

Appropriation Accounts 1999–2000

Volume 6: Class VI 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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Contents

	Page
Introduction:	
Class I: Statement of Accounting Officers' responsibilities	2
Votes A statement showing strengths of the Royal Navy, the Army and the Royal Air Force	3
Class I: Summary	6
Vote 1: Operational and Support Costs, Logistics Services and Systems Procurement and Research	8
Vote 2: Armed Forces Retired Pay, Pensions, etc.	26

Introduction

The 1999–2000 Appropriation Accounts are being published in 18 Volumes:

Volume	Class	Title
1	I	Education and Employment
2	II	Department of Health
3	III	Environment, Transport and the Regions International Development
4	IV	Home Office
5	V	Lord Chancellor's and Law Officer's Departments
6	VI	Ministry of Defence
7	VII	Foreign and Commonwealth Office
8	VIII	International Development
9	IX	Trade and Industry and Export Credits Guarantee Department
10	X	Ministry of Agriculture, Fisheries and Food and Intervention Board—Executive Agency
11	XI	Culture, Media and Sport
12	XII	Department of Social Security
13	XIII	Scotland
14	XIV	Wales
15	XV	Northern Ireland
16	XVI	Departments of the Chancellor of the Exchequer
17	XVII	Cabinet Office: Office of Public Service, etc
18	XVIII, XVIII A and XVIII B	Cabinet Office: other services, Privy Council Office and Parliament, 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 3 I will also report upon the revenue generated by the Motor Tax Account—Class III, Vote 8 (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 1998–99 Votes.

The General Report

Once all 18 volumes have been published a final document is produced: *Financial Auditing and Reporting: 1999–2000 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
- Corporate Governance
- Financial Management and Control
- Resource Accounting

John Bourn

Comptroller and Auditor General

National Audit Office

13 October 2000

Report of the Comptroller and Auditor General

Ministry of Defence Votes A

The Statement on page 4 shows that the maximum of numbers maintained during 1999-2000 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.

In accordance with Section 22 of the Exchequer and Audit Departments Act, 1866, I have examined and certified the Appropriation Accounts in this Volume. I have no observations to make upon them.

John Bourn
Comptroller and Auditor General

13 October 2000

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Class I
Ministry of Defence
Votes A Statement

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.

Statement on the System of Internal Financial Control

This statement is given in respect of the appropriation accounts for Class VI, Votes 1 and 2. As Accounting Officer for these Votes, I acknowledge responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures including the segregation of duties, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by executive managers within the Department. In particular, it includes:

- comprehensive budgeting systems with an annual budget;
- procedures to review and agree the budgets;
- the preparation of regular financial reports which indicate actual expenditure against the forecasts;
- clearly defined capital investment control guidelines;
- as appropriate, formal project management disciplines.

The Department has an internal audit unit, which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit unit takes into account the risks to which the Department is exposed, which are reflected in annual audit plans. Internal audit plans are endorsed by the Audit Committee and endorsed by me (as Principal Accounting Officer). The Audit Committee plays a formal role in ensuring that business and financial risks facing the Department are identified and that those risks are effectively managed. At least annually, the Director of Internal Audit (DIA) provides me with a report on internal audit activity in the Department. The report includes the DIA's independent opinion on the adequacy and effectiveness of the Department's system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

My review indicates that progress has been made in a number of areas but that further work is necessary to remedy weaknesses. Last year I reported on a wide range of programmes aimed at securing improvements in outputs, efficiency and standards of financial management and indicated that the implementation of Resource Accounting and Budgeting (RAB) was the development most likely to lead to significant improvements in the standard of the Department's financial management. I emphasised, however, that the scale and extent of this change constituted a potential weakness and risk area, particularly when added to the substantial re-organisations necessary following the Strategic Defence Review and unforeseen operational pressures. Although much has been achieved in consolidating new organisations and working practices, the position remains broadly the same this year. The formidable efforts required to complete the successful introduction of RAB continue to place a large burden on finance staffs and thus to represent a risk to the effective operation of the well-established processes supporting the Appropriation Accounts. Operational pressures continue and the scope of our re-organisation programme is such that the resulting changes will take time to implement fully. Appropriate action is being taken at all levels to prioritise work and cut back on less urgent activities in order to reduce pressures on staff where possible.

There is also a persistent problem in recruiting and retaining suitably qualified finance staff. Appropriate action is being taken. A large number of staff are undergoing professional accountancy training and there are robust systems in place to monitor training needs and whether these are being met.

Work continues to further improve performance on post project evaluation and on suspense account management, both of which require sustained attention. We have made improvements to our procedures for forecasting and control of expenditure at year end and had no Excess Votes this year. We will continue to monitor this area carefully.

