Defence Aviation Repair Agency

Annual Report and Accounts
2007/2008

dara

Large Aircraft
Rotary
Electronics
Components

Defence Aviation Repair Agency

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Report

Management Commentary

Accounts

2008/2009

Statement by the Chief Executive

"This year we reached closure on all aspects of the DARA Strategic Review. After a long and stressful process for everyone concerned, our employees now know their future."

ARCHIE HUGHES
Chief Executive

Two major issues dominated the DARA businesses over the past year. The first came about with the transfer of Ministerial responsibilities for DARA to the Minster for Defence Equipment and Support who, at the time, was Lord Paul Drayson. Within weeks of assuming the DARA portfolio, Ministers announced to Parliament that DARA's retained businesses – in essence, those that were not part of the sale process – would merge with ABRO and certain other defence engineering activities within the Defence Storage and Distribution Agency. The result was the intention of creating a single defence-focussed Trading Fund with support to the Armed Forces and MoD customers at its very heart. This announcement was greeted with great enthusiasm by the affected employees and welcomed by the Trades Unions.

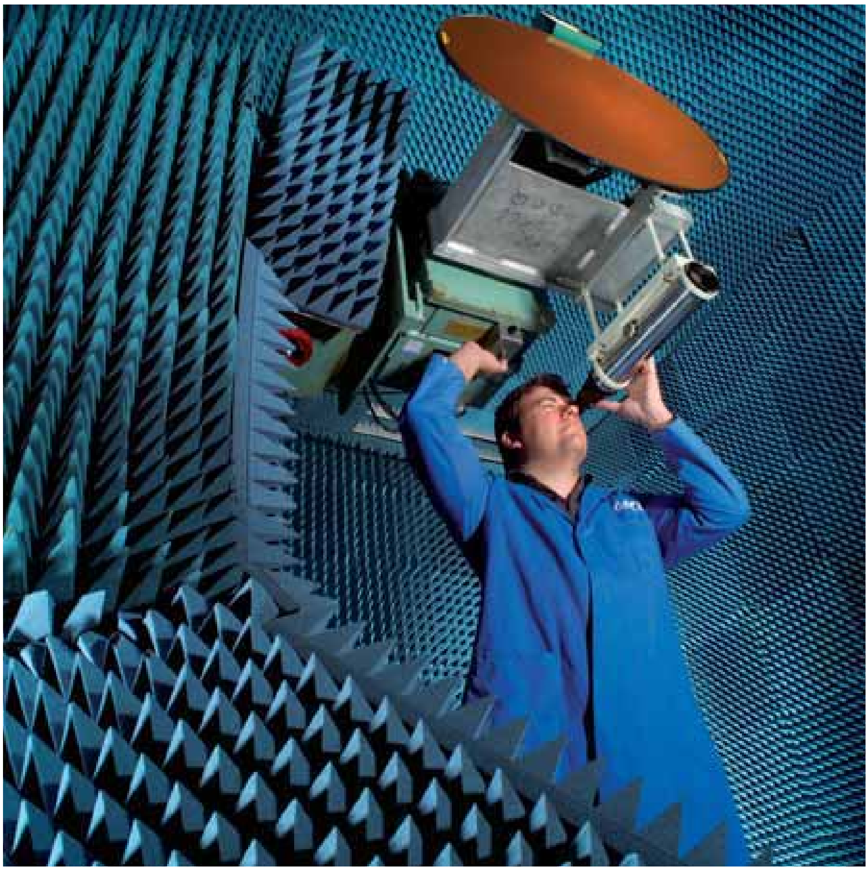
In July, I was appointed as Chief Executive of ABRO, in addition to my role as DARA's Chief Executive, which would also be the role I would ultimately assume in the new Agency, to be called the Defence Support Group (DSG). I was charged by Ministers with leading the merger team and both Agencies as work started to define those elements that were essential if we were to meet the ambitious 1 April 2008 merger timeframe.

The second issue was the proposed sale of DARA's Rotary and Components businesses to the final preferred bidder, Vector Aerospace, which Minister also announced in July. The formation of DSG signalled an important change in emphasis for the support of land and air systems equipment and it led to further scrutiny on the sale process to confirm that the outcome would meet the two overarching principles guiding the sale process. Namely, that sale would be in the best interests of defence and would deliver a better long-term future for the businesses and their employees.

With debates secured in both the UK and Scottish Parliaments, and rising political interest, significant amounts of work kept DARA officials and the DARA Transformation Team in MoD Centre in Whitehall fully occupied for many months.

In November, Lord Drayson left Government to pursue other personal interests and an MP of many years experience took over the role of the Defence Equipment and Support Minister. Baroness Ann Taylor quickly established herself in the role and took the necessary time to become fully acquainted with the various issues dominating DARA's near horizon.

Following a further period of extended consultation and a robust evaluation of all of the options it was announced on 5 February 2008 in Parliament that MoD would proceed with the sale of DARA's Rotary and Components businesses to Vector. It was clear that only sale could offer any real prospect of longevity for these businesses and their employees. As their life in MoD ownership was finite, to take no action was never an option, as it would ultimately result in closure and redundancy with loss of critical skills.



"In reaching the decision to sell these businesses our twin objectives have always been to ensure we obtain the best value and most cost effective solution to future equipment support and the best long-term prospects for the workforce who we recognise have contributed greatly to the support of the UK's Armed Forces."

BARONESS ANN TAYLOR
Minister of Defence Equipment and Support.
February 2008.

Although there was no imperative to retain these businesses in MoD ownership, privatisation could allow them to develop further, presenting them with the best chance of winning a share of new work in a sub-contractor role via the through life contracts MoD is increasingly placing with industry, as well as other work outside the MoD.

Negotiations with Vector included safeguarding the rights of the employees and ensuring they were protected within existing UK legislation. Vector also has a legal obligation to retain these businesses at their current locations provided it remains economically viable to do so. The importance of these businesses to the local communities in which they are situated is recognised by everyone and Vector aims to quickly establish links with local leaders and communities to explain their own plans for the future.

Throughout the sale process, MoD and DARA engaged with subject experts to provide clear and concise guidance and advice at every stage. The outcome was that MoD could demonstrate to a wide range of interested parties, including HM Treasury, that the negotiated deal with Vector gave MoD the best value for defence and a much more secure future for the DARA employees.

It is with great pleasure and satisfaction that I can confirm the successful sale of the Rotary and Components businesses on 31 March 2008. This has been achieved despite the difficulties and because of the endeavours outlined above.

Along with so many others, I must record my own thanks and admiration for the men and women at Almondbank and Fleetlands. I constantly maintain they will succeed and by moving into a truly commercial environment, they can really show their capabilities to the full and improve on their already impressive and world-renowned reputation for operational excellence.

This latest Annual Report records the impressive margin by which DARA, once again, achieved its Key Targets in important areas of the business. Of particular merit is that major Quality failures were, for another year, recorded as zero and all in DARA should be immensely proud of this achievement, considering they work in environments that depend on a scrupulous attention to safety and quality.

Although the performance of DARA's various businesses are explained in more detail within the Business Review, I could not let this occasion pass without paying tribute to those who have contributed in so many ways, helping maintain our focus and deliver an impressive output during periods of stress and uncertainty. Our Large Aircraft business at St Athan turned in an outstanding performance and as we have come to expect, the Electronics business at Sealand made its own significant contribution to the overall business performance, which is also the case for the Components business at Almondbank.

Our Rotary platforms at Fleetlands have always faced major challenges and this year has been no exception. With the tempo in operations increasing, particularly in the Front Line theatres in Afghanistan and Iraq, the pressure to keep troops equipped with the helicopters they need to carry out their duties has been immense. We were delighted to welcome the Armed Forces Minister, Adam Ingram, to Fleetlands where he could witness the work being done to deliver the increasing levels of output required to meet the demands of our customer. The work at Fleetlands was not going unnoticed by our foreign allies and we were also pleased to host a visit by the Defence Secretary of the Dutch Government who was particularly impressed by the work being done by our teams on the Chinook platform.

Over several years, everyone in DARA has travelled a long road and together we have witnessed many changes. Lives have been changed as a consequence of decisions made outside our control but throughout this time the DARA employees have shown remarkable resolve and commitment. Changes in MoD's priorities and requirements mean these will be the last set of Annual Report and Accounts for DARA and the record of achieving and performing to the highest standards is an enviable record of which we are proud. We are now on the threshold of a new era for the DARA businesses and whether these are in public or private sector ownership, I have every faith they will continue rising to the many challenges they will undoubtedly face in the future.

Archie Hughes
Chief Executive
16 July 2008

The Executive Board of Directors

JOHN REILLY	ALAN LEWIS	STEVE HALL	DEREK OWEN	ARCHIE HUGHES
Chief Operating Officer	Commercial Director	Finance Director	Human Resources Director	Chief Executive

The Business, its Mission, its Vision and Strategy

Business

The Defence Aviation Repair Agency (DARA) is a Government owned facility for the repair, overhaul and maintenance of military aircraft, systems, avionics and components, benefiting from more than 60 years of experience in direct support to the UK Armed Forces. DARA was launched as an Agency on 1st April 1999 and established as a Trading Fund on 1st April 2001. The Agency has subsequently had its Trading Fund order revoked following the successful merger with ABRO on 1 April 2008 and the creation of a new Trading Fund, the Defence Support Group (DSG).

Mission

To deliver outstanding repair support to all our customers.

Vision

To be responsive, flexible, customer focused and highly competitive in the provision of deep aviation repair and supply in logistics to the UK Armed Forces and other customers.

Strategy

In 2007/08 the strategy was to manage the sale of the Rotary and Components Business Units and the merger of the Large Aircraft and Electronics Business Units with the Army Base Repair Organisation (ABRO) into the new Defence Support Group (DSG).

The key strategic goals for 2007/08 were:

- To achieve all Key Targets and to deliver the Business Plans.
- To successfully manage the merger of the Large Aircraft and Electronics Business Units with ABRO.
- To improve customer satisfaction, by following through results of the Customer Review Programme.
- To secure long term contractual commitments to a future order book.
- To shape the resources in line with the E2E outcomes and order book.
- To successfully manage the sale of the Rotary and Components Business Units.

