to Defence Research Agency/Defence Evaluation and Research Agency staff; of the remainder, £46,800.92 is attributable to Vote 2 (see also Votes 1 and 3).	47
Stores Losses	
Following the closure of two Ordnance Support Units a post-audit of the Units' stores accounts revealed that, in a number of instances, accounting procedures covering transfer of stores had not fully been complied with. The audit trail was incomplete and although no physical loss occurred the value of the stores had to be written off as a loss. Improved internal monitoring has now been put in place.	166
Stores items could not be accounted for during an audit of surveying equipment. The primary causes were poor storekeeping and accounting practices by previous owners over a period of 30 years, prior to responsibility being passed to the Directorate of Naval Surveying, Oceanography and Meteorology. Theft is not suspected and systems are in place to prevent a recurrence.	150
Notes	
Special Payments	
Total (1 case)	363
Details (cases over £100,000)	
Extra-contractual payment to a contractor amounting to £363,127.97 (including VAT) due to the Department's failure to supply agreed items of equipment to the contractor on time and inadequate definition of the technical data pack used with the contract.	363
Gifts	
Total (37 cases)	1,058

Explanatory Notes on Expenditure and Receipts—continued

	£000
Details (cases over £100,000)	
Ministry of Defence historic vehicles currently on display at the Museum of Army Transport have been gifted to the National Army Museum. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 4 December 1997.	413
A Spitfire which served with 602 Squadron (Glasgow) from 1947-1951 has been gifted to the City of Glasgow Museums. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 15 January 1997 and the gift handed over on 2 March 1998.	200
10 surplus medium wheeled tractors were gifted to the HALO Trust to assist in the clearance of landmines around the world. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 9 March 1998.	125
Pieces of Ministry of Defence artillery equipment refurbished by and displayed in the Royal Artillery Museum since 1925 have been gifted to the museum. Details of the transfer were notified to the House of Commons in a Departmental Minute dated 2 July 1997.	117

Notes

Constructive loss of £106,972,000 in respect of construction work on nuclear refitting facilities at Rosyth Royal Dockyard was abandoned when expenditure was made nugatory by the 1993 decision to consolidate the refitting of nuclear submarines at Devonport. The value of the loss includes a £1,900,000 claim by the construction company, the payment of which is in dispute. Advance notification of the loss was made in the 1994-95 Class I, Vote 2 Appropriation Account.

The naval base at Rosyth was sold to Rosyth 2000 Ltd, a consortium including the Bank of Scotland, Forth Ports, Babcocks and Scottish Power, on 1 September 1997 for £9,500,000. The sale package excluded the Oil Fuel Depot, East Tip and St Margarets' Marsh which are now being prepared for sale. The sale price was offset by the costs of infrastructure improvements and land remediation which are subject to maximum prices with the return to the Ministry of Defence of any underspend. An adjustment was also made for changes to the sale agreement for the lease back of buildings for the Royal Naval Store Depot which still operates within the former Naval Base. After adjustments, the net receipt brought to account in 1997-98 was £1,095,000. There is some non nuclear contamination on the site and responsibility has now passed to Rosyth 2000 Ltd for the more heavily contaminated areas. However, the Ministry of Defence has retained a contingent liability (assessed at £500,000) for the less contaminated areas of the Base for a period of 12.5 years.

There were 89 instances of supplies and services being provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British naval ports totalling £487,038 (see also Vote 1).

R Walmsley
Accounting Officer

17 September 1998

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 22 to 27 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page vii the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them, and to report my opinion to you.

Basis of Opinion

I conducted my audit in accordance with 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 expenditure and receipts have been applied to the purposes intended by Parliament and 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.

