

# SSRO

Single Source  
Regulations Office



## 2021 Annual Compliance Report

The SSRO is an executive non-departmental public body, sponsored by the Ministry of Defence.



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# 1. Executive Summary

- 1.1 The report presents the compliance and review work undertaken by the SSRO during 2020/21. In this report, we consider the timeliness and quality of submitted reports and identify the extent to which reporting requirements are being met. We recommend actions to improve the operation of the regulatory framework, having regard to the need to support delivery of value for money for the government and fair and reasonable prices for contractors.
- 1.2 The 2021 report is the first to be based on our new [Compliance and Review methodology](#), which applied from April 2020. Our revised approach commits to further automation in DefCARS, emphasises the role of the MOD in reviewing reports, makes clearer links to our [Data Strategy](#) and promotes working in partnership with the MOD and industry. In line with the methodology, we included more thematic reviews into reporting issues this year.

## Timeliness of submissions

- 1.3 The proportion of reports submitted on time remained below our expectations in 2020/21. Most reports were eventually submitted, as shown in Table 1, but there continued to be significant numbers of overdue reports and many of these will likely never be received. The risk with late and failed submissions is that information will not be available to the MOD when needed or will be of insufficient quality, which may impact on contract management, benchmarking and estimating.

**Table 1: Key timeliness figures for 2020/21**

	On time	Total received	No. outstanding	No. overdue > 12 months
Contract reports	69%	93%	123	68
Supplier reports	66%	81%	95	57

- 1.4 Throughout 2020/21, the SSRO supported contractors to address compliance issues and submit their reports. We issued guidance, updated DefCARS, discussed compliance issues and provided a range of other assistance as described on our [SSRO Support](#) site. We have identified further enhancements to improve the timeliness of reports, including generating automatic reminders of due dates from DefCARS. We successfully held regular compliance catch ups with some of the suppliers with the largest number of reports and will consider making such meetings more widely available.
- 1.5 We consider that many of the reasons for late reports are avoidable, and we recommend action by the MOD and contractors, supported by the SSRO, to address timeliness. Recommended actions include maintaining familiarity with reporting requirements, appropriate resourcing of reporting and prompt resolution of reporting issues. We identified specific steps that the MOD and contractors can take to increase the timeliness of some report types:
- Better identification of new Qualifying Defence Contracts (QDCs) and Qualifying Sub-Contracts (QSCs) by the MOD and contractors, with early notification to the SSRO, should increase the number of initial contract reports submitted on time;
  - Inclusion of reporting requirements in handover arrangements should reduce the chance that reports will be missed, for example low frequency reports such as the ICRs.
  - More diligent updating of DefCARS when information changes, including contact details, and contract completion dates (the latter being important for timeliness of completion reports).

- Greater use of reports by the MOD, increasing the likelihood that late reports are chased. This includes the strategic industry capacity reports, which are frequently overdue.

1.6 The MOD issued five compliance notices in 2020/21, which resulted in four reports being submitted and one instance of further non-compliance. This demonstrates that effective enforcement by the MOD can encourage compliance with reporting requirements. We recommend that the MOD takes prompt action to address late reports and makes appropriate use of both compliance and penalty notices.

### Quality of submissions

1.7 The SSRO maintains a 'pass or fail' indicator of report quality, as shown in Table 2, which considers whether reports are free from issues on the first and subsequent submissions. We saw an increase in the percentage of contract and supplier reports that were right first time, both being just below the SSRO's target. The percentage of both contract and supplier reports free from issues increased following subsequent submissions.

**Table 2: Proportion of reports submitted without issues in 2020/21**

	Right first time (MOD and SSRO)	Right first time (MOD or SSRO)	SSRO KPI	Subsequent submissions (MOD or SSRO)
Contract reports	45%	58%	60%	84%
Supplier reports	50%	59%	60%	80%

- 1.8 The MOD reviewed 31 per cent of contract reports and 3 per cent of supplier reports in DefCARS. The MOD advised, however, that it had reviewed or was in the process of reviewing approximately 50 per cent of supplier reports for the prior year outside of DefCARS. We have no audit trail, nor any issues log, for reviews conducted outside of DefCARS and we recommend that reviews are recorded in the system.
- 1.9 Through more targeted reviews, we received feedback from MOD teams that limited use is being made of reported information for contract management or internal reporting purposes. This is contrary to the legislative intent and expectations in the MOD's Commercial Toolkit. We understand that the MOD is considering ways to encourage internal use of the statutory reports, including through changes to the regulatory framework. We will continue to support use of the reports and will look for opportunities to work with the MOD to make improvements in this area.
- 1.10 Where the MOD reviewed reports, it identified areas in which reported information did not match the contract, although it did not always resolve the issues raised on the system. Increasing the number of reports reviewed and used by the MOD can create a virtuous circle in which reporting issues are identified and addressed, leading to improved data quality and greater use. Achieving this will require greater focus on the statutory reports in DefCARS and resolution of issues raised there.
- 1.11 The SSRO's performance indicator provides a broad assessment of the quality of submissions, but we recognise that a 'fail' assessment could be the result of a single issue with the remainder of the report being good quality. We considered the numbers and types of issues being raised on reports and found a range of avoidable issues. These included internal inconsistencies in reports due to price information being reported differently on different pages and incorrect reporting of basic information such as report due dates and contact details. Greater attention is needed from contractors to remove these errors.

1.12 We considered how details of sub-contracts were being reported following the introduction of additional transparency requirements in 2019. We found that 43 per cent of affected contracts had not met the additional transparency requirements, making it difficult to assess how well the existing QSC test and threshold are operating. There were 178 sub-contracts that had not been subject to a QSC assessment. We have added sub-contract reporting to our review checklist to try to improve reporting in this area.

## Pricing matters

1.13 We reviewed all contract pricing statements and identified issues with the six-step profit calculation in 56 contracts. This included application of profit rates that did not result from the six-step calculation, use of different baseline profit rates, excessive cost risk adjustments beyond the +25% adjustment and capital servicing adjustments calculated outside the SSRO's guidance. We recommend emphasising the legislative requirements to commercial teams, to promote consistent application of the legislation and help ensure that government achieves good value for money on QDCs and that contractors are paid fair and reasonable prices. This will be particularly important if changes are made to pricing controls under the regulatory framework.

## Consideration for the future

- 1.14 The report sets out routine and additional actions that can be taken by stakeholders to improve the quality and timeliness of submissions in the future. These include the MOD needing to consider more carefully the issue of compliance as well as encouraging its teams to conduct report submission reviews within DefCARS; the SSRO continuing to offer support to contractors through various methods listed within the report; and contractors taking greater care when submitting reports and addressing validation warnings prior to report submissions, to ensure that the data provided is correct and complete.
- 1.15 We published our [technology strategy](#) for the future of DefCARS on 13 October 2021. We aim to develop DefCARS to more efficiently and flexibly capture data, be easy to use and engaging to users, and encourage use of data in line with the SSRO's data strategy. Our current priorities for change to the system reflect our assessment that use of the data is the most pressing need to address.
- 1.16 We proposed limited changes to reporting requirements in our [Recommendations to the Secretary of State](#) in June 2021. We understand that the MOD is contemplating broader changes as part of the Secretary of State's periodic review of the regulatory framework, with the aim of:
- collecting only data that is useful to the MOD and increasing its utility; and
  - delivering the Government's [Defence and Security Industrial Strategy](#).
- 1.17 The timing of legislative changes is not yet clear. We will aim to support the implementation of new or revised reporting requirements through changes to guidance and DefCARS. We anticipate that it will take time to develop the changes and for contractors to become familiar with them.