DARA's Performance against Key Targets

DARA's Key Targets (KTs) for 2007/08 were agreed with the Minister for Defence Equipment & Support, and are designed to provide clear indicators of performance in the areas critical to DARA's success. These KTs, along with other performance measures based on our Critical Success Factors, form the basis of a DARA wide performance management system linking corporate strategy with business and individual performance plans.

Performance Against Key Targets 2007/08 were:

✈ Key Target 1

Quality	Achieved
Achieve fewer than 10 attributable major Customer Concerns.	There were no attributable major Customer Concerns in FY 2007/08.

✈ Key Target 2

Financial Performance	Achieved
Achieve an annual Return on Capital Employed of at least 3.5%.	The actual ROCE achieved was 7.78%.

✈ Key Target 3

Business Transformation	Achieved
Carry out the actions necessary to support the potential sale of the Rotary and Components Businesses and complete the merger of all retained DARA Business Units with ABRO, such that a new combined Trading Fund is fully operational by April 2008.	The sale of Rotary & Components was completed on 31 March 2008, with the retained DARA Business Units merging with ABRO under a new Trading Fund Order and was fully operational on 1 April 2008.

✈ Key Target 4

Efficiency	Achieved
Improve overall efficiency by at least 6%.	Overall efficiency improved by 11.31%.

Future Key Targets

The Key Targets for 2007/08 were the final Key Targets agreed for DARA. Following the 1 April 2008 merger with ABRO the Key Targets agreed for 2008/09 are for Defence Support Group to link corporate strategy with individual performance plans.

The key targets agreed for 2008/09 are:

✈ Key Target 1
Quality

To deliver an improved quality performance by achieving fewer than 4 attributable major customer concerns within DSG's Air Business and reducing upheld customer complaints within the Land Business by 5% against the 2007/08 outturn.

✈ Key Target 2
Financial Performance

To achieve at least a 3.5% Return on Capital Employed.

✈ Key Target 3
Business Transformation

To establish a transformation plan, approved by the DSG Trading Fund Board, by December 2008 that fully exploits the synergies and benefits of merger, including numerical targets for improvements in cost and performance for subsequent years.

✈ Key Target 4
Efficiency

To improve overall efficiency by at least 4% against 2007/08 outturn.

✈ Key Target 5
Delivery

To meet delivery targets as agreed with the Customer as follows:
Air Business – To achieve 95% of Customer Programmes; and
Land Business – To meet Customer agreed targets for delivery schedules on Critical Programme lines (94% Sep 08, 94% Dec 08 and 97% Mar 09) and LAND Load tasks (92% Jun 08, 92% Sep 08, 92% Dec 08, and 92% Mar 09).

Business Review

Business Performance and Review

DARA began the 2007 trading year with its four remaining businesses, namely the Large Aircraft Business Unit at St Athan, Electronics at Sealand, Components at Almondbank and Rotary at Fleetlands operating at full stretch in support of the UK's Armed Forces. Although the possibility of sale was at the forefront of the minds of most employees working in the Rotary and Components businesses, it still did not divert their focus or attention away from delivering a very solid business performance.

It was a different kind of diversion for the employees at St Athan and Sealand who were now working towards a merger with their colleagues in the Land environment in ABRO but again their sound performance spoke volumes in terms of output and commitment. Keeping aircraft flying has long been at the heart of DARA's employees and this continues to the present day.

Large Aircraft

DARA's VC10 business turned in one of its best ever performances during this financial year, exceeding projected output and reducing costs to deliver a highly commendable achievement. This was the first year that the Large Aircraft Business Unit operated as a standalone business outside DARA's traditional Fixed Wing operations, which makes the performance of the team even more commendable.

Recognition of this business's performance was not lost on our partners, BAE Systems or the MoD customer, which was endorsed with the award of the Javelin Green contract extension. This will see DARA support the VC10 platform through to its out of service date.

It was not only in aircraft maintenance and repair that employees of this business have shown their value. The Large Aircraft Purchasing and Supply team, in partnership with BAE Systems and FR Aviation Service, was narrowly pipped in the 2007 Chartered Institute of Purchasing and Supply awards in London by the team from global healthcare specialists Glaxo-SmithKline and VWR International.

Collecting the Chairman's award from BAE Systems is becoming common practice amongst Large Aircraft employees with two bronze awards going to staff who produced some innovative new ways to improve working practices. These are classic examples of this workforce's positive mentality and attitude of constantly looking for ways to improve the service they provide to customers and partners.

Electronics

Each year DARA's Electronics business at Sealand has consistently delivered a creditable trading performance. This financial year is no different despite encountering difficulties in terms of throughput of items but with prudent cost management, the business turned in a healthy financial performance helping to secure DARA's sound trading results.

Three key priorities dominated Sealand's Electronics year. Firstly, DARA's partnership with Selex, Thales and GE Aviation to form the Total Support Services (TSS). Secondly, work with the Typhoon project team to help develop an onshore capability for this vital aircraft platform. From establishing a feasibility team to study the practical aspects of supporting this platform, to establishing a team that was focussed on demonstrating DARA's test and repair capability for Typhoon avionics equipment, the Sealand employees are winning hearts and minds within the MoD and industry with their practical approach to innovation and delivery.

The third, of course, was the ongoing work associated with merging this business with ABRO to fully realise the potential benefits and exploit the best practice that exists across both organsiations.

Evidence of the employees at Sealand's innovative approach lies in the groundbreaking new apprenticeship scheme rolled out at Sealand in 2006. As the first of its kind anywhere in MoD, DARA's non-industrial apprenticeship scheme is proving a highly successful training ground with DARA's first apprentice on the scheme being chosen as Open/Distance Learner of the Year at Deeside College's awards ceremony. The scheme is proving so successful that three further apprentices have been taken on at Sealand during the year.

Rotary

The challenges facing DARA's Rotary business during the year were significant and extensive. The calls made upon the Rotary team's maintenance and repair capabilities, brought about by intense operations in Afghanistan and Iraq, have stretched all the employees working on the Chinook, Sea King and Lynx helicopter platforms.

With an increase in numbers of aircraft needing to undergo major maintenance and repair, the costs to the business in delivering output rose in direct proportion and made the challenge of delivering a positive financial performance much more difficult to achieve. Associated with a 23% increase in levels of activity, were the difficulties faced by the business in attracting the right calibre of new recruits, which were essential to meet the emerging needs of our customers.

DARA has long sourced local talent through its own apprenticeship schemes and the training department at Fleetlands has a proud tradition of turning out skilled individuals who have gone on to become valued employees. However, the increasing demand for fully trained technicians and engineers has exposed the skills shortage in the local area. The inevitable consequence of securing a skilled workforce to meet an increasing workload was that DARA's costs increased. By improving output and delivery of aircraft back to the customer, the balance turned in DARA's favour and the business turned in a creditable and profitable performance.

Components

Although there was an increase in work for the employees at Almondbank, the costs were also greater than planned resulting in a less profitable performance than originally anticipated.
The Components employees have risen to many challenges over the years and take action to continuously improve their performance. A recent initiative to radically overhaul and streamline the warehouse operations has delivered impressive results. By reducing the warehouse function's footprint on the site, improving outbound deliveries of stock to achieve a 100% target and delivering an average of 92% accuracy for inventory records, the Almondbank employees continue to demonstrate a professionalism that has long been their hallmark.

Welcome news for the Components staff came with the announcement of a nine-year contract with BAE Systems to support the Tornado availability contract – ATTAC. Under a direct tasking arrangement with the Tornado IPT, DARA's Almondbank employees will continue to play a significant role in the support arrangements for a key aircraft platform.

Financial Review

2007/08 was a year of substantial change for DARA in its seventh year as a Trading Fund and the final year prior to the merger with ABRO to form Defence Support Group.

Preparation continued for the potential sale of VC10, Rotary Wing and Components Business Units culminating in the eventual sale completion on 31 March 2008 to Vector Aerospace.

Overall, DARA's financial performance compared to its plan was strong with Profit before Exceptional Items, Interest and Dividend of £10.357m, a considerable improvement on the original plan of £8.853m profit.

Exceptional losses of £40m includes net assets on sale of Rotary and Components of £68m, offset by a receipt of £17m of which £1m was ring-fenced by DARA for IT separation costs, and a forecast further receipt of £12m. This loss does not reflect the reduction in future liabilities which would have fallen to the MoD.

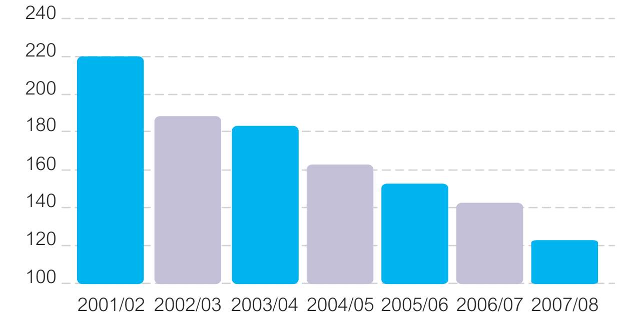
Trading Results

DARA achieved higher than planned turnover, mainly through increased productivity levels with additional revenues again earned from supporting the operations in Afghanistan and Iraq, while still meeting the customers' standard contractual targets. Corporate costs were contained within £0.1m of plan despite the considerable preparation activity for sale and merger.