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ended 31 March 2002, in accordance with the guidance to be issued by the Treasury. As indicated above, the Audit Committee now plays a formal role in ensuring that business and financial risks facing the Department are identified and effectively managed. In addition, the Department's executive management board is developing its role to provide clear leadership and proactive strategic management of defence. An important aspect of that work is the development of a new performance management framework, based on a Balanced Scorecard, which will provide the Board with a sharper focus on results and on the key risks to delivery.

Kevin Tebbit
Accounting Officer

7 September 2000

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	Peak Dates
Officers, Men and Women for NAVAL SERVICE	48,340	43,701	1 April 1999
Officers, Men and Women for ARMY SERVICE	135,420	118,463	1 February 2000
Officers, Men and Women for AIR FORCE SERVICE	58,070	55,323	1 April 1999

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

	Numbers Voted by the House of Commons	Maximum Numbers Maintained	Peak Dates
Reserve Naval and Marine Forces	18,330	15,350	1 June 1999
Special Members of the Reserve Naval Forces	200	—	—
Reserve Land Forces	87,320	83,187	1 April 1999
Special Members of the Reserve Land Forces	6,000	—	—
Reserve Air Forces	26,000	20,600	1 April 1999
Special Members of the Reserve Air Forces	430	—	—

Kevin Tebbit
Accounting Officer

7 September 2000

Class VI

Ministry of Defence

Class VI:

Page	No of Vote	Service	Estimated Gross Expenditure	Authorised Appropriations in Aid	Supply Grant
			£000	£000	£000
8	1	Defence: operational and support costs, logistic services, and systems procurement and research	24,958,118	2,091,230	22,866,888
26	2	Defence: armed forces retired pay, pensions, etc.	2,233,910	963,819	1,270,091
Total			27,192,028	3,055,049	24,136,979

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	
24,589,775	2,040,515	22,549,260	368,343	50,715	317,628	50,651	1
2,226,108	963,819	1,262,289	7,802	—	7,802	31,219	2
26,815,883	3,004,334	23,811,549	376,145	50,715		81,870	
Total amount to be surrendered					325,430		
Actual total amount to be surrendered					<u>£325,430,568.79</u>		

Defence: operational and support costs

Summary of Outturn, and the Account of the sum expended, in the year ended 31 March 2000, 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 and personnel costs etc. of Defence Ministers and of civilian staff employed by the Ministry of Defence; movements; charter of ships; logistic services for the armed forces; repair, maintenance stores and supply services; associated capital facilities and works; contractors' redundancy costs; plant and machinery; expenditure by the Defence Procurement Agency in operating its headquarters and establishments and for its common services; nuclear warhead and fissile material programme; procurement including development and production of equipment and weapon systems for the armed forces; purchases for sale abroad; research etc. by contract; sundry procurement services including those on repayment terms; 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; and set up costs and loans 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	1,131,878	38,790	1,093,088	1,119,501	36,000	1,083,501
B	530,027	9,184	520,843	537,287	9,037	528,250
C	3,157,658	255,840	2,901,818	3,184,984	250,658	2,934,326
D	1,937,223	164,400	1,772,823	1,910,258	162,402	1,747,856
E	444,644	32,124	412,520	443,275	28,567(a)	414,708
F	5,513,532	465,222	5,048,310	5,370,930	438,940	4,931,990
G	645,224	64,424	580,800	644,166	68,428	575,738
H	1,287,074	61,790	1,225,284	1,284,208	62,476	1,221,732
I	711,169	112,354	598,815	706,796	104,295	602,501
J	2,492,207	598,201	1,894,006	2,480,414	601,357	1,879,057
K	724,373	62,096	662,277	717,058	60,744	656,314
L	5,837,806	121,974	5,715,832	5,644,475	113,256	5,531,219
M	538,021	80,818	457,203	539,175	81,363	457,812
N	—	218	(218)	—	218	(218)
O	—	13,053	(13,053)	—	12,129	(12,129)
P	—	7,586	(7,586)	—	7,586	(7,586)
Other expenditure outside Departmental Expenditure Limits						
Q	—	3,156	(3,156)	—	3,059	(3,059)
R	7,282	—	7,282	7,248	—	7,248
Total	24,958,118	2,091,230	*22,866,888	24,589,775	2,040,515	22,549,260

*The Departmental Expenditure Limit has increased by £582,421,000 from £22,280,341,000 to £22,862,762,000.

In line with Estimates, expenditure is included gross of VAT. Any recoveries of such VAT are credited to Appropriations in Aid.

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

(a) Mainly lower than expected receipts from NATO for deployment of the Allied Command Europe Rapid Reaction Corps to Kosovo.