## 2. Introduction

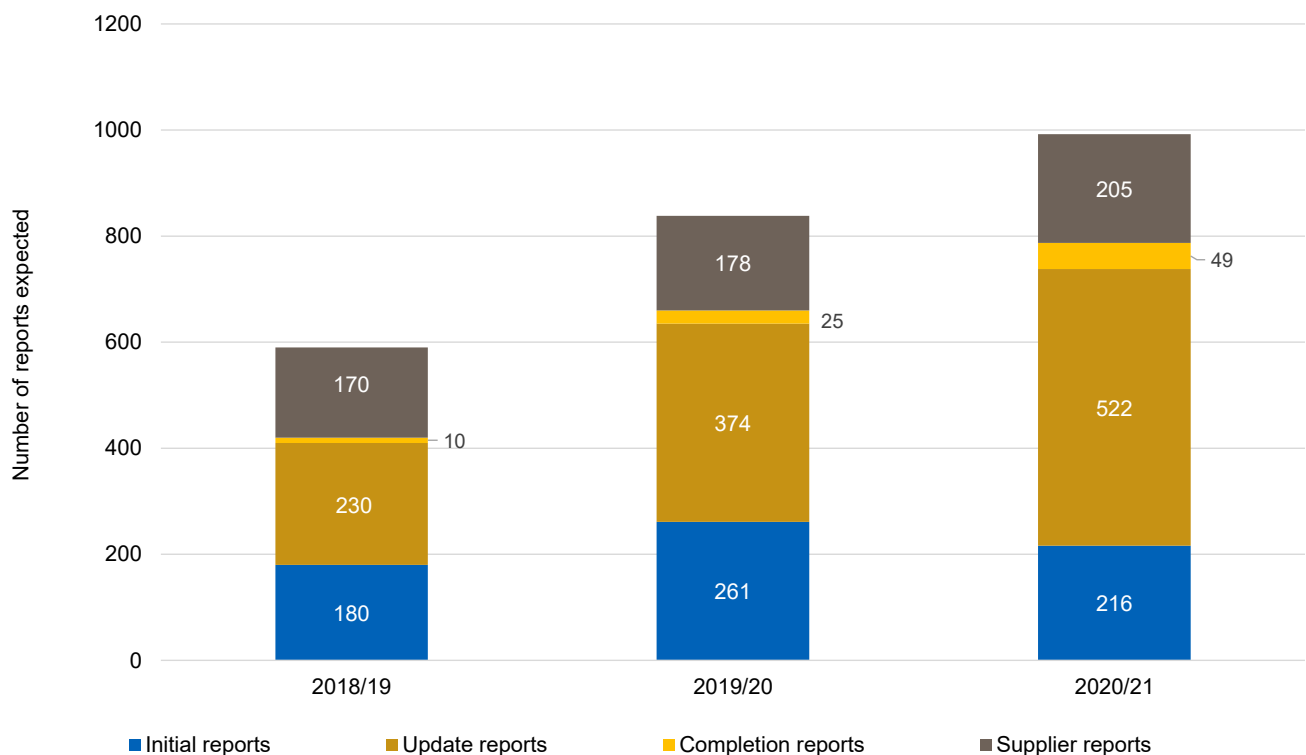
- 2.1 The 2021 Annual Compliance Report ('the compliance report', 'the report') presents the findings from our review of statutory reports due for submission by 30 April 2021. Our analysis primarily focuses on submissions due in 2020/21 and presents comparisons with the previous two years.
- 2.2 Table 3 lists the reports that may be required under the regulatory framework established by the Defence Reform Act 2014 (the Act) and the Single Source Contract Regulations (the Regulations). It includes descriptions and abbreviations used throughout this report. The statutory reports are further described in Appendix 1.

**Table 3: List of statutory reports and terms used in the compliance report.**

Category	Report name	Report type
Contract reports (Regulations, Part 5)	Contract pricing statement (CPS) Contract reporting plan (CRP) Contract notification report (CNR)	Initial reports
	Quarterly contract report (QCR) Interim contract report (ICR)	Update reports
	Contract completion report (CCR) Contract costs statement (CCS)	Completion reports
Supplier reports (Regulations, Part 6)	Actual rates claim report (ARCR) Estimated rates claim report (ERCR) QBU actual cost analysis report (QBUACAR) QBU estimated cost analysis report (QBUECAR) Estimated rates agreement pricing statement (ERAPS) Rates comparison report (RCR)	Overhead reports
	Strategic industry capacity report (SICR) Small or medium enterprises report (SMER)	Strategic supplier reports

- 2.3 We reviewed reports relating to QDCs and QSCs entered into between 1 April 2015 and 31 March 2021. The data sources and methodology for inclusion of information in this report are detailed in Appendix 2. The scope of the review encompassed:
- 375 QDCs and QSCs notified to the SSRO in the period 1 April 2015 to 31 March 2021;
  - actual reports received by 30 June 2021, the cut-off date for inclusion in this report (noting contract reports were received for only 365 QDCs and QSCs);
  - 992 expected reports in 2020/21 (787 contract reports and 205 supplier reports); and
  - 102 global ultimate owners (GUO)<sup>1</sup> of contractors with whom QDCs and QSCs have been placed and 35 ultimate parent undertakings (UPU)<sup>2</sup> who submitted supplier reports.
- 2.4 The number of reports expected each year has continued to increase, as shown in Figure 1. The increase in contract reports is primarily attributed to more update and completion reports being expected in each year. Supplier reports have increased due to more QDCs and QSCs meeting the £50 million threshold above which supplier reporting becomes due.

**Figure 1: Total number of reports expected by year**



- 2.5 Contractors submitted all reports into the Defence Contract Analysis and Reporting System (DefCARS), except the SICRs which were submitted by email or in hard copy. DefCARS helps contractors to submit reports that are right first time by flagging validation warnings at the point of submission. The MOD and the SSRO both have access to DefCARS and use the system to view reports, generate management information and raise compliance queries.

1 The SSRO uses the Global Ultimate Owner (GUO) definition from the Orbis database, provided by Bureau van Dijk for contract reports.

2 The term “ultimate parent undertaking” is defined in section 25(9) of the Defence Reform Act 2014 and relies on definitions of “parent undertaking” and “subsidiary undertaking” in section 1162 of the Companies Act 2006.