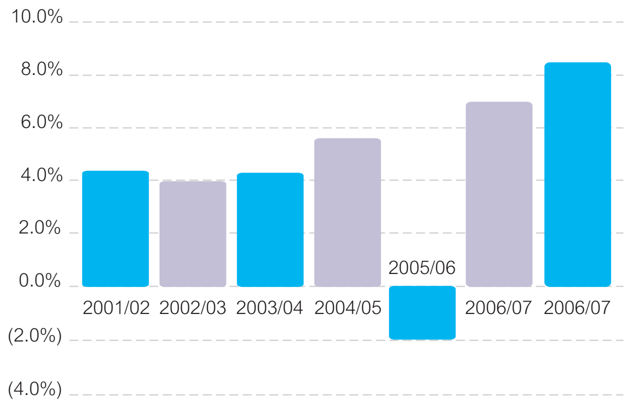
Advantageous market conditions, coupled with strong process and higher than planned cash holdings, resulted in an improvement over plan of £1.1m interest receivable.

As in prior years the MoD has continued to meet DARA's redundancy costs and has confirmed that it will continue to do so following the merger with ABRO to form Defence Support Group. It has also confirmed that it will meet all operating and termination costs of the Red Dragon facility as a consequence of DARA's closure of its Fast Jet business at St Athan and withdrawal from the Red Dragon facility in 2006/07. Accordingly no provision has been made for these future liabilities in these Accounts.

Cost Base £m



Operating Profit %



Cash Flow and Funding

Current liquidity remains very strong with a net cash position of £61.8m (2006/07: £57.2 m), showing an increase of £4.6m in year (2006/07: decrease £7.0m). Once again operational cash flows were very strong and ahead of forecast. Loan repayments and interest of £4.8m and £1.9m respectively were made on time and in line with the loan agreements.

Cash is principally held in Sterling (£60.7m) but also in US Dollars ($1.2m) and Euros (€0.5m). All cash investment activity is conducted using a combination of Lloyds TSB money market calls and the HM Treasury Debt Management Account Deposit Facility. Currency risks are managed through a combination of natural hedges and forward contracts. The outstanding contract for the sale of US$1.1m through to February 2008 originally placed to manage currency exposure on the Honeywell Engines contract, which was paid in US$, closed out during 2007/08. During 2006/07 due to the closure of the Engines business and the cessation of the Honeywell Engines contract, this was matched with a purchase forward to remove all currency risk. There are no further forward contracts remaining.

The capital structure consists of Public Dividend Capital (PDC) at £42.3m, and loan capital of £35.7m (2006/07 - £40.5m). All Long Term Loans and Public Dividend Capital were transferred to short term creditors at the year end in accordance with Treasury direction issued for the capital repayment and restructuring in preparation for the formation of Defence Support Group.

The Balance Sheet continues to be characterised by the high levels of cash, which is, in part, financed by the short-term creditors. In addition, the significant levels of debtor and short term creditors reflect the accounting entries resulting from both the sale and merger activities, nevertheless cash resources are clearly sufficient for the business's needs and accordingly a dividend for 2007/08 of £4.2m was declared and paid in August 2007 (2006/07 £6.0m).

People

Sale and merger affected all DARA's employees to varying degrees during the past year. For many people it remained business as usual, having to cope with the increased volumes of work while keeping fully focussed on quality and safety. Once again, the DARA employees returned an outstanding performance with no major quality concerns despite higher than expected levels of activity.

For others the emphasis was working with ABRO colleagues, MoD Centre and several external advisers to bring about a successful merger and sale completion. Undertaking, at times, very onerous duties and working in parallel to achieve the twin objectives of merger and sale while also maintaining their normal day to day duties was quite remarkable. It signifies the calibre of employee that is now either supporting the new Defence Support Group or delivering a top class service to Vector Aerospace.

Statement of Accounting Officer's Responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by HM Treasury and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that DARA will continue in operation.

The Accounting Officer of the Ministry of Defence has designated the Chief Executive of DARA as the Accounting Officer for the Trading Fund. The relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for the keeping of proper records and for safeguarding DARA's assets, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Managing Public Money.

As far as I am aware, there is no relevant audit information of which DARA's auditors are unaware and as Accounting Officer, I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that DARA's auditors are aware of that information.

A. Hughes

Archie Hughes
Chief Executive and Accounting Officer
16 July 2008

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of DARA's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

As Chief Executive of DARA, I am personally accountable to the Secretary of State for Defence for the performance of DARA in accordance with the Framework Document and DARA's Corporate Strategic Plan. The DARA Owners Advisory Council, chaired by the Minister for Defence Equipment & Support as representative of our owners, meets quarterly to review DARA's performance against its key targets and Business Plan objectives.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of DARA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in DARA for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The DARA Board has provided leadership to the risk management process through the regular consideration of risk, both at main board meetings and in the Executive Governance Review Group and Audit Committee meetings, and by the risk management strategy and policy.

Our procedures for Corporate and Business Unit risk registers, together with our implementation of risk management for major projects, continues to ensure that risk management is embedded in all our business activities. We are continually assessing the approach to risk management, to ensure that all business units and projects continue to operate within Treasury guidelines. The Risk Management software previously introduced, is now fully operational throughout the Business Units and support directorates. Further user licences were purchased during the year, we are about to upgrade to the latest version and are arranging for additional training at all Business Units.

The risk and control framework

DARA complies with HM Treasury instructions and guidelines for Corporate Governance. In order to meet the requirements of an embedded system of internal control, DARA has established a Risk Management system, which consists of:

- A Risk Management Strategy, which incorporates the aims, objectives and rationale within DARA for managing risk.

- A Risk Management Policy, which outlines the approach used within DARA for implementing risk management and includes a risk management reporting structure.

- Appointed Risk Management Committee, which reviews and evaluates internal standards and procedures relative to the management of risk and disseminates risk information and guidance on best practice.

- Appointed Risk Co-ordinators within each Business Unit and Directorate who are responsible for the maintenance of local Risk Registers.

- A DARA Corporate Risk Register, which represents the broad spectrum of corporate risks and is owned and regularly reviewed by the DARA Board.

- Business Continuity Plans, which are managed by the site risk co-ordinators to facilitate the unity of Risk Management and Business Continuity. All four DARA sites updated their Business Continuity Plans in 2007/08 and MoD has highlighted the DARA BCM Action Plan in its Policy Guidance and Good Practice section within Business Continuity Management.

- Insurance Policies are in place to meet DARA's legal responsibilities and to mitigate certain risks. No insurance is taken against any potential liabilities to the MoD.

- Information Management; DSG as part of the merger process is consolidating its information management systems, including the protection of data through IT systems. Policies and procedures controlling the storage of information and access to the IT system are being revised to accommodate the DSG policies and uploaded into the new DSG Business System, where all policies and procedures are held.

- Internal Audit Services, which have been outsourced since July 2005, provide an annual risk based programme of internal audits. During 2007/08, in addition to the audit of the Key Targets, all of which were achieved, there were five major and one lesser audit completed, one of which gained full assurance, four substantial assurances and one limited assurance. The Executive Governance Review Group ensure that all accepted recommendations from these audits are implemented within three months and at year end there were none outstanding.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within DARA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have received satisfactory letters of assurance from executive managers and the DARA Governance Review Group. The Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control. Plans to address control weaknesses and ensure continued improvement of our processes are in place.

DARA has established the following processes to identify, evaluate and control risk:

– A Board, which meets each month to consider the plans and strategic direction of the organisation, comprising the Executive Directors of DARA and two external independent Non Executive Directors, one of whom is Chairman of the DARA Audit Committee, and the other chairman of DARA's Remuneration Committee.

– A Governance Review Group, which comprises all Executive Board members together with the Head of Internal Audit and other key personnel as required. The primary purpose of the Governance Review Group is to monitor and review all assurance activities being undertaken within DARA. The group also aims to further develop Corporate Governance practices in general.

– Periodic reports from the Chairman of the Audit Committee, to the Board, concerning internal control.

– Regular reports from each Directorate as part of the performance management regime. An assessment of the key risks and their management/mitigation is included in these reports.

– DARA staff and the Board fully understand the Department's approach to Corporate Governance and the management of risk. This approach has produced a robust risk methodology using subjective assessments of Very High/High/Medium/Low/Very Low risks against the impact of a particular risk to DARA objectives as well as a likelihood of the risk maturing. These assessments are updated regularly and form the basis of the decision making process at the Board.

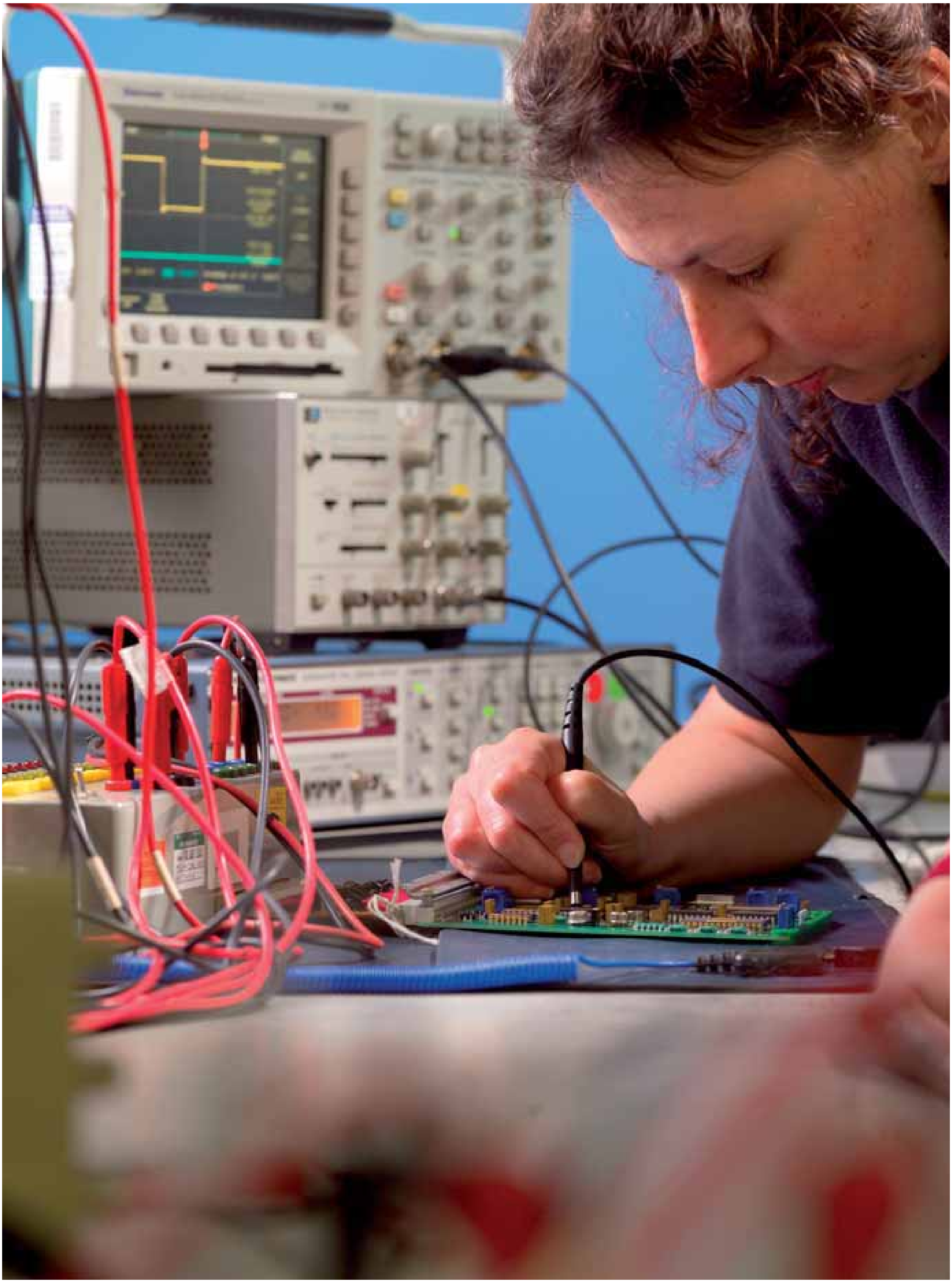
– Risk Registers are owned, maintained and managed by the Business Units and Support Directorates with a Strategic Risk Register owned and managed by the Board. The Risk Manager reporting directly to the Finance Director has responsibility for coordinating and managing the Risk Management process.