Opinion

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class I, Vote 2 for the year ended 31 March 1998; and
- in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

30 October 1998

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

Defence: Systems procurement and research

Summary of Outturn, and the **Account** of the sum expended, in the year ended 31 March 1998, compared with the sum granted, for expenditure by the Procurement Executive of the Ministry of Defence in operating its headquarters and establishments and for its other common services; research etc by contract; procurement including development and production of equipment and weapon systems for the three armed forces; purchases for sale abroad; contingent liabilities; for sundry other procurement services including those on repayment terms; the procurement of a new Royal Yacht; and loans and funding to trading funds.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£000	£000	£000	£000	£000	£000
Defence Budget						
A	799,285	65,029	734,256	782,523	71,921(a)	710,602
B	1	—	1	—	—	—
C	377,505	12,898	364,607	364,452	5,843(b)	358,609
D	550,921	6,826	544,095	512,562	1,688(c)	510,874
E	315,424	14,460	300,964	308,638	13,399	295,239
F	836,339	20,645	815,694	830,512	27,213(d)	803,299
G	898,096	75,294	822,802	890,802	73,782	817,020
H	1,284,457	8,720	1,275,737	1,206,585	10,417(e)	1,196,168
I	635,126	22,586	612,540	595,106	23,597	571,509
J	466,952	10,518	456,434	468,722	9,796	458,926
K	468,158	10,920	457,238	469,769	13,911(f)	455,858
L	—	31,730	(31,730)	—	31,897	(31,897)
M	960	—	960	97	—	97
Total	6,633,224	279,626	6,353,598	6,429,768	283,464	*6,146,304

*This figure is £3,838,000 less than the net total of expenditure on the Appropriation Account, being the difference between the Appropriations in Aid realised (£283,464,000) and those authorised to be applied (£279,626,000).

In line with Estimates, expenditure—except on contracted-out services—is included gross of VAT. Any recoveries of such VAT are credited to Appropriations in Aid. Expenditure on contracted-out services is included net of VAT recoveries.

Summary of Outturn—continued**Explanations of the Causes of Variations between Estimated and Actual Appropriations in Aid**

- (a) Mainly higher customer receipts aligned to an increase in the Department's administrative costs in support of an overseas sales programme and the recovery of an overpayment on the nuclear programme.
- (b) Mainly delays in receipts of Commercial Exploitation Levies on overseas sales of Surface Ships.
- (c) Mainly delays in the settlement of contractual liabilities related to the Spearfish Development and Initial Production contract and Commercial Exploitation Levies on sales of Sonar 2093.
- (d) Mainly earlier than anticipated receipt of Commercial Exploitation Levies on sales of Warrior, Challenger 2 and various ordnance products; reimbursement of overpayment to contractor; and an underestimation of VAT recoveries.
- (e) Mainly an underestimate of Commercial Exploitation Levies on sales of helicopters and associated equipment.
- (f) Mainly an underestimate of receipts from the Defence Evaluation and Research Agency in respect of overpayments made on the Applied Research Programme.

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section A:				
Chief of Defence Procurement TLB				
A2 Direct expenditure: other current	790,353	769,809	20,544	—
A3 Direct expenditure: capital	8,932	12,714	—	3,782
Section B:				
Miscellaneous procurement services				
B2 Direct expenditure: other current	1	—	1	—
Section C:				
Director-General Surface Ships				
C2 Direct expenditure: other current	377,505	364,452	13,053	—
Section D:				
Director-General Submarines				
D2 Direct expenditure: other current	550,921	512,562	38,359	—
Section E:				
Chief of Strategic Systems Executive				
E2 Direct expenditure: other current	315,424	308,638	6,786	—
Section F				
Director-General Command Land Systems				
F2 Direct expenditure: other current	836,339	830,512	5,827	—

Explanation of the causes of variation between Expenditure and Grant.