- 2.6 Many of the contractors that are subject to the regulatory framework operate as part of larger groups. We use the following terms throughout the report, which are determined from different data sources as set out in Appendix 2:
- GUO: the ultimate owner of a contractor who holds a QDC or QSC; and
  - UPU: the designated person responsible for submitting supplier reports, where the contract that triggers supplier reports is held by a company that is part of a group.
- 2.7 We adopted a new [compliance and review methodology](#) ('the compliance methodology', 'the methodology') from April 2020. The methodology sets out how we monitor compliance with reporting requirements and how the information obtained will inform our ongoing review of the provision made by the Act and Regulations. It was updated to reflect:
- increased reliance on automation within DefCARS;
  - the addition of a quality KPI that considers whether reports are without identified errors after submission of correction reports;
  - inclusion of MOD review findings within the quality KPI;
  - clearer linkages to the SSRO's Data Strategy;
  - an emphasis on partnership working with stakeholders; and
  - clearer links to possible actions arising from compliance findings (i.e. guidance, DefCARS or legislative updates).
- 2.8 The compliance methodology was prepared having regard to the SSRO [Data Strategy](#), which aims to ensure that reported data is fully utilised in support and development of the regulatory framework, in procurement decisions and contract management. Where data is submitted on time and of a sufficient standard to meet the purposes intended by the Act and the Regulations, this will help to ensure that good value for money is obtained in government expenditure on qualifying defence contracts ('value for money') and that persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts ('fair pricing').
- 2.9 In line with the SSRO's [compliance methodology, our reviews in 2020/21 included the following](#):
- consideration of all validation warnings in DefCARS;
  - manual reviews of all submitted reports by reference to outstanding validation warnings;
  - consideration of issues raised by the MOD;
  - consideration of responses from contractors to compliance queries;
  - detailed targeted reviews of five selected submissions as summarised throughout this report; and
  - thematic reviews in relation to validation warnings, SICRs, contract profit rates, completion reports and reporting of sub-contracts, as summarised in this report and reported in full in Appendix 6.
- 2.10 We provided a range of support to contractors in 2020/21, designed to help them with report submissions and to improve the functioning of the regulatory framework. This included updates to DefCARS and reporting guidance, direct contact with contractors to discuss compliance issues and [SSRO Support](#).



2.11 We updated DefCARS during 2021 to:

- introduce new fields in the CCS capturing data required by regulation 22;
- improve functionality for selecting the date when a report became due;
- create new reports for on-demand CPS and CRP submissions; and
- add further copy and paste functionality.

2.12 We released updated versions of our reporting guidance on 24 June 2020 and 11 November 2020. In addition to helping contractors to use changed and existing DefCARS functionality, the updated guidance supported contractors with the following aspects of the reporting requirements:

- variances, events and circumstances;
- payments information;
- contract completion dates;
- “price the contracting authority is committed to paying”, and “contract price”; and
- application of the £10 million Qualifying Business Unit threshold.

2.13 We contacted contractors on 131 occasions to discuss issues with reports, both before and after submission. We held regular meetings with GUOs with multiple qualifying contracts to identify compliance issues, provide support and enable appropriate action to be taken at the group level.

2.14 We provided [SSRO Support](#) to contractors throughout 2020/21, which included on-boarding, helpdesk support and training. We dealt with 835 helpdesk queries and provided 38 on-boarding sessions and DefCARS demonstrations.

### 3. Findings on timeliness

#### Timeliness of submissions

##### Key messages

- The percentage of contract reports received on time increased to 69 per cent in 2020/21 but decreased to 66 per cent for supplier reports.
- Contractors found it easier to submit some types of reports, with more than 75 per cent of update reports and overhead reports completed on time.
- The timeliness of initial reports, lower value interim contract reports, contract completion reports, and strategic supplier reports remained low.
- Several GUOs and UPUs with high numbers of submissions improved their timeliness in 2020/21, while others continued to perform below expectation.

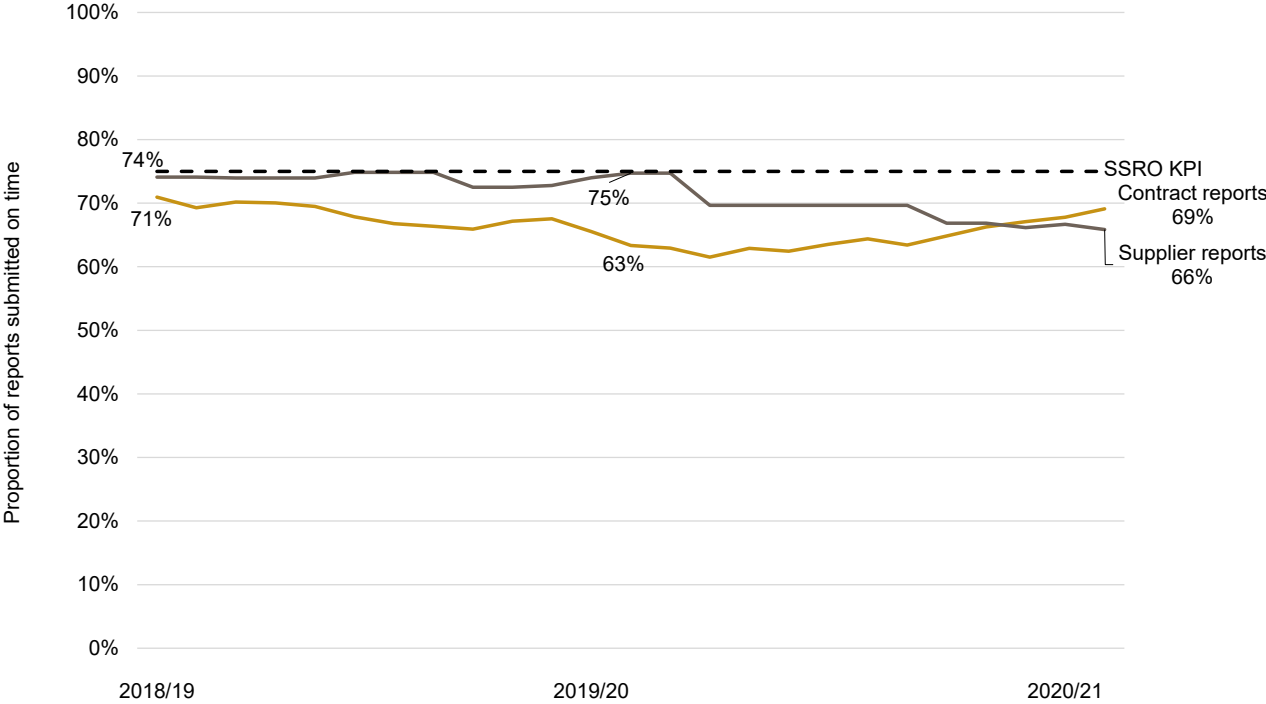
3.1 The SSRO keeps under review whether statutory reports are submitted in accordance with deadlines set by the Regulations. Table 4 details the timeliness of contract and supplier reports for 2020/21.