– DARA Risk management structure has been designed to ensure that information is communicated upstream and downstream within the organisation. Risk Management is included as a regular agenda item at Site and Directorate meetings with links into the Business Continuity Plans. The Risk Management software, Active Risk Manager (ARM), is fully functional and reports are generated and issued to management to facilitate the control and mitigation of the risks.

Significant Internal Control Weaknesses

For the financial year 2007/08, the internal audit process did not identify any areas of significant control weakness; this despite the significant disruption created by the planned sale of two Business Units and the merger of DARA with ABRO. In addition there has been no loss of data or unauthorised release or loss of personal data. The Interim Management Letter from the external auditors, which indicates that there are no issues to report, has further enhanced this. During this transition process there will be a period of uncertainty and it is recognised that there will be new and significant risks arising that will need careful management and control, but I am confident that our systems of internal control are more than adequate for the task.

Archie Hughes
Chief Executive
16 July 2008



Remuneration Report

Remuneration Committee

The purpose of the Remuneration Committee is to agree the strategic policy in relation to the remuneration of DARA employees, consistent with the Personnel Delegations held by the Chief Executive of DARA.

The remuneration of all DARA staff except Senior Civil Servants is set by the Remuneration Committee in agreement with HM Treasury.

A Non Executive Director (Richard Fenny) was chairman to the Committee Committee to December 2007 with Andy Akerman as Chairman from January 2008 to March 31 2008, and there are three other Members, the Chief Executive of DARA, Finance Director and Human Resources Director. The Committee met as required during the financial year and all recommendations arising from the Committee have been implemented.

The Committee continues to make a positive input into the strategic direction of DARA Pay Settlements prior to ratification by the DARA Board.

There is a second remuneration committee which is a subsidiary of the Owners Advisory Council (OAC) which convenes on an ad-hoc basis to advise the OAC on the DARA Chief Executive's annual bonus.

Remuneration Policy

The Chief Operating Officer, Commercial Director and Human Resources Director are Senior Civil Servants. As such their pay is set through recommendations made by the Review Body on Senior Salaries which provides independent advice to the Prime Minister and the Secretary of State for Defence on remuneration of Senior Civil Servants. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

All other staff have their remuneration determined by a process consistent with MoD and HM Treasury regulations. The Chief Executive has delegated powers for the setting of terms and conditions of employment, including pay, for all DARA staff. This delegation requires him to consult with the MoD and HM Treasury before agreeing any changes to pay and grading systems and arrangements. This is achieved through the Pay Remit process whereby the DARA Pay Strategy is submitted for MoD and HM Treasury approval before negotiation with staff representatives. The outcome of negotiations is reported back to HM Treasury through the annual outturn statement.

The DARA Pay Strategy is approved by the DARA Board and Remuneration Committee and is designed to achieve the Corporate business strategy having due regard to the financial success of DARA, current Government and MoD policies and targets, and public sector pay guidance.

Performance pay is dependent firstly on DARA meeting agreed Key Targets at a corporate level and then on individuals meeting agreed targets cascaded from the Corporate Plan. Achievement is determined by individual assessment within the line management chain. Pay and changes to conditions of service are approved by the DARA Board and Remuneration Committee prior to the annual pay negotiating process with the Trades Unions and reviewed after implementation.

All pay awards are subject to satisfactory performance of the duties assigned.

Service contracts of Directors

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the Executive Directors hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Archie Hughes was appointed as Chief Executive on 01 January 2004 on a 3 year fixed-term contract. Compensation for early termination, other than for misconduct, would be in accordance with the Civil Service Compensation Scheme. This contract was extended to December 2007, however in July 2007 he was appointed Chief Executive of both DARA and ABRO, an appointment that continues into Defence Support Group post merger.

As ABRO Directors' contracts came to the end of their term, DARA Directors were gradually appointed in the equivalent role on the ABRO Board to assist with the merger process. All DARA Executive Directors remain Executive Directors within Defence Support Group from 1 April 2008.

Non-Executive Directors are not appointed as Civil Servants. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination will be immediate. They may be extended by mutual agreement. There are no compensation entitlements for early termination. Current contractual arrangements applying to the non-executive directors as at 31 March 2008 were as follows:

Richard Fenny was appointed as a Non-Executive Director on a 3 year contract commencing 21 January 2001. This was extended by a further 3 years to January 2007, and further extended until December 2007.

Michael Jones was appointed as a Non-Executive Director of DARA from 1 January 2008 in addition to his responsibilities as a Non Executive Director of ABRO with remuneration reported in ABRO accounts, also as a Non-Executive Director. This appointment transfers to Defence Support Group from 1 April 2008.

Andy Akerman was appointed as a Non Executive Director on a 9 month contract commencing on 22 February 2006 which was extended to September 2007, and further extended to March 2008.

Remuneration Details of Directors (audited)

	Age	Gross Salary, bonuses and allowances (last year in brackets) £'000	Performance Bonus as a percentage of Total Remuneration %	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60, at 31/03/08 and related lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31/03/07 £'000	Cash Equivalent Transfer Value (CETV) at 31/03/08 £'000	Real increase in Cash Equivalent Transfer Value (CETV) after adjustment for inflation and changes in market investment factors £'000
Executive Directors								
Archie Hughes Chief Executive Officer	47	295–300 (175–180)	42%	0–2.5	5–10	78	118	24
John Reilly Chief Operating Officer	54	105–110 (95–100)	7%	2.5–5	130–135	618	722	16
Steve Hall Finance Director	42	70–75 (10–15)	11%	5–7.5	65–70	203	264	24
Derek Owen Human Resources Director	56	90–95 (85–90)	9%	2.5–5	125–130	636	743	20
Alan Lewis Commercial Director	51	90–95 (85–90)	9%	2.5–5	75–80	309	373	19

A Cash Equivalent Transfer Value (CETV) is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time. Due to certain factors being incorrect in last year's CETV calculator there may be a slight difference between the final CETV for 2006/07 and the start of period CETV for 2007/08.

None of the directors have opted for a Partnership Account. Therefore there are no employer contributions to such accounts in respect of these directors.

None of the directors have received a payment of compensation for loss of office under the terms of an approved compensation scheme and no awards or compensation have been paid to former directors.

None of the directors have remuneration packages containing non-cash elements.
No payments have been made to third parties for the services of a director.

	Age	Fees (last year in brackets) £'000
Non-Executive Directors		
Richard Fenny Non-Executive Director (to 31 December 2007)	57	0–5 (0–5)
Andy Akerman Non-Executive Director	55	5–10 (5–10)
Michael Jones Non-Executive Director (from 1 January 2008)	63	-

Archie Hughes
Chief Executive
16 July 2008

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

I certify that I have audited the financial statements of DARA for the year ended 31st March 2008 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective Responsibilities of DARA, the Chief Executive and Auditor

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

My responsibility is to audit the financial statements in accordance with relevant legal and statutory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the statement by the Chief Executive, Our Business, Mission, Vision and Strategy, Performance against key targets and the financial and business reviews, included in the Annual Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the statement by the Chief Executive, Our Business, Mission, Vision and Strategy, Performance against key targets and the financial and business reviews. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by DARA and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to DARA's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of DARA's affairs as at 31 March 2008 and of its loss for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and

- information, which comprises the statement by the Chief Executive, Our Business, Mission, Vision and Strategy, Performance against key targets and the financial and business reviews, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

My report on these financial statements is at pages 52 to 53.

T J Burr
Comptroller and Auditor General
17 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9SS

Profit and Loss Account for the year ended 31 March 2008

	Note	Continuing £'000	Discontinued £'000	2007/2008 £'000
Turnover		54,842	78,987	133,829
Cost of sales	3	41,586	71,664	113,250
Gross profit		13,256	7,323	20,579
Operating expenses	3	9,938	284	10,222
Operating profit		3,318	7,039	10,357
Loss/(Profit) on disposal of fixed assets	3a	4	(34)	(30)
Loss on Disposal of Discontinuing Operations	3a	–	39,885	39,885
Exceptional Release of provisions	3a	(1,126)	–	(1,126)
Exceptional Costs	3a	201	121	322
Profit/(Loss) on ordinary activities before interest		4,239	(32,933)	(28,694)
Interest receivable				3,525
Interest payable	4			1,857
(Loss)/Profit on ordinary activities before Dividend				(27,026)
Dividend payable				4,200
Retained (Loss)/Profit				(31,226)
Return on capital employed (ROCE)				7.78%

The notes on pages 34 to 51 form part of these accounts.