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	1,078,152	1,072,797	5,355	—
A3 Direct expenditure: capital	53,726	46,704	7,022	—
Section B:				
General Officer Commanding (Northern Ireland)				
B2 Direct expenditure: other current	481,154	495,718	—	14,564
B3 Direct expenditure: capital	48,873	41,569	7,304	—
Section C:				
Commander-in-Chief Land Command				
C2 Direct expenditure: other current	2,998,062	3,032,132	—	34,070
C3 Direct expenditure: capital	159,071	152,334	6,737	—
C4 Grants and transfers: current	525	518	7	—
Section D:				
Air Officer Commanding-in-Chief RAF Strike Command				
D2 Direct expenditure: other current	1,818,356	1,792,143	26,213	—
D3 Direct expenditure: capital	118,867	118,115	752	—
Section E:				
Chief of Joint Operations				
E2 Direct expenditure: other current	398,270	398,203	67	—
E3 Direct expenditure: capital	46,374	45,072	1,302	—
Section F:				
Chief of Defence Logistics				
F2 Direct expenditure: other current	4,665,554	4,552,000	113,554	—
F3 Direct expenditure: capital	826,333	801,922	24,411	—
F4 Grants and transfers: current	21,645	17,008	4,637	—

Explanations of the Causes of Variations between Expenditure and Grant.

- A3 Lower than forecast expenditure on Works and DERA trials programme due to slippage, lower than anticipated costs and programme changes.
- B3 Mainly incorrectly forecast Works expenditure plus lower than forecast land purchase at Aldergrove and slower than anticipated progress on Works at Ballykinler.
- F4 Mainly due to a reduction in forecast redundancy costs for ex-Ministry staff employed by Babcock Rosyth Defence Ltd (BRDL).

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section G:				
2nd Sea Lord/Commander-in-Chief				
Naval Home Command				
G2 Direct expenditure: other current	614,080	613,309	771	—
G3 Direct expenditure: capital	31,144	30,857	287	—
Section H:				
Adjutant General (Personnel and Training Command)				
H2 Direct expenditure: other current	1,213,112	1,201,580	11,532	—
H3 Direct expenditure: capital	73,962	82,628	—	8,666
Section I:				
Air Officer Commanding-in-Chief RAF Personnel and Training Command				
I2 Direct expenditure: other current	673,593	669,737	3,856	—
I3 Direct expenditure: capital	37,576	37,059	517	—
Section J:				
2nd Permanent Under Secretary of State				
J2 Direct expenditure: other current	2,154,966	2,145,104	9,862	—
J3 Direct expenditure: capital	202,347	204,703	—	2,356
J4 Grants and transfers: current	134,894	130,607	4,287	—
Section K:				
Defence Procurement Agency operating costs and nuclear warhead and fissile material programme				
K2 Direct expenditure: other current	702,043	694,699	7,344	—
K3 Direct expenditure: capital	22,330	22,359	—	29
Section L:				
Defence systems procurement				
L2 Direct expenditure: other current	5,837,806	5,644,475	193,331	—
Section M:				
Major customers' research budgets				
M2 Direct expenditure: other current	538,021	539,175	—	1,154
Section N:				
Loans and grants and repayments from the Hydrographic Office Defence Agency	—	—	—	—
Section O:				
Loans and grants to and repayments from the Meteorological Office	—	—	—	—

Explanation of the Causes of Variations between Expenditure and Grant.

H3 Mainly due to faster than forecast progress and payments on Capital Works projects.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section P:				
Loans and grants to and repayments from DERA	—	—	—	—
Other expenditure outside Departmental Expenditure Limits				
Section Q:				
Chief of Defence Logistics	—	—	—	—
Section R:				
2nd Permanent Under Secretary of State				
R2 Direct expenditure: other current	1,861	1,828	33	—
R4 Grants and transfers: current	4,291	4,223	68	—
R5 Grants and transfers: capital	1,130	1,197	—	67
Gross Total	£000			
Original	24,380,411			
Supplementary	<u>577,707</u>			
	24,958,118	24,589,775	429,249	60,906
			<hr/>	
			Surplus of Gross Estimate over Expenditure	
			<u>368,343</u>	
Deduct	Estimated	Realised		
Z Appropriations in Aid	£000	£000		
Original	2,097,326			
Less Supplementary	<u>6,096</u>			
	2,091,230	2,040,515		
			Deficiency of Appropriations in Aid Realised	
			<u>50,715</u>	
Net Total				
Original	22,283,085			
Supplementary	<u>583,803</u>			
	22,866,888	22,549,260		
			Net Surplus	
			<u>317,628</u>	
Actual surplus to be surrendered			<u>£317,628,273.34</u>	