**Table 4: Proportion of reports submitted on time in 2020/21**

Report type	Submitted on time
Contract reports	69%
Supplier reports	66%

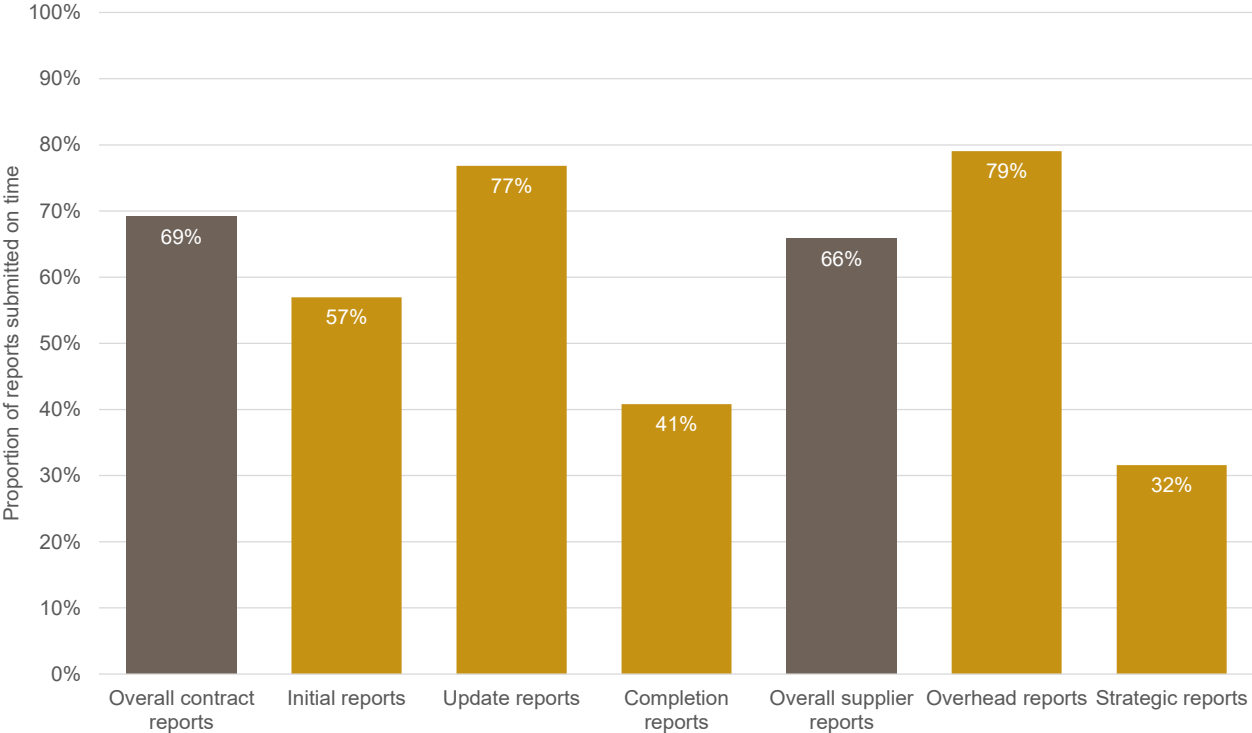
- 3.2 The legislation envisages that all submissions are made on a timely basis and provides for enforcement action by the MOD where this is not the case. The SSRO assists contractors to submit reports on time through DefCARS and other SSRO Support. We set a KPI in our corporate plan for the SSRO to help contractors to submit 75 per cent of contract reports on time and we apply the same benchmark for supplier reports.
- 3.3 The Regulations identify the circumstances in which reports are required and set the due dates for reports by reference to specified trigger events. Appendix 3 shows how the due dates are calculated for each type of report. When presenting analysis in this report we identify whether reports are expected, and when they are due, by using the information submitted by contractors.
- 3.4 Figure 2 details the 12-month rolling average of report submission timeliness for contract and supplier reports. It shows that overall timeliness has remained below the SSRO's target of 75 per cent.

**Figure 2: Contract and supplier report submission timeliness 2018/19 – 2020/21, 12 month rolling average**



3.5 Figure 3 shows the timeliness of reports in 2020/21 by report type. It includes those reports that were submitted ‘on-demand’ either by agreement or by written direction from the MOD.

**Figure 3: Proportion of reports submitted on time in 2020/21, by report type**



## Timeliness by report type

### Key messages

- The highest number of late report submissions were initial reports. We will continue to raise awareness with the MOD and contractors about the importance of early notice of contracts, because such notice allows the SSRO to support contractors to submit initial reports on time.
- Staff turnover within the MOD and contractors may contribute to the high proportion of late ICR submissions, resulting in staff being unfamiliar with the reporting requirements for contracts that they did not personally place.
- The SSRO is implementing a DefCARS improvement which will automatically notify contractors of forthcoming report submission due dates. These notifications will be based on the CRP and will thus not be available for the initial reports.
- Completion report submissions remain low at 41 per cent on time. To improve this rate, there should be increased emphasis on updating reporting plans when contract completion dates are extended.
- To improve the timeliness and quality of SICRs, the MOD should make greater use of the reports in strategic discussions with contractors.

- 3.6 Timeliness was uneven across report types, as shown in Figure 3. Further detail on the timeliness of expected reports is set out in Tables 1 and 2 of Appendix 4, from which it can be seen that:<sup>3</sup>
- The timeliness of initial reports improved to 57 per cent on time from the 43 per cent reported last year.
  - The timeliness of update reports was different between QCRs and ICRs, with 82 per cent of QCRs on time compared to 58 per cent of ICRs (down from 74 per cent in 2019/20).
  - Completion reports improved to 41 per cent on time compared to 24 per cent last year.
  - Strategic reports were largely not on time, with 29 per cent of SICRs on time (down from 37 per cent last year) and 34 per cent of SMERs on time (down from 42 per cent).
- 3.7 The SSRO's ability to help contractors submit initial reports on time depends on notification from the MOD or the contractor that there is a new QDC or QSC. We frequently receive late notification of new QDCs and QSCs, which impedes our ability to support contractors. Some contractors tell us they were unaware of the 'potential QDC' facility until too late in the process for it to be utilised. It is important for the MOD to continue to raise awareness internally of the need to notify new QDCs and QSCs. We will continue to support increased awareness through SSRO Support.

<sup>3</sup> The figures for 2019/20 have changed since the previous Annual Compliance Report: On-demand reports are now categorised as update reports, rather than initial reports, as they were previously. Additionally, the SSRO's knowledge of reports that were due in the 2019/20 year has changed during the previous year after discussions with the MOD and contractors.

- 3.8 The low percentage of ICRs that were on time (58 per cent) was driven by the late submission of ICRs for contracts valued under £50 million. We have identified the following additional reasons for late submission of ICRs for lower value contracts:
- Contractors with a lower value contract may not be required to submit an ICR for between three to five years after submission of the initial reports, impacting their general familiarity with the legislation and with DefCARS.
  - Staff turnover at both the contractor and the MOD, without adequate handover arrangements, often results in these teams being unfamiliar with the reporting requirements for contracts that they did not personally place.
- 3.9 In our targeted reviews, we identified a situation where the MOD officer responsible for reviewing report submissions on DefCARS had recently moved into the team, was unfamiliar with the contract and had not been involved in any of the initial report submissions. A lack of suitable handover arrangements at both the MOD and the contractor was stated as a reason for a report being submitted 15 months after the due date. We recommend that both the MOD and contractors include statutory reporting in staff handover arrangements, especially where the length of time between reports is beyond three months.
- 3.10 The SSRO can support contractors to submit reports on time when we have advance notice of due dates. As an example, we are improving DefCARS to automatically remind contractors of forthcoming report submission due dates. The automation will take report due dates from the CRP and will depend on the contractor keeping both the CRP and reported contact details up to date in DefCARS. The proposed updates should assist with all contract report types, with the exception of the initial reports, as the due dates for these are not included in the CRP.
- 3.11 We explored in detail the reasons why completion reports continue to be submitted late. The full review is included in section 1 of Appendix 6 and is summarised in Themed Review 1.