	Restated	
		2006/2007
Continuing £'000	Discontinued £'000	Total £'000
56,745	96,857	153,602
39,553	93,493	133,046
17,192	3,364	20,556
10,750	295	11,045
6,442	3,069	9,511
(8)	(529)	(537)
–	–	–
–	–	–
–	–	–
6,450	3,598	10,048
		2,990
		2,071
		10,967
		6,000
		4,967
		7.84%

Balance Sheet as at 31 March 2008

	Note	31 March 2008 £'000	31 March 2007 £'000
Fixed assets			
Tangible	7	19,054	61,305
		19,054	61,305
Current assets			
Stock & Work in progress	8	185	9,913
Debtors and prepayments	9	36,511	26,900
Cash at bank and in hand	10	61,763	57,177
		98,459	93,990
Current liabilities			
Creditors: amounts falling due within one year	11	(99,485)	(27,823)
Net current (liabilities)/assets		(1,026)	66,167
Total assets less current liabilities		18,028	127,472
Provisions for liabilities and charges	12	(67)	(2,717)
Net Assets		17,961	124,755
Financed by:			
Capital and reserves			
Public dividend capital		–	42,303
Long-term loans	13	–	35,670
Revaluation reserve	14	10,263	22,913
General reserve	15	7,698	23,869
Government funds		17,961	124,755

The notes on pages 34 to 51 form part of these accounts.

Archie Hughes
Chief Executive
16 July 2008

The above date is the date authorised for issue, being the date of despatch by the Trading Fund's Board, to the Comptroller and Auditor General, for laying before the Houses of Parliament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Years of RAF Service

Cash flow statement for the year ended 31 March 2008

	Note	2007/2008 £'000	2006/2007 £'000
(a) Reconciliation of operating profit to net cash inflow from operating activities:			
Operating profit		10,357	9,511
Impairment of fixed assets		502	(955)
Depreciation charges		2,244	2,361
(Decrease) in Provisions for liabilities and charges		(477)	(663)
Exceptional costs		(322)	-
Decrease in stock & WIP		3,065	410
(Increase) in debtors		(5,020)	(3,647)
Increase/(decrease) in creditors		8,096	(4,069)
Net cash inflow from operating activities		18,445	2,948
(b) Cash flow statement:			
Net cash inflow from operating activities		18,445	2,948
Acquisitions and Disposals	16c	(5,699)	–
Dividends paid		(4,200)	(6,000)
Returns on investments and servicing of finance	16a	1,668	874
Capital expenditure and financial investment	16a	(788)	13
Financing	16a	(4,840)	(4,840)
Increase/(decrease) in cash		4,586	(7,005)
(c) Reconciliation of net cash flow to movement in net funds/(debt):			
Increase/(decrease) in cash	16b	4,586	(7,005)
Decrease in borrowings		4,840	4,840
Movement in net funds	16b	9,426	(2,165)
Net funds at start of year		16,667	18,832
Net funds at end of year	16b	26,093	16,667

The notes on pages 34 to 51 form part of these accounts.

Statement of total recognised gains and losses for the year ended 31 March 2008

	2007/2008 £'000	2006/2007 £'000
(Loss)/Profit for the financial year	(27,026)	10,967
Surplus on revaluation of fixed assets credited to the reserves	2,408	1,244
Less: revaluations on assets disposed	(14,873)	(9)
Transfer out of revaluation reserve	(185)	(1,120)
Transfer into general reserve	15,055	1,099
Total recognised gains and losses relating to the period	(24,621)	12,181

Reconciliation of movements in Government funds

	2007/2008 £'000	2006/2007 £'000
Government Funds at 1 April	124,755	123,414
Dividends	(4,200)	(6,000)
Total recognised gains and losses relating to the year	(24,621)	12,181
Movements in long-terms loans and public dividend capital	(77,973)	(4,840)
Net movement in Government funds	(106,794)	1,341
Balance at Period End	17,961	124,755

The notes on pages 34 to 51 form part of these accounts.

Notes to the Accounts for the year ended 31 March 2008

1 Accounting policies

Basis of accounting

The accounts have been prepared in accordance with the FReM issued by HM Treasury, which provides guidance on the application of generally accepted accounting practice in the United Kingdom to Trading Funds, and the Accounts Direction issued by the Treasury. The particular accounting policies adopted by DARA are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

Prior Year Comparatives

Prior year comparatives for discontinued operations includes Engines and Fast Jets business units, closed on March 31 2007, and Rotary and Components business units, sold on March 31 2008.

Accounting convention

These accounts have been prepared in accordance with the accruals concept and the historical cost convention, modified to account for the revaluation of land and buildings and other fixed assets, at current costs or value to the business.

Turnover

Turnover comprises the invoiced and accrued value of services (excluding VAT and other sales taxes).

Tangible fixed assets

Land and buildings

Where DARA is the principal beneficial user of Departmental Estate, such estate is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence. A professional valuation, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards, was carried out by Fuller Peiser during 2005/06. Land and Buildings are revalued in the years between professional valuations, using the Corporate Financial Controller (CFC) Modified Historic Cost Accounting (MHCA) index.

Other fixed assets

Plant, equipment, computers and motor transport are capitalised where the useful life exceeds one year and the cost of acquisition exceeds £10,000 excluding VAT. The value of capitalised plant, equipment and motor transport is reviewed annually and adjustments made for technological obsolescence, using the CFC MHCA Index in the relevant periods.

Depreciation

Freehold land is not depreciated. Depreciation on buildings, plant and equipment, motor vehicles and IT equipment is calculated to write off the cost, or valuation, of assets by equal instalments over their estimated useful lives. The lives are periodically reviewed for obsolescence of the assets.

The depreciation rates applied to the main categories of assets are based on the following estimates of useful life.

Buildings
Not exceeding fifty years
Plant & Equipment
Between three and twenty years
Motor Transport
Between three and ten years
IT Equipment
Between three and ten years

Where an impairment loss has occurred with reference to the value in use of an asset, a discount rate of 3.5% has been applied to the cashflows.

Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and Armed Forces Pension Schemes (AFPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS or AFPS appropriately. The cost of pension cover provided is by payments of charges (Accrued Superannuation Liability Charges – ASLC) based on a percentage of salary. Salaries include gross salary, certain performance bonuses and recruitment and retention allowances. It does not include the estimated monetary value of benefits in kind. Payments are made at contribution rates determined by the Government Actuary.

Foreign exchange

All foreign denominated transactions are translated at the appropriate rate of exchange, being the previous month's average rate. At 31 March, balances are translated into sterling at a year end spot rate.

Use of financial instruments is explained in note 19.

Stock

Stock is valued at the lower of cost (including attributable overheads) and net realisable value. The majority of DARA's work for the MoD is on a spares exclusive basis. Material held for this purpose continues to be owned by MoD and is not included in DARA's stock valuation. DARA's stock comprises material purchased to support spares inclusive contracts and spares manufactured and owned by DARA itself. Provisions are made to cover obsolescent items. Items are reviewed for obsolescence on a regular basis and at the end of the financial year.

Work in progress

Most of DARA's sales contracts exclude the cost of spares, which are provided free of charge by the customer. Therefore, work in progress is valued on the basis of direct labour and indirect production support, plus those business overheads that are directly related to production activity. For spares inclusive contracts, the cost of the spares consumed is also included in the WIP valuation. The rates used to value WIP are reviewed annually.

Long term contracts

Long term contract (LTC) balances are stated at costs incurred (net of amounts transferred to cost of sales), after deducting related payments on account. Profit on individual long term contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Turnover on long term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

Provision for losses on contracts

When it is known that a contract is forecast to make a loss, a provision is made at the time the loss is identified.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

Return on capital employed

The basis for calculating return on capital employed is the profit before interest for the year, as a percentage of the average capital employed during the year. Capital employed comprises total net assets (fixed assets at net book value, plus current assets, less current liabilities) and adding back the short term loans provided from government sources.

Provision for bad and doubtful debts

DARA makes provision for bad and doubtful debts based on an aged debtor and debtor category analysis. Bad debts are written off immediately they are deemed to be irrecoverable.

Value Added TaxSale Transactions

DARA has a single registration for VAT with HM Revenue & Customs and accounts for VAT on an accruals basis.

Sale Transactions

The Board of DARA consider that, although the sale of Rotary Wing and Components was only formally completed in the early hours of 1 April 2008, the work that had already been completed means that the substance of the transaction was materially complete by the year end. Therefore these financial statements to March 2008 have accrued for the cash flows relating to the sale and the repayment of loans and public dividend capital, although they do not show the amounts as being received or paid.

2 Turnover

Turnover is not analysed by market segment because substantially all of the turnover relates to the same class of business: the repair, overhaul and maintenance of military aircraft, systems and components.

Turnover is stated net of trade discounts, provisions, VAT and similar taxes. Discontinued Operations was the sale of Rotary and Components Business Units to Vector Aerospace on March 31 2008 with prior year Discontinued Operations additionally being the closure of the Engines Business Unit and the Fast Jets Business unit on March 31 2007.