Explanatory Notes on Expenditure and Receipts

	Current £000	Capital £000
1 Expenditure items		
Section A: Commander-in-Chief Fleet	1,072,797	46,704
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, fuels and utilities, lands, buildings and works services, and general administrative expenses.</i>		
Section B: General Officer Commanding (Northern Ireland)	495,718	41,569
Provision of appropriate resources for the effective deployment of forces and the direction of military operations in Northern Ireland in support of 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	3,032,650	152,334
Provision of operationally effective ground 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 included costs related to reserve and cadet forces, and contributions to certain international activities.</i>		
Section D: Air Officer Commanding-in-Chief RAF Strike Command	1,792,143	118,115
Provision of operationally capable air forces for the effective defence of the UK and the protection of dependent 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>		

Explanatory Notes on Expenditure and Receipts—continued

1 Expenditure items (continued)

	Current £000	Capital £000
Section E: Chief of Joint Operations	398,203	45,072

Achieving MOD strategic and operational objectives through the effective application of allocated Joint operational capability; planning and conducting Military Tasks as directed; commanding and administering UK forces deployed overseas on current Joint and potentially Joint operations and Joint exercises and within the Overseas Commands (Cyprus, Gibraltar and the Falkland Islands); contributing to the formulation of Defence policy and plans as part of the Defence Crisis Management Organisation; maintaining the operational readiness of joint Task Force HQs and the Joint Rapid Reaction Force.

Note: Costs related to personnel and general administrative expenses for the maintenance of the Overseas Commands and Cyprus Sovereign Base Areas including lands, buildings, works services and the married quarters estate. Other expenditure included provision for the in-theatre costs of Joint operations and exercises overseas and for the maintenance of the Joint operational command, control and communications capability.

Section F: Chief of Defence Logistics	4,569,008	801,922
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Supporting the services in peace, crisis and war through the provision of logistic support, policy and plans and provision of in-service management of equipment, weapons and ammunition. Provision of capable and safe ships, submarines and aircraft to support the Fleet. Provision of weapons and ammunition; storage and distribution; design, production and issue of clothing; postal and courier services; transport and movements; and engineering logistic resources to sustain the Army. Management of all support for RAF aircraft, communications, airborne and ground systems. In addition, to provide joint service support for rationalised ranges of materiel.

Note: Expenditure related to ship and submarine repair; aircraft repair; procurement of spares and repair for equipment; stores and distribution, clothing; contracted out operational and technical support services; food; personnel; infrastructure and estate; transportation; telecommunications; information technology; works services and property management; salvage and mooring services; plant and machinery; RAF third line aircraft and avionics repair, Central European Pipeline System, fuel, utilities and other general administrative expenses.

Explanatory Notes on Expenditure and Receipts—continued**1 Expenditure items (continued)**

	Current £000	Capital £000
Section G: 2nd Sea Lord/Commander-in-Chief Naval Home Command	613,309	30,857

Ensuring that sufficient motivated Naval manpower, trained to the required standards, is available and is deployed in peace, crisis, major crisis and war. His primary outputs are filled billets, trained regular and reserve personnel, policy on terms and conditions of service, and personnel support.

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.

Section H: Adjutant General (Personnel and Training Command)	1,201,580	82,628
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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 support services, and welfare policy for Army personnel and their dependants; the development of training policy for all Army personnel including TA, and the provision of individual training and associated facilities.

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.

Section I: Air Officer Commanding-in-Chief RAF Personnel and Training Command	669,737	37,059
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Manning the Royal Air Force with sufficient, well motivated, appropriately trained personnel in times of peace, crisis and war. Primary outputs are trained regular and reserve personnel, career management, policy on terms and conditions of service, training, ceremonial, welfare, provost, legal, primary health care, nursing and chaplaincy matters, operational support and preparedness for crisis and war.

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.

Explanatory Notes on Expenditure and Receipts—continued**1 Expenditure items (continued)**

	Current £000	Capital £000
Section J: 2nd Permanent Under Secretary of State	2,275,711	204,703
Directing, in conjunction with the Vice Chief of the Defence Staff, contributions to formulation of UK defence policy; the construction of an annual defence programme, to give effect to defence policy, plans and commitments appropriate to the Government's security objectives and international obligations, within available resources. 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 central support and services, including the defence export, estate, central civilian management, security, policing and accountancy services, necessary for departmental objectives to be met. Ensuring that the current and future effectiveness of the Armed Forces, including plans for operational deployments and transition to war, is consistent with the Government's defence strategy. Provision of intelligence assessments, arms control monitoring, defence communication and information systems strategy, and defence medical services. Responsibility for certain central and joint service agencies. 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.		
<i>Note: Expenditure related to personnel and general administrative expenses. Other expenditure included corporate provision for civilian early retirement and redundancy; compensation payments, legal costs and insurance; rent and maintenance of the civil element of the defence estate; rent and maintenance of service families married quarters in UK; UK telecommunications and infrastructure projects, medical supplies; certain special payments and grants in aid and subscription contributions and expenditure on certain international activities.</i>		
Section K: Defence Procurement Agency operating costs and nuclear warhead and fissile material programme	694,699	22,359
Cost effective procurement of new military equipment for the armed forces in response to approved requirements; provision of certain other procurement related services, maintenance of MOD's nuclear programmes and the efficient management of the Defence Procurement Agency, its assets and resources.		
<i>Note: Costs related to personnel, capital works, nuclear programme and general administrative expenses.</i>		