### **Themed Review 1: Submission of completion reports**

The reporting plans in DefCARS showed that 25 of 88 (28 per cent) completion reports (13 CCR and 12 CCS) were overdue at the cut-off date for this report. By asking contractors the reasons for delay (receiving 13 responses) and comparing information in DefCARS against completion dates in the MOD's CP&F system, we identified:

- 3 reports submitted after the cut-off date for the report;
- 7 reports where the contract completion date appears to have been extended beyond that reported in DefCARS. In six cases, the contractor had not submitted an on-demand CRP, despite being aware that this was required to update the reporting plan in DefCARS and the due dates of completion reports; and
- 15 reports where the completion dates do not appear to have been extended. In four cases, the contractor advised that completion reports will be submitted but has failed to do so.

We identified that in several instances where completion reports were late, it had been at least two years since any other report was submitted in relation to the contract in DefCARS. Our aim of automatically reminding contractors of reporting due dates may alert them to their responsibilities but it would assist if the MOD also pursued late reports.

The MOD issued two compliance notices in relation to overdue completion reports and one completion report was submitted in response. We are unaware of action being taken in response to the other compliance notice; the report remains outstanding and we are not aware of the MOD issuing a penalty notice to the contractor.

The MOD has confirmed to the SSRO that it will not continue to request nine of the outstanding completion reports, and does not intend to taking enforcement action against the contractors. This relates to five CCRs and four CCSs across seven contracts.

The completion reports help to identify the outturn contract price. They can assist the MOD to understand whether it has paid the expected price and whether any adjustment is needed. The reported prices can also be used for future estimation. These benefits may be lost if the reports are not received.

- 3.12 The timeliness of strategic supplier reports remained low, with 29 per cent of SICRs and 34 per cent of SMERs submitted on time. The SSRO has not historically raised compliance issues with contractors in relation to SICR submissions, instead raising them with the MOD directly. We are aware that some SICRs have been discussed with suppliers, but are not aware of the kind of feedback that has been provided by the MOD on submissions. We undertook a thematic review on the timeliness and quality of SICR submissions, which is included in section 2 of Appendix 6 and summarised in Themed Review 2.

## Themed review 2: Strategic Industry Capacity Report

The SSRO expected 28 SICRs to be submitted in 2020/21. We received and reviewed 12 of these SICRs, while 16 reports remained overdue. We also reviewed two SICRs that were submitted late in 2020/21 in relation to previous financial years.

Reports expected	On time	Late	Overdue
28	8	4	16

The MOD advised that it had exempted some contractors from making SICR submissions. We have not received details of such exemptions. It is not clear that the contractors have been exempt using the available mechanism under section 25(8) of the Act. That would involve also exempting the contractors from submitting overhead reports and SMERs but we can see evidence of some of those other reports being submitted in three cases.

The UPU's that submitted SICRs used different report formats and the level of content varied widely in the 14 SICRs that we reviewed. The ten reports in document format ranged from seven pages to 191 pages. The four reports in spreadsheet format tended to address the reporting requirements less comprehensively, although it was straightforward to map the content to the requirements.

Most suppliers clearly attempted to meet the reporting requirements when submitting their SICRs. Nine suppliers mapped the information provided in their SICR to the reporting requirements in a consistent, comprehensive, easy to understand manner.

For two submissions it is unclear the suppliers had genuinely sought to comply with the reporting requirements. There were other instances where suppliers attached or embedded information rather than preparing a standalone document focused on the regulatory requirements. It was difficult to be clear that reporting requirements had been met for those reports, particularly where there were:

- attachments referred to but not included;
- corrupted attachments; or
- hyperlinks to the contractor's internal systems that we could not access.

We recommend that suppliers consider creating standalone SICRs that do not depend on embedded documents, hyperlinks and attachments. If suppliers rely on embedded documents, hyperlinks and attachments, care needs to be taken that these can be opened by the MOD and the SSRO.

We noted that suppliers often use the previous year's submission as a template for the new submission. This leads to inconsistencies and errors being repeated year on year and we recommend that contractors carry out more checking before submitting their reports.

We found areas of SICR submissions that were incomplete or where the regulatory requirements had not been addressed. Compliance with the requirements of regulation 43 were a particular area of concern.

Regulatory requirement	Key issues identified
Anticipated changes to corporate structure (regulation 41(f)).	Two submissions did not address this requirement at all.
Key infrastructure on the site and the extent to which the available capacity has been used for QDCs or QSCs, other defence contracts and other contracts (regulation 42(2)).	Six submissions did not present the breakdown by contract type.
<p>Forecast costs, anticipated changes in accounting policies or business practices that could affect those costs, forecast labour requirements, and estimated cost recovery rates for each QBU over 5 years (regulation 43(2)(a), (b) and (c)).</p> <p>A description of any policies to employ graduates or apprentices, to provide staff bonuses or for training and development of personnel, together with the approximate cost of the policy (regulation 43(2)(d)).</p> <p>In each case the information is required to be split for: QDCs and QSCs; other defence contracts; and all other contracts.</p>	<p>We identified instances where the suppliers either provided no information in response to the requirement or provided the information for a period of less than five years without justification.</p> <p>Ten submissions did not split the information into categories of contract as required. We are unclear whether this is because the contractor's financial systems are unable to divide the information in this way.</p>
Plans for material investment in people, skills or infrastructure to deliver current committed work and planned future contracts and the approximate costs of those plans (regulation 44(e)).	Two submissions did not provide any information relating to this requirement, and another two contractors described the plans without providing the costs.

We believe that the timeliness and quality of SICR submissions will increase if the MOD makes greater use of the reports. This is because the report users will be more likely to raise issues with suppliers about late reports where the submitted information does not meet the MOD's needs.