A3 Mainly faster progress on the nuclear programme and an underestimate of Information Technology and infrastructure costs within the Procurement Executive.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section G:				
Director-General Air Systems 1				
G2 Direct expenditure: other current	898,096	890,802	7,294	—
Section H:				
Director-General Air Systems 2				
H2 Direct expenditure: other current	1,284,457	1,206,585	77,872	—
Section I:				
Director-General Weapons and Electronic Systems				
I2 Direct expenditure: other current	635,126	595,106	40,020	—
Section J:				
Director-General Command Information Systems				
J2 Direct expenditure: other current	466,952	468,722	—	1,770
Section K				
Major Customers' Research Budgets				
K2 Direct expenditure: other current	468,158	469,769	—	1,611
Section M:				
Royal Yacht Procurement				
M2 Direct expenditure: other current	960	97	863	—
Gross Total				
<i>Original</i>	6,397,014			
<i>Supplementary</i>	<u>236,210</u>			
	6,633,224	6,429,768	210,619	7,163
			Surplus <u>203,456</u>	
<i>Deduct</i>				
Z Appropriations in Aid		Estimated	Applied	
<i>Original</i>	221,484	£000	£000	
<i>Supplementary</i>	<u>58,142</u>			
		279,626	279,626	
Net Total				
<i>Original</i>	6,175,530			
<i>Supplementary</i>	<u>178,068</u>			
	6,353,598	6,150,142		

Actual surplus to be surrendered

£203,456,471.80**Explanation of the Cause of Variation between Expenditure and Grant.**

M2 Cancellation of the Replacement Royal Yacht.

Explanatory Notes on Expenditure and Receipts

1 Expenditure items	£000
Section A: Chief of Defence Procurement TLB	782,523
<p>The cost effective procurement of defence equipment to meet the operational requirements of the three Services; defence export services; and the efficient and effective management of the Procurement Executive within allocated resources.</p> <p><i>Note: Expenditure related to personnel, extra mural research and capital works. Other expenditure includes contributions to the Export Credit Guarantee Department in connection with credit arrangements for certain defence export sales. Additionally, the loans and grants to the Defence Evaluation and Research Agency shown at Section L of Vote 3 is the responsibility of this TLB Holder.</i></p>	
Section B: Miscellaneous Procurement Services	—
<p>This Vote Section covers miscellaneous payments, recoveries, receipts and levies, including refunds from contractors; and support projects for the Saudi Arabian Government.</p> <p><i>Note: Miscellaneous recoveries and levy receipts.</i></p>	
Section C: Director-General Surface Ships	364,452
<p>This business unit within the Procurement Executive deals with the procurement of new surface ships and associated weapons systems.</p> <p><i>Note: Costs related to the procurement of systems and equipment.</i></p>	
Section D: Director-General Submarines	512,562
<p>This business unit within the Procurement Executive deals with the procurement of submarines and their weapons systems.</p> <p><i>Note: Costs related to the procurement of systems and equipment.</i></p>	
Section E: Chief of Strategic Systems Executive	308,638
<p>This business unit within the Procurement Executive deals with the procurement of the UK's strategic systems.</p> <p><i>Note: Costs related to the procurement of systems and equipment.</i></p>	
Section F: Director-General Command Land Systems	830,512
<p>This business unit within the Procurement Executive deals with the procurement of tanks, armoured vehicles and other land-based fighting and support equipment.</p> <p><i>Note: Costs related to the procurement of systems and equipment.</i></p>	
Section G: Director-General Air Systems 1	890,802
<p>This business unit within the Procurement Executive deals with the UK procurement aspects of Tornado, Harrier, Eurofighter 2000 and future military aircraft projects.</p> <p><i>Note: Costs related to the procurement of systems and equipment.</i></p>	
Section H: Director-General Air Systems 2	1,206,585
<p>This business unit within the Procurement Executive deals with the procurement of rotary-wing aircraft and non-fast jet fixed wing aircraft.</p> <p><i>Note: Costs related to the procurement of systems and equipment.</i></p>	

Explanatory Notes on Expenditure and Receipts—continued**Section I: Director-General Weapons and Electronic Systems** 595,106

This business unit within the Procurement Executive deals with the procurement of weapons and electronic systems.

Note: Costs related to the procurement of systems and equipment.

Section J: Director-General Command Information Systems 468,722

This business unit within the Procurement Executive deals with the procurement of communications, information and simulation systems.

Note: Costs related to the procurement of systems and equipment.