Explanatory Notes on Expenditure and Receipts—continued**1 Expenditure items (continued)**

	Current £000	Capital £000
Section L: Defence systems procurement	5,644,475	—
Procurement by the Defence Procurement Agency of new equipment and associated weapons, communications, information and training equipment for the three Services, including major upgrade programmes of existing equipment; and systems.		
<i>Note: Costs related to the acquisition of new surface ships/ submarines and associated weapons: strategic systems; tanks, armoured vehicles and other land-based fighting and support equipment; fixed and rotary wing aircraft; weapons and electronic systems; communications, information and simulation systems; and, major upgrades of existing equipment; managed by the Defence Procurement Agency.</i>		
Section M: Major customers' research budgets	539,175	—
This Vote Section covers the provision of independent scientific and technical advice on operational requirement specifications, threat assessments, technology demonstrations and operational analysis relevant to future equipment programmes including communications, information systems, sea, land and air environments 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 advanced technology in areas likely to give potential long term benefit to MOD.		
<i>Note: Costs related to major customers' research budget.</i>		
Section R: 2nd Permanent Under Secretary of State	6,051	1,197
PFI Lossiemouth. Repayment and interest charges under the Armed Forces (Housing Loans) Acts, and VAT paid by the Commonwealth War Graves Commission for UK expenditure.		
Total	23,005,256	1,584,519

Explanatory Notes on Expenditure and Receipts—continued**2 Receipts payable to the Consolidated Fund**

	Estimated £000	Realised £000
Receipts of classes not authorised to be used as Appropriations in Aid	11,299	50,651(a)

Actual sum payable separately to the Consolidated Fund **£50,651,184.51**

- (a) Mainly due to interest paid by DERA not forecast as a Consolidated Fund Extra Receipt (CFER). CFERs totals for Spring Supplementary Estimates were not increased as MOD had requested.

Details of Receipts	Current £000	Capital £000
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- (i) Receipts of classes authorised to be used as Appropriations in Aid

Subhead AZ: Commander-in-Chief Fleet

31,697 4,303

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 VAT.

Subhead BZ: General Officer Commanding (Northern Ireland)

7,961 1,076

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; sale and disposal of vehicles; recovery from HM Customs and Excise of VAT.

Subhead CZ: Commander-in-Chief Land Command

239,508 11,150

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 VAT.

Explanatory Notes on Expenditure and Receipts—continued

	Current £000	Capital £000
Subhead DZ: Air Officer Commanding-in-Chief RAF Strike Command	158,356	4,046
<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; payments for works services provided to non-exchequer bodies and other Government Departments; receipts from the CAA; 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 VAT.</i>		
Subhead EZ: Chief of Joint Operations	27,610	957
<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 especially those relating to UN operations; pensions paid to locally engaged civilians abroad; utility charges; rents, sales and other charges for land and buildings; pay advance recoveries; purchase of discharge repayments; accommodation charges; education receipts; UN contributions towards logistic support in Cyprus; Department for International Development contributions to works services in Bosnia; recovery from HM Customs and Excise of VAT.</i>		
Subhead FZ: Chief of Defence Logistics	421,731	17,209
<i>Note: Mainly receipts and refunds relating to the disposal sale of ships, submarines, aircraft, vehicles, materiel, food, sales of fuels, telecommunications and postage, commercial exploitation levies, accommodation stores and service; movements, education and training, recoveries of Service pay and civilian staff costs, utility charges, rents and other charges for land and buildings; NATO contributions towards the cost of works services and equipment, including aircraft spares, operation of the Government Pipeline and Storage System, sales of clothing, sale and disposal of spares and equipment; recoveries from contract repair work, recovery of food charges; oil tank hire; recovery of Agency loans; receipts from contracted out services; recoveries for various services for NATO, and other miscellaneous receipts from sales, rents and other charges; recovery from HM Customs and Excise of VAT.</i>		