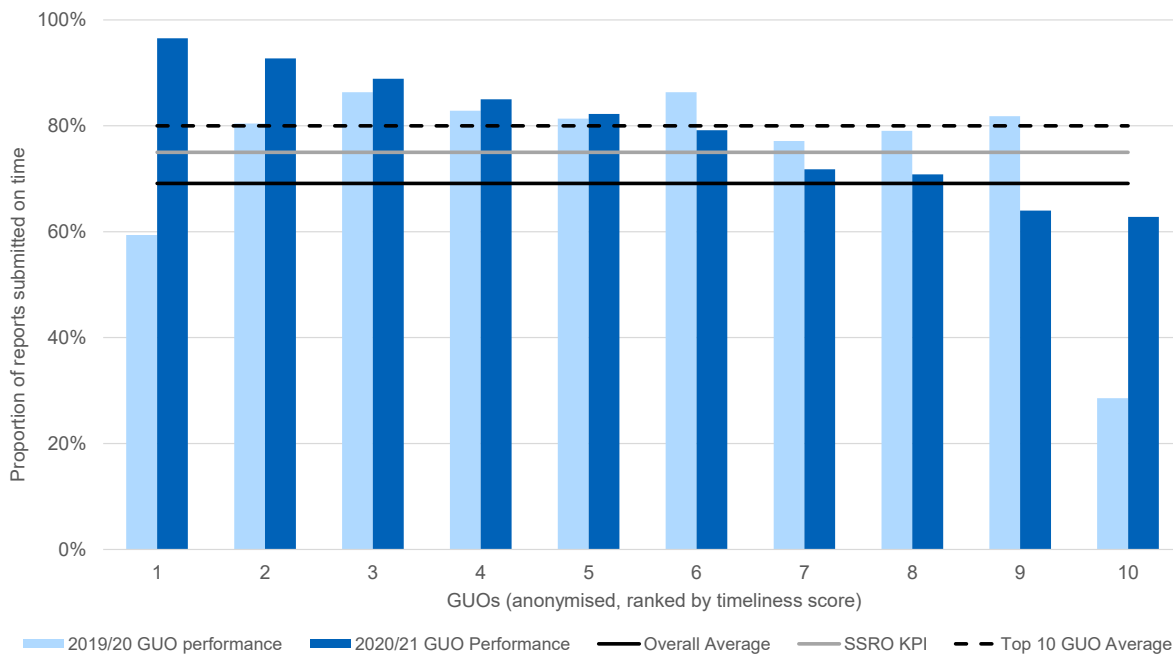
The SICRs set out the overall strategic direction for the largest single-source contractors and provide the MOD with advance notice of potential costs that could be realised. We see the MOD's Strategic Supplier Managers as potential users of the SICRs and we recommend that more is done to familiarise these users with the reports and provide them with ready access.



## Timeliness by contractor

3.13 Ten GUOs were responsible for 67 per cent of all 787 expected contract reports in 2020/21. Figure 4 details the timeliness of contract report submissions in 2019/20 and 2020/21 for these ten GUOs in timeliness order. Six of the ten GUOs improved their timeliness of submissions in 2020/21, while four declined. The GUO positioned at number one in the chart improved its timeliness by 37 per cent and the GUO positioned at number 10 improved by 34 per cent in 2020/21 when compared to the prior year. Eight of the GUOs were above the average timeliness across the whole regime in 2020/21 and six were above our KPI.

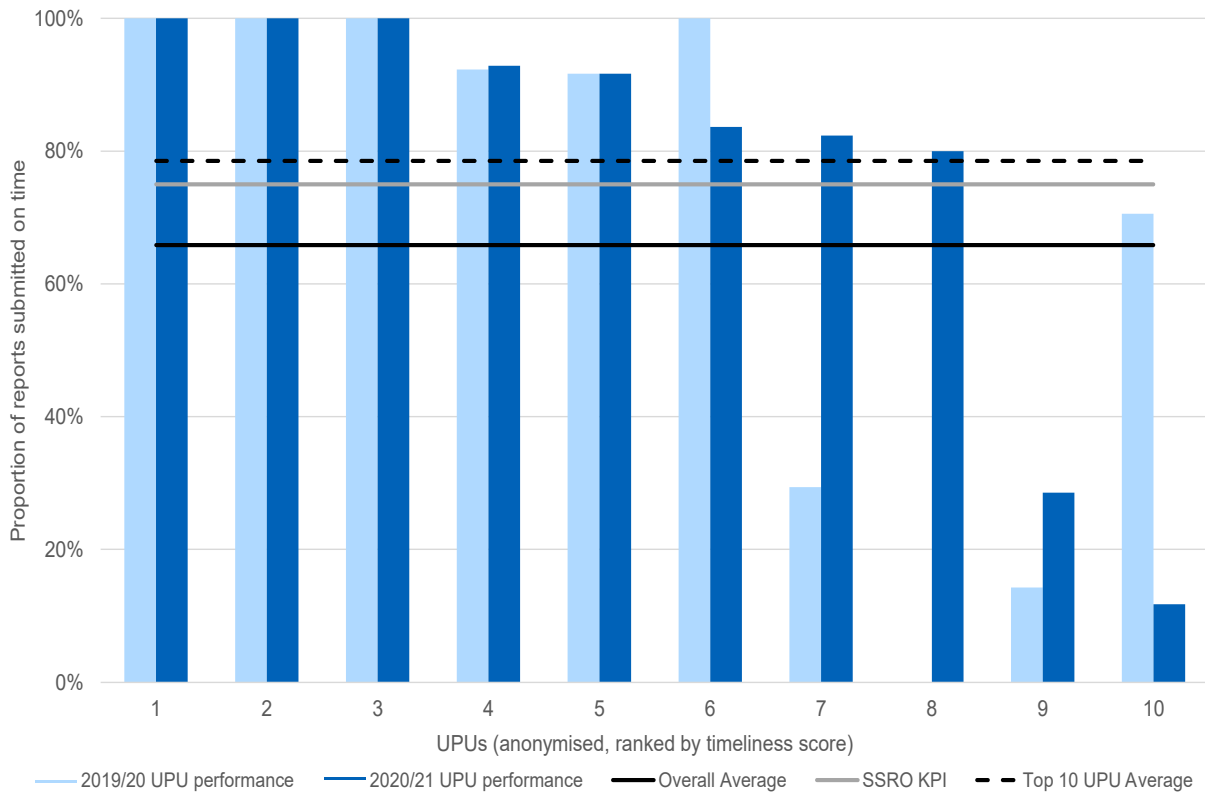
**Figure 4: Timeliness of contract report submissions for the top 10 Global Ultimate Owners for reports due in 2019/20 and 2020/21**



Note: The 'Top 10 GUO average' is a weighted mean score of all the reports due for the top 10 GUOs, weighted by the number of reports due for each organisation.

- 3.14 Ten UPUs were responsible for 80 per cent of the 205 supplier reports expected in 2020/21. This high percentage is expected, as the requirement to submit supplier reports only arises if a contractor or a company in the contractor's group is party to at least one QDC or QSC with a value at or above the threshold of £50 million.
- 3.15 Figure 5 details the timeliness of supplier report submissions due in 2019/20 and 2020/21 for the top 10 UPUs in timeliness order. All but two UPUs maintained or improved their timeliness in 2020/21. The seventh UPU on the chart has improved timeliness by 53 per cent when compared to the prior year. Eight of the ten UPUs were above the timeliness average for the regime and our KPI. Two UPUs showed a deterioration in timeliness in 2020/21, although one of these UPUs remained above both the timeliness average for the regime and our KPI.

**Figure 5: Timeliness of supplier report submissions for the top 10 UPU for reports due in 2019/20 and 2020/21**



Note: The 'Top 10 UPU average' is a weighted mean score of all the reports due for the top 10 UPU, weighted by the number of reports due for each organisation.