3 Cost of sales, operating expenses and exceptional items

Cost of sales	Note	2007/2008 Continuing £'000	Discontinued (i) £'000	Total £'000
Staff costs	5b	32,734	41,625	74,359
Supplies and services consumed		4,659	23,804	28,463
Accommodation costs		4,310	3,607	7,917
Depreciation		898	1,325	2,223
Other administration costs	6	(1,015)	1,303	288
Total cost of sales		41,586	71,664	113,250

Operating expenses	Note	Continuing £'000	Discontinued (i) £'000	Total £'000
Staff costs	5b	3,562	284	3,846
Supplies and services consumed		172	–	172
Accommodation costs		49	–	49
Depreciation		21	–	21
Other administration costs	6	6,134	–	6,134
Total operating expenses		9,938	284	10,222

Cost of sales & operating expenses	Note	Continuing £'000	Discontinued (i) £'000	Total £'000
Staff costs	5b	36,296	41,909	78,205
Supplies and services consumed		4,831	23,804	28,635
Accommodation costs		4,359	3,607	7,966
Depreciation		919	1,325	2,244
Other administration costs	6	5,119	1,303	6,422
Total cost of sales & operating expenses		51,524	71,948	123,472

(i) Discontinued Operating expenses are those solely and directly attributable to Rotary and Components, sold 31 March 2008. All other Operating Expenses are substantially attributed to Continuing Operations and did not materially change as a result of either sale, or as a result of the closure of Fast Jets and Engines businesses in 2006/07.

3a Exceptional items

Exceptional items:	Note	Continuing £'000	Discontinued (i) £'000	Total £'000
Loss on disposal of Rotary & Components	3c	–	39,885	39,885
Exceptional Release of provisions	12	(1,126)	–	(1,126)
Exceptional Costs (ii)		201	121	322
Loss/(Profit) on disposal of fixed assets		4	(34)	(30)
		(921)	39,972	39,051

(ii) Exceptional costs are those specifically incurred for merger activities (Continuing Operations) or sale of Rotary and Components (Discontinued Operations).

As Restated

	2006/2007	
Continuing £'000	Discontinued (i) £'000	Total £'000
31,721	58,993	90,714
3,480	19,270	22,750
3,712	14,708	18,420
623	1,660	2,283
17	(1,138)	(1,121)
39,553	93,493	133,046
3,896	295	4,191
501	–	501
31	–	31
78	–	78
6,244	–	6,244
10,750	295	11,045
35,617	59,288	94,905
3,981	19,270	23,251
3,743	14,708	18,451
701	1,660	2,361
6,261	(1,138)	5,123
50,303	93,788	144,091
–	–	–
–	–	–
–	–	–
(8)	(529)	(537)
(8)	(529)	(537)

3b Balance Sheet immediately prior and post sale of Rotary and Components

	Note	Pre sale £'000	Movement	Post sale £'000
Fixed assets				
Tangible	7	61,438	(42,384)	19,054
		61,438	(42,384)	19,054
Current assets				
Stock & Work in progress	8	6,848	(6,663)	185
Debtors and prepayments	9	30,918	5,593	36,511
Cash at bank and in hand	10	66,949	(5,186)	61,763
		104,715	(6,256)	98,459
Current liabilities				
Creditors: amounts falling due within one year	11	(108,240)	8,755	(99,485)
Net current (liabilities)		(3,525)	2,499	(1,026)
Total assets less current liabilities		57,913	(39,885)	18,028
Provisions for liabilities and charges	12	(67)	-	(67)
Net Assets		57,846	(39,885)	17,961
Financed by:				
Capital and reserves				
Public dividend capital		–	–	–
Long-term loans	13	–	–	–
Revaluation reserve	14	25,136	(14,873)	10,263
General reserve	15	32,710	(25,012)	7,698
Government funds		57,846	(39,885)	17,961

The Sale immediately prior to the closing Balance Sheet position resulted in a significant movement in debtors and creditors as shown. The merger with ABRO on 1 April 2008 resulted in Treasury direction for the repayment of Public Dividend Capital and loans prior to the restructuring of Defence Support Group, hence no balance is held in PDC or Long Term Loans at 31 March 2008.

3c Profit and loss on Sale of Rotary and Components

	£'000
Net Assets	(67,943)
Separation costs incurred (i)	(1,000)
Receipt from Vector Aerospace on sale	17,000
Additional Net Working Capital Debtor	12,058
Loss on sale of business	(39,885)
Revaluation Reserve taken through STRGL	14,873
	(25,012)

(i) Separation costs are IT costs incurred as a direct result of the sale of Rotary and Components Business Units.

4 Interest payable and similar charges

	2007/2008 £'000	2006/2007 £'000
On loans wholly repayable within five years	1,857	550
On loans not wholly repayable within five years	–	1,521
	1,857	2,071

5 Staff numbers and costs

(a) Staff numbers

	2007/2008 Number of employees	2006/2007 Number of employees
The average number of persons employed during the year was:		
Senior management	5	5
Service personnel	31	49
Civilian personnel	2,048	2,482
Agency staff	207	337
	2,291	2,873

Total number of persons employed at 31 March 2008 (including Agency staff) was 980 employees (2,691 as at 31 March 2007), equivalent to 972 full time employees (2,678 as at 31 March 2007). The variance to the average numbers throughout the year is due to the sale of Rotary and Components on 31 March 2008.

(b) Payroll costs

	2007/2008 £'000	2006/2007 £'000
in Cost of sales:		
Salaries, wages and allowances	55,037	65,023
Social security	4,084	4,984
Pension costs	9,639	11,234
Agency Staff	5,599	9,473
	74,359	90,714
in Operating expenses:		
Salaries, wages and allowances	2,674	3,034
Social security	244	267
Pension costs	492	584
Agency staff	436	306
	3,846	4,191
Total:		
Salaries, wages and allowances	57,711	68,057
Social security	4,328	5,251
Pension costs	10,131	11,818
Agency Staff	6,035	9,779
Total payroll costs	78,205	94,905

5 Staff numbers and costs (continued)

(c) Pension benefits

Pension benefits for civilian employees are provided through the Civil Service Pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants between 1 October 2002 and 30 July 2007 could choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). New entrants from 30 July 2007 may choose only between a partnership pension and the "Nuvos" occupational pension scheme.

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic. Benefits in Nuvos accrue at the rate of 2.3% of pensionable earnings towards members pensions annually, to a maximum of 75% of final salary.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefit scheme and it is not possible to separately identify DARA's share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer contribution rates are determined by the Government Actuary at one of four rates in the range 17.1% to 26.5% of pensionable pay, based on salary bands.

Employer contributions are reviewed every four years, following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. Salary bands are revalorised each year.

Similarly, employers' contributions to the Armed Forces Pension Scheme (AFPS) are determined by the Government Actuary at a rate of 36.3% for Officers and 21.8% for other ranks.

For 2007/2008 employers' contributions of £22,772 were paid to one or more of a panel of four appointed stakeholder pension providers (2006/2007: £19,988). Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. Contributions due to the partnership pension providers at the balance sheet date were £2,541 (2006/2007: £1,790).

5 employees retired early on ill-health grounds; the total accrued pension liabilities in the year amounted to £7,412 (2006/2007 1 person – liabilities amounted to £6,830).

6 Other administration costs

in Cost of sales:	2007/2008 £'000	2006/2007 £'000
Travel and subsistence, including vehicle hire	808	1,258
IT and telecommunications	20	10
Training, recruitment and consultancy	1,350	1,376
Impairment of fixed assets (i)	501	(961)
Other expenses	2,966	3,439
Cost reimbursement (ii)	(5,174)	(5,726)
(Utilisation)/creation of provision for loss making contracts	(183)	183
Utilisation of provision for Engines decomissioning	–	(700)
	288	(1,121)

in Operating expenses:	£'000	£'000
Auditors' remuneration (iii)	64	96
Travel and subsistence, including vehicle hire	475	389
IT and telecommunications	4,285	4,100
Training, recruitment and consultancy	331	904
Insurance	906	1,026
Impairment of fixed assets (i)	1	6
Other expenses	164	270
Gains on Foreign Exchange	(27)	(484)
Cost reimbursement (ii)	(65)	(63)
	6,134	6,244

Total:	£'000	£'000
Auditors' remuneration (iii)	64	96
Travel and subsistence, including vehicle hire	1,283	1,647
IT and telecommunications	4,305	4,110
Training, recruitment and consultancy	1,681	2,280
Insurance	906	1,026
Impairment of fixed assets (i)	502	(955)
Other expenses	3,130	3,709
Gains on Foreign Exchange	(27)	(484)
Cost reimbursement (ii)	(5,239)	(5,789)
(Utilisation)/creation of provision for loss making contracts	(183)	183
Utilisation of provision for Engines decomissioning	-	(700)
Total of other administration costs	6,422	5,123

(i) Impairment of fixed assets relates primarily to buildings at the Fleetlands & Sealand sites, as required by Financial Reporting Standard 11. 2006/07 impairment relates primarily to the reversal of impairments carried out in 2005/06 following the transfer of Fast Jets and Engines Fixed Assets to other Business Units.
(ii) The total cost reimbursement has been shown separately from other expenses for greater visibility.
(iii) Auditors' remuneration is for the statutory audit fee due to the National Audit Office.

7 Fixed assets

The movements in each class of assets were:

	Land & Buildings £'000	Plant & Equipment, Motor Vehicles and IT £'000	Assets in course of construction £'000	Total tangible £'000
Cost or valuation:				
At 1 April 2007	139,709	31,422	513	171,644
Additions	–	–	477	477
Revaluation	4,300	671	13	4,984
Reclassification (i)	810	82	(892)	-
Disposals (ii)	(84,679)	(18,325)	(10)	(103,014)
At 31 March 2008	60,140	13,850	101	74,091
Depreciation:				
At 1 April 2007	82,229	28,110	–	110,339
Depreciation charged during the year	1,602	642	–	2,244
Impairments	490	12	–	502
Revaluation	1,978	598	–	2,576
Disposals	(44,475)	(16,149)	–	(60,624)
At 31 March 2008	41,824	13,213	–	55,037
Net book value				
At 1 April 2007	57,480	3,312	513	61,305
At 31 March 2008	18,316	637	101	19,054

(i) Reclassification comprises the capitalisation of assets in the course of construction.
(ii) Disposals predominantly comprise of the assets sold with Rotary and Components.