Explanatory Notes on Expenditure and Receipts—continued

	Current £000	Capital £000
<i>Subhead GZ: 2nd Sea Lord/Commander-in-Chief Naval Home Command</i>	68,209	219
<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 VAT.</i>		
<i>Subhead HZ: Adjutant General (Personnel and Training Command)</i>	61,388	1,088
<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, pay advance recoveries, purchase of discharge; utility charges, rents and other charges for land and buildings; recovery from HM Customs and Excise of VAT.</i>		
<i>Subhead IZ: Air Officer Commanding-in-Chief RAF Personnel and Training Command</i>	104,127	168
<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 land and buildings; payments for works services provided to other Government Departments; receipts and refunds from personnel on loan; sales of RAF News; recovery from HM Customs and Excise of VAT.</i>		
<i>Subhead JZ: 2nd Permanent Under Secretary of State</i>	289,466	311,891
<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; accommodation stores and services, sales of land and buildings; financial and legal services; works services provided to the US forces; NATO contributions towards the cost of UK's NATO activities, and NATO infrastructure projects; recovery from HM Customs and Excise of VAT.</i>		

Explanatory Notes on Expenditure and Receipts—continued

	Current £000	Capital £000
Subhead KZ: Defence Procurement Agency operating costs and nuclear warhead and fissile material programme	60,732	12
<i>Note: Mainly departmental expenses and receipts arising from staff loaned to other Government departments and non-exchequer customers; receipts and refunds relating to: rents and other charges for land and buildings; provision of services; and recovery from HM Customs and Excise of VAT.</i>		
Subhead LZ: Defence systems procurement	113,256	—
<i>Note: Mainly receipts relating to: refunds from contractors, recoveries of NATO funding; commercial exploitation levies; and recovery from HM Customs and Excise of VAT.</i>		
Subhead MZ: Major customers' research budget	81,363	—
<i>Note: Receipts from other Government departments and recovery from HM Customs and Excise of VAT.</i>		
Subhead NZ: Repayments from the Hydrographic Office Defence Agency	—	218
<i>Note: Recovery of deemed loan to Hydrographic Office</i>		
Subhead OZ: Repayments from the Meteorological Office	—	12,129
<i>Note: Recovery of working capital loan to Meteorological Office</i>		
Subhead PZ: Repayments from the Defence Evaluation and Research Agency	—	7,586
<i>Note: Instalments in repayment of DRA and DERA loans.</i>		

Other Expenditure outside Departmental Expenditure Limits

QZ: Chief of the Defence-Logistics	3,059	—
Total	1,668,463	372,052

Current £000	Capital £000
-----------------	-----------------

(ii) Receipts of other classes

Interest and dividends due to MOD on repayment of opening and vesting loans made to DERA	28,845	—
Receipt re profit share agreement with Annington Homes	6,801	—
Accrued interest held by an agency or foreign government for contractual purposes	5,083	—
Interest and dividends due to MOD on repayment of deemed and working capital loans made to the Hydrographic Office	2,876	—
Accrued interest on short term bank deposits of foreign currency	2,705	—
Interest due to MOD on repayment of trading fund made to Meteorological Office	2,283	—
Government Pipeline and Storage System bank interest surrendered	2,043	—
Payments relating to 'Debtors Enhancements' for services provided by MOD on behalf of DERA	8	—
Interest on advance of monies paid to HM Inland Revenue	4	—
Computer error by Inland Revenue, Cardiff, on interest	2	—
Miscellaneous financial transaction	1	—
Total	50,651	—

Losses Statement	£000
Total (18,540 cases)	40,856

Details (cases over £100,000)**Cash Losses**

Unreconcilable balance within a works related suspense account arising from book-keeping errors in previous financial years, now written off following a detailed investigation. Fraud or theft is not suspected. Strengthened management and accounting procedures have been put in place to prevent similar record keeping errors in future

13,920

A decision was taken to terminate an information technology project due to major failings and continued slippage by the contractor, which could not be overcome. Damages of £9,338,370 were sought. Following legal advice an out of court settlement valued at £7,083,113 was agreed. This left the balance of the claim, amounting to £2,255,257, to be written off as a claim abandoned. The settlement comprised products already supplied by the contractor and development work undertaken by the Department being transferred, at residual value, to other work, and the provision of goods, services and cash by the contractor. (See 1998-99 Class I, Vote 1 page 20)

2,255

Unreconcilable balance within a suspense account arising from bookkeeping errors in previous financial years, now written off following a detailed investigation

1,972

Ministerial approval was given to abandon a claim for £1,808,967.01 against a foreign government for the provision of Loan Service Personnel for the period September 1996 to February 1997

1,809

A claim against a contractor has been abandoned. This was for additional work needed to be undertaken following the refurbishment of equipment and the provision of spares which had failed quality tests undertaken by the Department. Following legal advice, the Department agreed to an out of court settlement. This resulted in a payment from the contractor of £822,500. The balance of the claim amounting to £1,230,610, has therefore been written off as a claim abandoned

1,231

A company went into receivership in June 1998 owing the Department a refund of an overpayment of £1,687,584, which has been reduced by the recovery of £513,638 and an offset by funds held of £6,504. There will be a further £200,078 reduction by crown set-off in 2000-01, leaving the sum of £967,364 to be written off. A Ministry of Defence Police investigation concluded that there was no evidence of fraud. Procedures have been tightened to minimise the possibility of a recurrence