- 3.16 There are four GUOs and two UPU that continue to perform below expectation. One of these UPU submitted 15 out of 17 supplier report submissions late, with some reports taking more than three months to be submitted. The MOD had been informed of these delays with the reasons provided by the UPU, which included a significant workload and staffing issues, including some sickness.
- 3.17 To encourage improved performance, we will provide modified versions of Figures 4 and 5 to each of the top 10 GUOs and top 10 UPU with the most submissions to show how they performed compared to each other. We will consider providing similar information to those beyond the top 10 whose performance is below the SSRO's KPI.
- 3.18 The SSRO held regular meetings with five contractors from the top 10 GUOs and top 10 UPU. We highlighted outstanding submissions and supported key contacts to explore reasons for delays and assist others to submit reports. Two of these contractors are responsible for the largest improvements for timeliness of contract report submissions. One of these contractors is also responsible for the largest improvement for timeliness of supplier reports. We will continue to work with contractors to discuss their reporting arrangements and consider whether any improvements can be made to their processes for making timely submissions as required by the legislation. We will also consider whether to hold a series of meetings with key contacts from contractors beyond the top 10 whose timeliness is currently below our KPI.
- 3.19 The MOD can assist with timeliness of both contract and supplier reports by reminding such contractors of their reporting responsibilities when meeting to discuss contract performance. The MOD should also consider issuing compliance and penalty notices to contractors in appropriate cases.

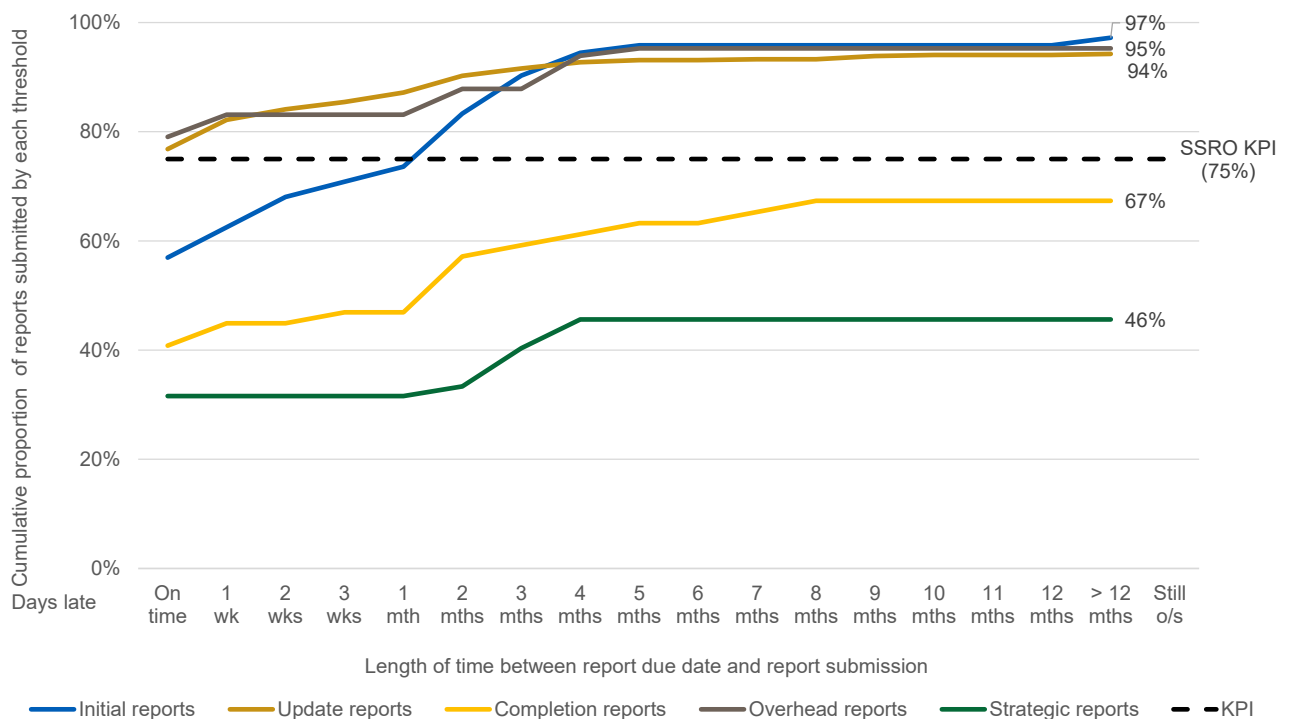
## The length of submission delays

### Key messages

- 93 per cent of expected contract reports and 81 per cent of expected supplier reports were received by 30 June 2021, even if initially delayed.
- There are 68 contract reports and 57 supplier reports due in prior years that have not yet been received. The MOD is not taking action on 40 of the contract reports and does not intend taking enforcement action against the contractors.

3.20 Many of the reports that are not submitted on time are subsequently submitted. A total of 93 per cent of the contract reports and 81 per cent of the supplier reports expected during 2020/21 were received by the cut-off date for this report of 30 June 2021. Figure 6 shows how late reports are submitted over time.

**Figure 6: Analysis of the time taken to make late report submissions, by report type for reports due in 2020/21**



3.21 It can be seen that completion reports and strategic supplier reports are least timely. Significant percentages of these reports remain outstanding more than a year after they were due.

3.22 Table 5 provides the number of outstanding contract and supplier reports on 30 June 2021, including reports due from all prior years. Further breakdowns by report type for both contract and supplier reports are set out in Tables 3 and 4 of Appendix 4.

**Table 5: Number of overall outstanding contract and supplier reports as of 30 June 2021**

All years to 30 June 2021	Contract reports	Supplier reports
Overall outstanding reports as at 30 June 2021	123	95
Overall outstanding reports more than 6 months	102	81
% of reports outstanding more than 6 months against total expected	5%	15%

3.23 Table 6 compares outstanding reports on 30 June 2021 against the position recorded on the same date in the previous year. A total of 68 of the 123 contract reports and 57 of the 95 supplier reports were due for submission prior to 2020/21. The number of contract reports outstanding at the end of the year continued to increase, but the number of outstanding supplier reports has reduced.

**Table 6: comparison of change to outstanding contract and supplier reports between 30 June 2020 and 30 June 2021**

Report type	Outstanding on 30 June 2020	Submitted after 30 June 2020	2020/21 reports outstanding	Outstanding on 30 June 2021
Contract reports	102	34	55	123
Supplier reports	101	44	38	95

3.24 QCRs account for 29 per cent of the 123 outstanding contract reports. This is most likely due to the numbers of those reports required to be submitted. Completion reports represent the next highest number of overdue contract reports at 25 per cent. SICRs and SMEs account for 91 per cent of the 95 outstanding supplier reports.

3.25 There are 68 contract reports and 57 supplier reports that are outstanding from prior years and have therefore been delayed by at least one year. It is unclear whether these reports will ever be received, given the MOD has a deadline of six months from the due date of a report to issue an enforcement notice. The MOD confirmed that it will not take action on 40 of the contract reports and that it is not intending to take any enforcement action to require the contractors to submit the reports.