Section K: Major Customers' Research Budgets 469,769

The provision of independent scientific and technical advice on operational requirement specifications, threat assessments, technology demonstration and operational analysis relevant to communications and information systems, sea, land, and air, and the maintenance and development of the Defence science and technology base to further knowledge in areas of key interest and to enable the exploitation of advance technology in areas likely to give long term benefit to MOD.

Note: Costs related to major customers' research budget.

Section L: Loans and Grants to and repayments from the Defence Evaluation and Research Agency —

Note: Costs related to grants made to the Defence Evaluation and Research Agency (DERA) as part of the initial site rationalisation programme including redundancy costs.

Section M: Royal Yacht Procurement 97

Note: Costs related to the procurement of a replacement Royal Yacht.

Total 6,429,768

2. Receipts payable separately to the Consolidated Fund	Estimated	Realised
	£000	£000
(i) Receipts of classes authorised to be used as Appropriations in Aid	279,626	283,464
(ii) Receipts of other classes	<u>37,208</u>	<u>42,205</u> (a)
Gross total	<u>316,834</u>	<u>325,669</u>
Appropriated in Aid		<u>279,626</u>
Net total		<u>46,043</u>
Actual sum payable separately to the Consolidated Fund		<u>£46,042,841.12</u>

- (a) Mainly higher than expected accrued interest and credits against advances paid to Oversea Governments and earlier than expected interest payment on rescheduled loans, offset by an accounting error in respect of a commercial dispute settlement (see Vote 1).

Explanatory Notes on Expenditure and Receipts—continued

Details of Receipts	Current £000	Capital £000
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ: Chief of Defence Procurement TLB	67,668	4,253
<i>Note: Mainly departmental expenses and receipts arising from staff loaned to Other Government Departments and non-exchequer customers; receipts and refunds relating to: disposal of stores and equipment; rents and other charges for land and buildings; sales of land and buildings; provision of services; recovery from HM Customs and Excise of input VAT.</i>		
Subhead BZ: Miscellaneous Procurement Services	—	—
<i>Note: Miscellaneous receipts.</i>		
Subhead CZ: Director-General Surface Ships	5,843	—
<i>Note: Mainly receipts relating to: sales and disposals of equipment; refunds from contractors; commercial exploitation levies; recovery from HM Customs and Excise of input VAT.</i>		
Subhead DZ: Director-General Submarines	1,688	—
<i>Note: Mainly receipts relating to: sales and disposals of equipment; refunds from contractors; recovery from HM Customs and Excise of input VAT.</i>		
Subhead EZ: Chief of Strategic Systems Executive	13,399	—
<i>Note: Mainly miscellaneous receipts; recovery from HM Customs and Excise of input VAT.</i>		
Subhead FZ: Director-General Command Land Systems	27,213	—
<i>Note: Mainly receipts relating to: commercial exploitation levies; sales to Other Government Departments; recovery from HM Customs and Excise of input VAT.</i>		
Subhead GZ: Director-General Air Systems 1	73,782	—
<i>Note: Mainly receipts relating to: sales of equipment to Overseas Governments; commercial exploitation levies; recovery from HM Customs and Excise of input VAT.</i>		
Subhead HZ: Director-General Air Systems 2	10,417	—
<i>Note: Mainly receipts relating to: sales of equipment to Overseas Governments; refunds from contractors; commercial exploitation levies; recovery from HM Customs and Excise of input VAT.</i>		
Subhead IZ: Director-General Weapons and Electronic Systems	23,597	—
<i>Note: Mainly recoveries of NATO funding; refunds from contractors; commercial exploitation levies; recovery from HM Customs and Excise of input VAT.</i>		
Subhead JZ: Director-General Command Information Systems	9,796	—
<i>Note: Mainly recoveries of NATO funding; sales of equipment to Other Government Departments and non-exchequer customers; refunds from contractors; commercial exploitation levies; recovery from HM Customs and Excise of input VAT.</i>		
Subhead KZ: Major Customers' Research Budgets	13,911	—
<i>Note: Receipts from Other Government Departments and recovery from HM Customs and Excise of input VAT.</i>		