967

A claim was abandoned against a company to the value of £520,794.81 after it became time expired in 1994, under the 1980 Limitations Act. The amount was in respect of a disputed claim for proofing and quality assurance work carried out by the Department between 1986 and 1988. No written contract for the work existed and legal advice was that it was no longer possible to pursue the claim successfully or to set-off the amount against payments due to the company under existing procurement contracts. Treasury approval was sought and obtained in April 2000. It is regretted that the case was not given the priority that it should have received, and that following settlement, Treasury approval was not immediately sought. This was due to protracted exchanges of correspondence causing internal delays, reductions in staff and increased workloads. Changes to MOD's monitoring and reporting procedures should prevent a recurrence of this type of loss

521

Cash Losses—continued

£000

A fraud of £477,434 occurred at an army pay office during the period February 1998 to February 1999. A Ministry of Defence civilian employee was sentenced in February 2000 to four years' imprisonment. A procedural review, undertaken following the fraud, resulted in the introduction of tighter systems controls. A total of £47,950 has been recovered to date, which leaves £429,484 to be written off. Legal proceedings are continuing to recover some of this balance. (See Comptroller and Auditor General's Report, Class I, 1998–99, paragraphs 15–19)

429

Ministerial approval was given to abandon a claim for £396,710.41 against a foreign government for the provision of Language Training for the period May 1996 to June 1997

397

A claim for £363,216.40 in default for the estimated costs of rectifying faulty workmanship, covered under warranty, that had not been undertaken before a company went into receivership, in December 1997, was abandoned. Risk management procedures are in place to prevent a recurrence

363

A fraud estimated at £500,000 occurred at an overseas naval base during the period 1988–94. Legal proceedings have now been completed. A locally engaged civilian employee was found guilty and sentenced, in January 1998, to 18 months; in prison. A second Ministry of Defence employee was acquitted but resigned before disciplinary proceedings could be taken. A total of £147,000 has been recovered, which leaves £353,000 to be written off

353

In 1991 a company, which was carrying out work to enable the Department to achieve BS9000 series for Radio Frequency, Direct Current and Low Frequency connector and cable assemblies, went into liquidation without completing the contract. Payments, totalling £156,138, were properly made under the terms of the contract. A dividend of £10,146 was received from the liquidator in February 1997 leaving £145,992 to be written off

146

Under payment of Earnings Related National Insurance Contributions (ERNIC) for Ministry of Defence Fee Earners between 1992–93 and 1997–98, as a result of misinterpreting Section I of the Social Security Contributions and Benefit Act 1992. Recovery proved impracticable. Systems have been changed to prevent a recurrence

138

Stores Losses

In January 1997 a fire destroyed a former factory in Bosnia which had been requisitioned for use by British Forces. This resulted in the destruction of a considerable quantity of stores, equipment and vehicles. The fire started when vapour ignited during the refuelling of a gravity fed petrol heater. A Board of Inquiry made a number of recommendations to prevent a recurrence and these have been implemented

4,442

In June 1998 an aircraft was involved in an engine runaway incident which caused considerable damage to the Engine Control Unit. A Unit Inquiry found the cause was human error, and made a number of recommendations to prevent recurrence, which are being implemented. Three RAF personnel have been disciplined

476

Following the closure of a Support Depot, finalisation of the Unit's stores accounts revealed that, accounting procedures had not been fully complied with. Although no evidence of physical loss was found, the lack of an audit trail required the value of the stores to be written off as a loss. The need for improved internal monitoring has been highlighted and new procedures have been put in place

386

Stores Losses—continued**£000**

Following the closure of an Ordnance Support Unit, finalisation of the Unit's stores accounts revealed that accounting procedures had not been fully complied with. Although no evidence of physical loss was found, the lack of an audit trail required the value of the stores to be written off as a loss. The need for improved internal monitoring has been highlighted and new procedures have been put in place

232

In December 1997 two fires in the kitchen at a military camp resulted in considerable damage to stores, equipment, rations and building infrastructure. The initial fire on 13 December was believed to have been caused by faulty electrical equipment. A subsequent fire, on 14 December, was probably due to an ember or hot spot that was undetected after the initial fire was extinguished. Based on the evidence available, it was not possible to determine direct responsibility for the loss. A post fire investigation was unable to determine whether negligence contributed to the second fire. A number of recommendations were made to prevent a recurrence and these are being implemented

169

In June 1998 two soldiers, serving overseas, were forced to abandon a quantity of military equipment. This was as a result of a military uprising in the country in which they were carrying out a survey. A Board of Inquiry recommended that the items, which could not be recovered, should be written off