8 Stock and work in progress

	31 March 2008 £'000	31 March 2007 £'000
Stocks	–	2,782
Work in progress – net costs incurred	185	7,131
Total stock and work in progress	185	9,913

9 Debtors and prepayments

	31 March 2008 £'000	31 March 2007 £'000
Trade and other debtors (i)	6,635	20,922
Receipt due from sale of Rotary and Components (ii)	29,058	–
Bad debt provision	(1)	(88)
Prepayments and accrued income	819	6,066
	36,511	26,900

(i) Within Trade and other debtors is a balance of £2,304k for other central government bodies and £4,331k for bodies external to government, (2006/2007 other government bodies £13,172k, external to government £7,750k).
(ii) Receipts due for sale of Rotary and Components is £17.0m due 1 April 2008, with a further £12.058m due on reconciliation of the completion statements.

10 Cash at bank

	31 March 2008 £'000	31 March 2007 £'000
Cash on short term deposit (i)	–	58,306
Cash at bank (ii)	61,763	(1,129)
	61,763	57,177

(i) Wherever possible cash is held in interest earning accounts, which are redeemable on demand within one working day.
(ii) Actual cash balance 31 March 2007 £0.1m. Balance reflects BACS payment of £1.2m clearing bank on 3 April 2007.

11 Creditors

Amounts falling due within one year:	31 March 2008 £'000	31 March 2007 £'000
Trade creditors (i) (ii)	780	2,683
Taxation and social security (ii)	2,298	1,771
Accruals	5,250	10,111
Deferred income	13,155	8,367
Sundry creditors (ii)	29	51
Public Dividend Capital repayable to the MOD	42,303	–
Loans payable within 12 months	35,670	4,840
	99,485	27,823

(i) DARA's policy is to pay its suppliers within contracted payment terms or general conditions governing the terms for the type of business undertaken or, in the absence of specially agreed terms, within 30 days of receipt of a valid invoice. This complies with HM Treasury guidelines and the Governments "Better Payment Practice Code". In 2007/08 96% (2006/07 96%) of invoices, by value, were paid within this target.
(ii) Within trade, taxation and social security and sundry creditors is a balance of £2,507k for other central government bodies and £600k for bodies external to government, (2006/2007 central government bodies £2,036k, external to government £2,418k).

12 Provisions for liabilities and charges

	Loss on contracts £'000	Revenue Provision note (i) £'000	Other note (ii) £'000	Total £'000
Balance at 1 April 2007	183	101	2,433	2,717
Increase in provisions	–	23	44	67
Released in year	–	(70)	(1,736)	(1,806)
Utilised in year	(183)	(31)	(697)	(911)
Balance at 31 March 2008	–	23	44	67

(i) Revenue provision is in respect of the probable repayment of amounts invoiced to MoD customers, where refunds or partial refunds are likely.
(ii) Released in year was predominantly Engines decommissioning provision which was no longer required due to the sale.

The liabilities and charges provided for fall due in the following periods:

	31 March 2008		
	Revenue Provision £'000	Other £'000	Total £'000
Amounts payable within:			
Under one year	23	44	67
One to five years	–	–	–
Over five years	–	–	–
	23	44	67

The MoD has confirmed that it will continue to meet any liabilities in respect of DARA's redundancy costs, and all operating and termination costs of the Red Dragon facility consequent upon DARA's withdrawal from the Red Dragon facility. Accordingly, no provision has been made for these future liabilities in these accounts.

13 Long term loans

	31 March 2008 £'000	31 March 2007 £'000
Loan repayable by 31 March 2021	–	27,495
Loans repayable by 31 March 2011	–	8,175
	–	35,670

Amounts repayable within one year are included in creditors – see note 11.

14 Revaluation reserve

	2007/2008 £'000	2006/2007 £'000
Balance at 1 April	22,913	22,798
Transfer to profit and loss account	(3)	(21)
Transfer to general reserve	(182)	(1,099)
Revaluations in year	2,408	1,244
Less: revaluations on assets disposed	(14,873)	(9)
Balance at 31 March	10,263	22,913

15 General reserve

	2007/2008 £'000	2006/2007 £'000
Balance at 1 April	23,869	17,803
Retained (loss)/profit	(31,226)	4,967
Transfer from Revaluation Reserve	15,055	1,099
Balance at 31 March	7,698	23,869

16 Cash flow statement note

(a) Detailed analysis of gross cash flows

	2007/2008 £'000	2006/2007 £'000
Returns on investments and servicing of finance		
Interest received	3,525	2,958
Interest paid	(1,857)	(2,084)
	1,668	874
Capital expenditure		
Assets in the course of construction	(824)	(410)
Disposal of fixed assets	36	423
	(788)	13
Financing		
With the MoD:		
Decrease in borrowings	(4,840)	(4,840)
	(4,840)	(4,840)

(b) Analysis of changes in net funds

	At 1 April 2007 £'000	Cashflow £'000	At 31 March 2008 £'000
Cash at bank and in hand	57,177	4,586	61,763
Debt due within one year	(4,840)	(30,830)	(35,670)
Debt due after one year	(35,670)	35,670	–
Total	16,667	9,426	26,093

(c) Acquisitions and Disposals

	Note	2007/2008 £'000
Cash disposed of as part of Sale of Rotary and Components (i)	3b	(5,186)
IT separation costs		(513)
		(5,699)

(i) Cash included as part of the Net Working Capital calculation for the sale of Rotary and Components. Refer to Note 3 and Note 9 for further details of sale impact.

17 Operating leases

	2007/2008 £'000	2006/2007 £'000
Operating profit is shown after charging for operating lease rentals as follows:		
Lease of buildings at RAF St Athan (i)	350	8,095
Lease of vehicles and Other Equipment (ii)	279	505
Total operating leases paid	629	8,600

(i) Contained within note 3 – Accommodation costs

(ii) Contained within note 6 – Vehicle hire, and Other expenses and within note 3 – Supplies and services consumed

Commitments in the next financial year (2008/09) are as follows:

	Land & Buildings £'000	Vehicles £'000	Total £'000
Leases expiring within:			
One year	–	5	5
Two to five years inclusive	258	110	368
Over five years	150	–	150
Total	408	115	523

Expected Rental Receipts in the next financial year (2008/09) are as follows:

	Land & Buildings £'000
Leases expiring within:	
One year	122
Two to five years inclusive	–
Over five years	–
Total	122

There are no finance leases.

18 Commitments and contingent liabilities

There are no commitments or contingent liabilities at 31 March 2008 (and nil at 31 March 2007). Any liabilities concerning environmental pollution considered to be pre-Trading Fund events fall to the MoD. All other environmental liabilities have been provided for appropriately.

19 Financial Instruments

Treasury operations are conducted within a framework of policies, mandates and delegations authorised by the Board. DARA uses forward foreign currency sales and purchase contracts as derivative instruments for risk management purposes only. The internal control environment is regularly reviewed.

Interest Rate Risk

DARA's funding is determined by fixed rate Government loans. There are no floating rate liabilities. The weighted average rate of interest for 2007/08 was 4.74% (2006/07: 4.72%). The weighted average period for which the rate is fixed is 0 years due to the Treasury direction to repay Public Dividend Capital and loans in connection with Capital restructuring for Defence Support Group on 1 April 2008.

Currency Risk

DARA conducts business in £ sterling, US dollars and euros and is therefore subject to foreign exchange risk. DARA manages this risk by natural hedging and entering into forward foreign exchange contracts. DARA has two active foreign currency bank accounts. DARA policy states that transactions are translated at the prior month average rate. Year-end foreign denominated net assets have been translated at a year end spot rate.

Liquidity Risk

DARA used a combination of 8 year and 20 year loans throughout the year. Current liquidity throughout the year was strong. Cash at bank is available on demand and short term investments are conducted through the HM Treasury Debt Management Account Deposit Facility (DMADF) and the Lloyds TSB Bank plc Money Market. All loans are due to be repaid as part of the Capital Restructuring for Defence Support Group on 1 April 2008.

Counterparty / Credit Risk

DARA's policy is to minimise counter-party risk by only entering into contracts with institutions with long term credit ratings of AA or better.

20 Related parties

The Ministry of Defence (MoD) is a related party. During the year, DARA has had material transactions with the Department and with other entities for which MOD is the parent department. None of the DARA Board members or key managerial staff have any related party interests which may conflict with their management responsibilities.

21 Post Balance Sheet events

On 1 April 2008 all of DARA's retained assets and liabilities and all of its remaining Operations were merged with ABRO and transferred to a new Trading Fund, Defence Support Group. There are no other post balance sheet events.

22 Losses and special payments

There were no material losses or any special payments made during the year.

23 Redundancy

MOD has agreed to pay for DARA's redundancy costs, in 2007/2008 these costs amounted to £7.586m (2006/2007 £19.995m).

24 Auditors

The Government Financial Reporting Manual (FReM) requires DARA's Annual Report and Accounts to be audited by the Comptroller and Auditor General. DARA's auditor is the National Audit Office (NAO). The cost of this audit is £64k (2006/2007 £96k) and no payments were made to this auditor for any other service. In addition, the Key Targets within the Annual Report and Accounts are audited by the MoD Defence Internal Audit Service. Internal audit services were provided by BHBi Consultancy Ltd and Defence Internal Audit at a cost of £59k (2006/2007 BHBi £94k).

The Defence Aviation Repair Agency (DARA) 2007-08
Report of the Comptroller and Auditor General

Introduction

The Defence Aviation Repair Agency (DARA) was established as a Trading Fund of the Ministry of Defence in 2001 to provide aviation support and repair services to the Armed Forces. In a Ministerial Announcement on 22 May 2007, the Minister of State (Defence Equipment and Support) informed Parliament of the intention to create a single Defence Support Group (DSG) as a Trading Fund of the Ministry of Defence, comprising the Large Aircraft and Electronics businesses of the DARA, along with the businesses contained in the Army Base Repair Organisation (ABRO), a further Trading Fund of the Ministry of Defence.