Explanatory Notes on Expenditure and Receipts—continued

Details of Receipts—continued	Current £000	Capital £000
<i>Subhead LZ: Loans and grants to and repayments from the Defence Evaluation and Research Agency (DERA)</i>	—	31,897
<i>Note: Instalments in repayment of DERA working capital loan.</i>		
Total	<u>247,314</u>	<u>36,150</u>
 (ii) Receipts of other classes		
DERA ordinary dividend	—	15,000
Dividend on sale of DSSD	10,433	—
Interest due to MOD on repayment of Opening and Vesting Day loans made to DERA	—	9,884
Accrued interest on advances held by an agency or a foreign government for contractual purposes	4,412	—
Accrued credits against advances paid in a prior year to an overseas government for a collaborative project	2,476	—
Total	<u>17,321</u>	<u>24,884</u>
 Losses Statement		£000
Total (76 cases)		18,908
 Details (cases over £100,000)		
A claim for Commercial Exploitation Levy of the sum of £10,283,000 subsequent to the sale of aircraft to foreign governments by a third party has been abandoned. Discussions continue in order to achieve a non-cash settlement		10,283
Write-off of part of a £9,166,000 claim against a contractor for shortfall in performance on a contract for fighting equipment; £2,500,000 was recovered from the contractor. This loss was part of an overall negotiated settlement involving a substantial counter-claim and in which an extra contractual payment of £13,213,000 was made to the same contractor; this is recorded under Special Payments		6,666
Unreconcilable balances on three suspense accounts used to record payments for equipment procured on behalf of third parties. Accounting and administrative procedures have been reinforced to prevent a recurrence		633

Explanatory Notes on Expenditure and Receipts—continued

Losses Statement—continued	£000
Fruitless payment resulting from the purchase and incomplete refurbishment of two escort coaches for use during rail transport of used submarine reactor fuel. The refurbishment contract was seven years behind schedule and considerably over budget, with little prospect of satisfactory completion. Improved guidance is to be issued to reflect lessons learned from the management of the contract. A claim for consequential loss against the original contractor is being pursued	441
Incorrect balance in a suspense account arising from a bookkeeping error in a previous financial year. Systems are currently being revised to prevent a recurrence	271
A claim against a company that went into receivership in 1993 has been abandoned. The total value of the claim is £333,817.18 of which £34,796.55 relates to the Vote 3 overpayment and £192,883.00 to a claim abandoned (see also Votes 1 and 2)	228
A claim against a company dealing with the marketing and sale of surplus Information Technology equipment has been abandoned. The company went into voluntary liquidation in August 1996	120
A number of Ministry of Defence Fire Officers were overpaid from November 1993 to August 1996 as a result of the failure, due to an administrative oversight, to implement an increase in their salary abatement rate to take account of membership of a non-contributory pension scheme. The total value of the overpayment was £157,775.46 of which £10,580.98 relates to Defence Research Agency/Defence Evaluation and Research Agency staff; of the remainder £9,308.19 is attributable to Vote 3 (see also Votes 1 and 2)	9
Notes	
Special Payments	
Total (2 cases)	72,287
Details (cases over £100,000)	
Ex-Gratia payments on account to British Nuclear Fuels plc and the United Kingdom Atomic Energy Authority towards the cost of treating and disposing of nuclear wastes and decommissioning plant at British Nuclear Fuels plc sites. The total paid to date is £579 million	59,074
Extra-contractual payment to a contractor in settlement of claims regarding the provision of government furnished equipment on a contract for fighting equipment. Liquidated damages, totalling £265,000 have been recovered from the supplier of the government furnished equipment. Other losses of £6,666,000 on this contract are recorded in the Losses Statement	13,213
Other Notes	
Estimated payments of £8,000,000 representing the United Kingdom Ministry of Defence share of expenditure on aircraft equipment intended for the Royal Air Force but diverted to a foreign government were charged to Section G. Replacements were at no cost to the Defence Budget. Receipts arising from the management of this project have been credited to Subhead GZ.	