110

Notes**Special Payments****Total (28 cases)**

59,631

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 £736 million

59,534

Gifts**Total (22 cases)**

608

Details (cases over £100,000)

66 surplus military vehicles were gifted to two de-mining charities, 55 to the HALO Trust and 11 to the Mines Advisory Group, 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 11 January 2000

460

Transfer of Land and Buildings**Total (104 cases)**

583

Discount on sale of a surplus married quarter to civilian personnel (1 case)

50

Discount on sale of surplus married quarters to a Housing Association (102 cases)

520

Discount on sale of a surplus married quarter by auction (1 case)

13

23

Shares acquired in the year	Cost of Shares £
50,000 £1 shares in Atomic Weapons Establishment plc	50,000

Other Notes

A loss arising from expenditure on the Project Definition Phase of the project to fit Joint Tactical Information Distribution System (JTIDS) equipment to the RAF Tanker aircraft fleet. A decision was taken early in 1999 not to proceed with this requirement because of changed defence priorities and the project was cancelled in April 1999, by which time costs of £2,592,648 had been incurred. However, work carried out under the project has had a beneficial effect on other projects and the value of this has been assessed as £421,000. The balance of £2,171,648 is therefore written-off as a constructive loss.

A constructive loss of £1,606,460 arose from expenditure incurred on the development and production of a software application for an Automatic Routing and Distribution system which proved not to be required as a result of a change to the Department's Information Technology System (see Class I, Vote 1, 1998-99 page 20).

There were 59 instances of supplies and services being provided on a reciprocal basis to Commonwealth and Foreign Navy vessels during visits to British naval ports totalling £223,789.

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

Kevin Tebbit
Accounting Officer

7 September 2000

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

I certify that I have audited the financial statement on pages 8 to 24 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 2 the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the statement on the system of internal financial control on page 3. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the appropriation account properly presents the expenditure and receipts of Class VI, Vote 1, and whether 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. I also report if, in my opinion, proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 3 reflects compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

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 have 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 VI, Vote 1 for the year ended 31 March 2000; 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

13 October 2000

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

Defence: armed forces retired pay, pensions, etc.

Summary of Outturn and the Account of the sum expended in the year ended 31 March 2000 compared with the sum granted for expenditure by the Ministry of Defence on retired pay, pensions and other payments, etc.

Summary of Outturn

Estimated				Actual		
Section	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£000	£000	£000	£000	£000	£000
Defence Budget						
A	2,233,910	963,819	1,270,091	2,226,108	995,038	*1,231,070

* This figure is £31,219,000 less than the net total of expenditure on the Appropriation Account being the difference between the Appropriations in Aid realised (£995,038,000) and those authorised to be applied (£963,819,000).

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Section A:				
Retired pay, pensions and other payments to Service personnel and their dependants				
A4 Grants and transfers: current	2,233,910	2,226,108	7,802	—
Gross Total £000				
<i>Original</i> <u>2,233,910</u>	2,233,910	2,226,108	7,802	—
			<div style="border-top: 1px solid black; padding-top: 5px;"> Surplus <u>7,802</u> </div>	
Deduct				
Z Appropriations in Aid	Estimated £000	Applied £000		
<i>Original</i> <u>963,819</u>	963,819	963,819		
Net Total				
<i>Original</i> <u>1,270,091</u>	1,270,091	1,262,289		

Actual surplus to be surrendered

£7,802,295.45

Explanatory Notes on Expenditure and Receipts

1 Expenditure items	Current £000	Capital £000
<i>Retired pay, pensions and other payments to Service personnel and their dependants</i>	2,226,108	—
<i>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.</i>		
Total	2,226,108	—
2 Receipts payable separately to Consolidated Fund	Estimated £000	Realised £000
Receipts of classes authorised to be used as Appropriations in Aid	963,819	995,038
Appropriated in Aid		963,819
Net Total		31,219
Actual sum payable separately to the Consolidated Fund		<u>£31,219,093.67</u>
Details of Receipts	Current £000	Capital £000
Receipts of classes authorised to be used as Appropriations in Aid		
Subhead AZ:	995,038	—
<i>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.</i>		
Total	995,038	—
Losses Statement		£000
Total (794 cases)		116

Kevin Tebbitt
Accounting Officer

7 September 2000

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

I certify that I have audited the financial statements on pages 26 and 28 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 2 the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the statement on the system of internal financial control on page 3. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the appropriation account properly presents the expenditure and receipts of Class VI, Vote 2, and whether 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. I also report if, in my opinion, proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 3 reflects compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

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 have 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 VI, Vote 2 for the year ended 31 March 2000; 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

29 September 2000

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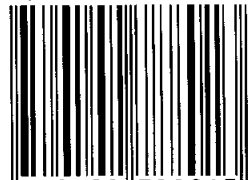
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