Following an earlier ministerial announcement on 2 February 2006, the Ministry of Defence has been examining options for the sale, closure or restructuring of some or all of DARA's business units. My predecessor reported to Parliament twice on the restructuring programme alongside his opinions on DARA's 2005-06 and 2006-07 financial statements. His reports covered the closure of the Fast Jets and Engines business units, and the process to market test for possible bidders for the Rotary Wing and Components business units. I am now providing a further report to Parliament on whether the assets and liabilities contained in the DARA Trading Fund have been transferred in accordance with Parliamentary intentions. My report also covers the sale of the Rotary Wing and Components business units which were sold to Vector Aerospace at the end of the 2007-08 financial year.

The scope of my examination is limited to whether or not the sale has been correctly carried out in accordance with Parliamentary process and intention, and whether or not DARA's results for the financial year have been reported in accordance with Government Financial Reporting Requirements.

Creation of the Defence Support Group and Transfer of Assets and Liabilities contained in DARA

Parliament approved the creation of the DSG with effect from 1 April 2008, and under orders laid by Ministers, approved the transfer of the assets and liabilities pertaining to the Large Jets and Electronics businesses from the DARA Trading Fund as at 31 March 2008 into the new DSG Trading Fund. These transfers included the repayment of long term loans to the Ministry of Defence, as well as the transfer of sale proceeds arising from the disposal of the Rotary Wing and Components business units.

As a result of my audit I am able to confirm the transfer of assets totalling £117.51 million and liabilities of £99.55 million into the DSG Trading Fund, and also that they are correctly recorded in the financial records of DSG. As part of this transfer, Public Dividend Capital of £42.30 million, and long term loans of £35.67 million were repaid, using cash from DARA, to the Secretary of State for Defence in accordance with Sections 2 (6) a and b of the Government Trading Funds Act, and new Public Dividend Capital was issued to the Defence Support Group.

Pending the completion of the sale agreement, Ministers requested and received Parliamentary approval for a revised DARA trading fund order. The revised fund contained the Rotary Wing and Components Business Units consisting of assets of £77.70 million and liabilities of £9.76 million which were transferred to Vector Aerospace under the sale transaction.

Basis of Account

DARA comprised four business units, details of which are set out in pages 12 to 14 of the annual report. Two of these businesses have been transferred into DSG as ongoing operations, and the remaining two have been sold to Vector Aerospace, and therefore discontinued as funded operations of DARA.

The DARA financial statements also contain detailed disclosures to explain the nature of the transfer of assets to DSG, the sale to Vector, and the implications arising from the early repayment of long term loans and public dividend capital to the Secretary of State. I consider the going concern basis applied to these accounts to be appropriate and in accordance with International Standard on Auditing (UK and Ireland) 570 (Going Concern) and the disclosure of continuing and discontinuing operations to be in accordance with Financial Reporting Standard 3 (Reporting Financial Performance).

Accounting for the Sale of the Rotary and Components Business Units to Vector Aerospace

At the end of the 2007-08 year, the Secretary of State sold the Rotary Wing and Components business units with a combined net asset value of £67.94 million to Vector Aerospace for net proceeds of £17 million, of which £1m was ring fenced by DARA to fund IT separation costs, and a further receipt payable in respect of working capital of £12 million, resulting in a loss on sale of £39.89 million recorded in the financial statements of DARA. Under the sale agreement the net proceeds figure was arrived at after taking into account future liabilities for staff redundancy and employer pension costs had the business units remained in MoD ownership. Vector has also assumed responsibility for some other environmental and general liability costs. This recognition of potential liabilities which would have fallen due on the Ministry of Defence was used in the sales negotiations to ameliorate the offer price agreed between the Ministry of Defence and Vector Aerospace.

Conclusion

The sale of the Rotary Wing and Components Business Units was authorised by the Chief Secretary to HM Treasury, and the distribution of the assets and liabilities of the DARA Trading Fund as at 31 March 2008 was made in accordance with Parliamentary intent.

DARA have, in preparing their financial statements, shown the sale of business units to Vector as a separate class of transaction, making it clear to the users of the financial statements, that the sale transaction is outwith the usual business of the Trading Fund, and have also included detailed commentary in the annual report and notes to the accounts. As a result of my examination, I am satisfied that the assets and liabilities of DARA have been distributed in accordance with Parliamentary intention, and that the accounts, as presented, give a true and fair view of DARA's financial position as at 31 March 2008.

T J Burr
Comptroller and Auditor General
17 July 2008

Statement by the Chief Executive

The following accounts and audit opinion represent the final period of the DARA Trading Fund up to 23 May 2008. Whilst no further trading activity was undertaken, the remaining accounting movements and procedural activities were satisfactorily completed with the residual balances transferred to the Ministry of Defence.

Archie Hughes
Chief Executive
16 July 2008


NO HANDHOLD
NO HANDHOLD

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

I certify that I have audited the financial statements of the Defence Aviation Repair Agency for the period ended 23 May 2008 under the Government Trading Funds Act 1973. These comprise the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Chief Executive and auditor

The Defence Aviation Repair Agency and Chief Executive as Accounting Officer are responsible for preparing the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).
I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I also report whether, in all material respects, the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Defence Aviation Repair Agency has not kept proper accounting records and if I have not received all the information and explanations I require for my audit.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant estimates and judgments made by the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Defence Aviation Repair Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the financial transactions 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.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Defence Aviation Repair Agency's affairs as at 23 May 2008; and

- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder.

Opinion on Regularity

In my opinion, in all material respects, the financial transactions conform to the authorities which govern them.

Report

My report on these financial statements is at pages 52 to 53.

T J Burr
Comptroller and Auditor General
17 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9SS

Balance Sheet as at 23 May 2008

	Note	23 May 2008 £'000	31 March 2008 £'000
Fixed assets			
Tangible		–	19,054
		–	19,054
Current assets			
Stock & Work in progress		–	185
Debtors and prepayments		–	36,511
Cash at bank and in hand		–	61,763
		–	98,459
Current liabilities			
Creditors: amounts falling due within one year		–	(99,485)
Net current liabilities		–	(1,026)
Total assets less current liabilities		–	18,028
Provisions for liabilities and charges		–	(67)
Net Assets		–	17,961
Financed by:			
Capital and reserves			
Revaluation reserve		–	10,263
General reserve		–	7,698
Government funds		–	17,961

Archie Hughes
Chief Executive
16 July 2008

The above date is the due date authorised for issue, being the date of despatch by the Trading Fund's Board, to the Comptroller and Auditor General, for laying before the Houses of Parliament.

Cash flow statement for the period ended 23 May 2008

	Note	Sale £'000	Transfer to DSG £'000	Transfer to MOD £'000	2008/2009 Total £'000
(a) Reconciliation of operating result to net cash flow from operating activities:					
Operating result		–	–	–	–
Decrease in Provisions for liabilities and charges		–	(67)	–	(67)
Decrease in stock & WIP		–	185	–	185
Decrease in debtors		17,000	19,511	–	36,511
Decrease in creditors		–	(39,325)	(60,160)	(99,485)
Net cash flow from operating activities		17,000	(19,696)	(60,160)	(62,856)
(b) Cash flow statement:					
Net cash flow from operating activities		17,000	(19,696)	(60,160)	(62,856)
Acquisitions and Disposals	a	–	(17,961)	–	(17,961)
Capital expenditure and financial investment	b	–	19,054	–	19,054
Increase/(Decrease) in cash		17,000	(18,603)	(60,160)	(61,763)
(c) Reconciliation of net cash flow to movement in net funds:					
Increase/(Decrease) in cash		17,000	(18,603)	(60,160)	(61,763)
Movement in net funds		17,000	(18,603)	(60,160)	(61,763)
Net funds at start of period		(17,000)	18,603	60,160	61,763
Net funds at 23 May 2008		–	–	–	–

Notes
a) Transfer of general reserve and revaluation reserve to Defence Support Group
b) Transfer of fixed assets at net book value to Defence Support Group

The accounting policies for 2007/08 on pages 34 to 35 continued to apply for the period 1 April 2008 to 23 May 2008.

Statement of total recognised gains and losses for the period ended 23 May 2008

	2008/2009 £'000
Result for the financial period	–
Transfer out of revaluation reserve to Defence Support Group	(10,263)
Transfer out of general reserve to Defence Support Group	(7,698)
Total recognised gains and losses relating to the period	(17,961)

Reconciliation of movements in Government funds

	2008/2009 £'000
Government Funds at 1 April	17,961
Total recognised gains and losses relating to the period	(17,961)
Net movement in Government funds	(17,961)
Balance at period end	–

The accounting policies for 2007/08 on pages 34 to 35 continued to apply for the period 1 April 2008 to 23 May 2008.

Accounts Direction given by the Treasury in Accordance with Section 4(6)(a) of the Government Trading Funds Act 1973

1. This direction applies to the Defence Aviation Repair Agency.

2. The Defence Aviation Repair Agency shall prepare final accounts for the period 1 April 2008 to 23 May 2008 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for 2008-09, subject to the following revision:

   (a) An Annual Report, Statement of Internal Control and Remuneration Report are not required; and

   (b) The requirement for:

      (1) A brief Foreword explaining the purpose of the account;
      (2) An abbreviated Accounting Policies note;
      (3) Explanatory notes on movement of funds; and if appropriate
      (4) A closing statement that residual balances have been transferred to the Ministry of Defence.

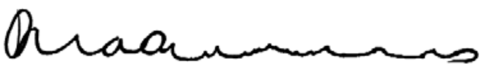
3. The accounts shall be prepared so as:

   (a) to give a true and fair view of the state of affairs as at 23 May 2008 (at which date the trading fund was wound up) and of total recognised gains and losses, and cash flows of the trading fund for the period ended; and

   (b) to provide further disclosure of any material income or expenditure that has not been applied to the purposes intended by Parliament, or material transactions that have not conformed to the authorities which govern them.

4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informal and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

5. This accounts direction supersedes that issued on the 11 November 2007.



David Watkins
Head of Financial Reporting Policy Team,
Her Majesty's Treasury
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