R Walmsley
Accounting Officer

17 September 1998

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 29 to 37 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page vii the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them, and to report my opinion to you.

Basis of Opinion

I conducted my audit in accordance with 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 expenditure and receipts have been applied to the purposes intended by Parliament and 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.

Opinion

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class 1, Vote 3 for the year ended 31 March 1998; and
- in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

30 October 1998

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

Defence: Armed forces retired pay, pensions, etc

See also Report of the Comptroller and Auditor General

Summary of Outturn, and the Account of the sum expended, in the year ended 31 March 1998, compared with the sum granted, for expenditure by the Ministry of Defence on retired pay, pensions and other payments, etc.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£000	£000	£000	£000	£000	£000
Defence Budget						
A	<u>2,035,765</u>	<u>913,989</u>	<u>1,121,776</u>	<u>2,040,199</u>	<u>931,094</u>	<u>*1,109,105</u>

* This figure is £17,105,000 less than the net total of expenditure on the Appropriation Account, being the difference between the Appropriations in Aid realised (£931,094,000) and those authorised to be applied (£913,989,000).

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
A4 Grants and transfers: current	2,035,765	2,040,199	—	4,434
Gross Total				
<i>Original</i>	2,077,739			
<i>Supplementary</i>	<u>(41,974)</u>			
	<u>2,035,765</u>	<u>2,040,199</u>	—	4,434
			Excess of Expenditure over Gross Estimate	
			<u>4,434</u>	
<i>Deduct</i>				
Z Appropriations in Aid		Estimated		Applied
<i>Original</i>	1,004,995	£000		£000
<i>Supplementary</i>	<u>(91,006)</u>			
		913,989		913,989
Net Total				
<i>Original</i>	1,072,744			
<i>Supplementary</i>	<u>49,032</u>			
			Excess of Expenditure over Net Estimate	
			<u>4,434</u>	
	1,121,776	1,126,210		

Actual excess of Expenditure over Net Estimate

£4,434,346.80

Explanatory Notes on Expenditure and Receipts

1 Expenditure items £000

Retired pay, pensions and other payments to Service Personnel and their dependants 2,040,199

Note: Retired pay, pensions and other payments (including commutation) to Royal Navy, Royal Marines, Army and Royal Air Force personnel or their dependants and includes terminal grants, gratuities, ex gratia payments and payments of transfer values for personnel transferred to employment outside the Armed Forces.

Total 2,040,199

2. Receipts payable separately to the Consolidated Fund Estimated Realised

£000 £000

(i) Receipts of classes authorised to be used as Appropriations in Aid 913,989 931,094

Appropriated in Aid 913,989

Net Total 17,105

£12,672,148.61 paid separately to the Consolidated Fund } £17,105,495.41
 £4,433,346.80 available for Excess Vote }

Details of Receipts Current Capital

£000 £000

(i) Receipts of classes authorised to be used as Appropriations in Aid

Subhead AZ: 931,094 —

Note: Transfer values for personnel entered from employment outside the Armed Forces; refunds of non-effective pay and gratuities on re-engagement; "buying-in" of half-rate forces family pensions; purchase of added years and enhancement benefits; receipts for Accruing Superannuation Liability Charges.

Total 931,094 —

Kevin Tebbit
Accounting Officer

21 September 1998

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 39 to 41 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page vii the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them, and to report my opinion to you.

Basis of Opinion

I conducted my audit in accordance with 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 expenditure and receipts have been applied to the purposes intended by Parliament and 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.

Opinion

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class 1, Vote 4 for the year ended 31 March 1998; and
- except for the excess expenditure of £4.4 million referred to in paragraphs 11 to 13 of my report, in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

30 October 1998

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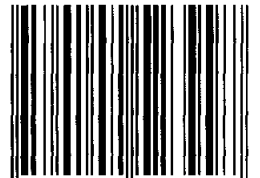
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