### Improving the timeliness of submissions

#### Key messages

- Late and failed submissions risk information being unavailable to the MOD when needed or low in quality. This may impact on contract management, benchmarking and estimating.
- The SSRO will continue to support contractors through guidance, improvements to DefCARS and SSRO Support but further action is needed to address avoidable delays. This includes increased contractor familiarisation and resourcing, better notification of new QDCs and QSCs, prompt engagement on issues and prompt updating of DefCARS.
- The MOD should take timely action in response to delayed reports and consider increased use of enforcement notices.

3.26 Late and failed submissions create gaps in the information available to the MOD. There is a risk that information will not be available to the MOD in DefCARS when it is needed. This may impact the MOD's ability to:

- manage contracts and suppliers;
- analyse cost variances and outturn profit;
- prepare estimates for budgeting or to challenge contractor costs; and
- engage in strategic planning.

- 3.27 Submissions that are not made in a timely fashion can also result in data quality issues, as the relevance of the information submitted is diminished.
- 3.28 The SSRO contacts contractors to seek reasons for late reports. There is no requirement to provide reasons for lateness and, in many cases, we receive no response. Table 7 summarises the common reasons provided by contractors for contract reports being outstanding on 30 June 2021.

**Table 7: Common reasons provided by contractors for outstanding contract reports as of 30 June 2021**

Reasons provided by contractors	Number
Outstanding QCRs will not be submitted as the contractor stated they have submitted the final reports (CCR and CCS) already.	12
Contractor liaising with, or waiting for, the MOD.	6
Resourcing issues.	5
Delay in adding contract to DefCARS.	4
Unaware of this report or of reporting requirements.	7
Awaiting an on-boarding session before submitting.	3
Does not believe the contract will reach the £5m threshold.	3
Legislative restrictions in other countries preventing report submission.	3

- 3.29 There were other less common reasons provided by contractors for outstanding contract submissions which included:
- DefCARS access issues;
  - disputes over whether the report was actually required or not;
  - incorrect reporting plans that had not been updated, including ‘placeholders’ for some reports;
  - liaising with the SSRO helpdesk to close queries before making a submission;
  - not submitting an on-demand CCS as the final CCR and CCS were also due shortly.
  - the contractor is new to the regime and needs time to understand the reporting requirements and DefCARS;
  - late notification that the contract will be a QDC or QSC;
  - awaiting completion of the contractor’s own internal reviews;
  - lack of awareness of the ‘potential QDC’ facility in DefCARS, which allows contractors to draft reports in DefCARS before the contract is entered into; and
  - in a small number of cases, operational issues arising from the COVID-19 pandemic.
- 3.30 In the 2020 annual compliance report, we identified that many of the reasons for late submissions were avoidable and we described the actions required by the MOD, the SSRO, and contractors if the timeliness of reporting submissions is to improve. The recommendations remain as applicable today and are summarised below:
- contractors should familiarise themselves with reporting requirements, seeking early support from the SSRO, and allocating staff to submitting reports and having adequate handover arrangements in place where staff changes take place;
  - there must be better communication between contracting parties and between contracting parties and the SSRO about when a contract is a QDC, allowing early notification of the contract to the SSRO;

- contractors should promptly notify difficulties in providing reports and engage in dialogue with the MOD and the SSRO to resolve issues;
  - contractors should not delay report submissions due to unresolved issues on previous report submissions;
  - contractors and the MOD should ensure that contract completion dates are updated in DefCARS through the submission of on-demand CRPs;
  - the SSRO will further review overhead reporting requirements and seek to better understand the MOD's use of the strategic reports; and
  - the MOD should take appropriate enforcement action, following up on this when compliance notices are not adhered to.
- 3.31 We propose to continue to support contractors to submit reports on time through guidance, improvements to DefCARS and [SSRO Support](#). We have emphasised the action we can take at paragraphs 3.7 to 3.10, which will include automatic email notifications of report due dates.
- 3.32 To reduce late and failed submissions, the MOD should follow up late reports with contractors at an early stage. Early action is more likely to result in issues being resolved and will give the MOD scope to take enforcement action if necessary. The legislation limits the MOD's power to issue compliance notices to within six months of the submission due date.
- 3.33 The MOD issued five compliance notices in 2020/21. The notices were all issued in March 2021. Four of the five compliance notices resulted in reports being submitted, although two of the reports were submitted after the notice deadline.
- 3.34 At the time of drafting this report, one contractor had not complied with a compliance notice that required submission of an outstanding CCR. The time for issuing a penalty notice has now passed, as the legislation limits this to three months after the date of submission set out in the compliance notice.
- 3.35 The MOD should consider increased use of enforcement notices. A compliance notice is likely to receive attention by the contractor's management team and result in action. In situations where compliance notices are not complied with, the MOD should consider issuing penalty notices.

## 4. Findings on quality

- 4.1 The SSRO considers whether reports are complete and free from issues as these are more likely to contain good quality data. As indicated in our data strategy, the SSRO aims to ensure that reported data is fully utilised in support of the regulatory framework, and this is more likely if the data is relevant, comparable and reliable.<sup>4</sup>
- 4.2 The SSRO's performance indicator is based on a 'pass or fail' assessment of a report submission. We consider whether reports are right first time, whether subsequent submissions are correct, and the number and type of issues raised on each report. This approach provides a broad assessment of the quality of submissions, acknowledging the fact that a single error in a part of a submission may lead to a 'fail' assessment in relation to the KPI but that the rest of the data within the submissions may be of good quality that is useful to recipients and informs contract management or procurement activities.

### KPI and basis of analysis

#### Key messages

- The MOD reviewed 31 per cent of contract reports and 3 per cent of supplier reports within DefCARS.
- 45 per cent of contract reports and 50 per cent of supplier reports were submitted correct first time during 2020/21 based on reports that had been reviewed by both the SSRO and the MOD.
- Where we base the analysis using those report submissions reviewed by one of the MOD or the SSRO, the number of reports that were right first time increases to 58 per cent of contract reports and 59 per cent of supplier reports.

- 4.3 The SSRO supports contractors to submit reports without errors, for example through validation checks in DefCARS. The percentage of reports submitted right first time has historically been low, primarily because of the 'pass or fail' assessment, and the SSRO set itself a KPI target to increase the percentage of reports right first time to 60 per cent.
- 4.4 The SSRO changed its compliance methodology from April 2020. We previously assessed the quality of submissions based solely on the SSRO's reviews, but indicated that we would also consider reviews conducted by the MOD.
- 4.5 In 2020/21, the MOD reviewed 31 per cent of contract reports and 3 per cent of supplier reports in DefCARS. The SSRO reviewed 100 per cent of contract reports and 96 per cent of supplier reports.
- 4.6 The MOD has advised that it has reviewed more than 3 per cent of supplier reports, but that these reviews took place outside of DefCARS. In total, the MOD reported that around 50 per cent of 2020/21 supplier reports had been reviewed or were in the process of being reviewed by its Indirect Cost Pricing Team (ICPT) and its Cost Assurance and Analysis Service (CAAS). As these reviews have not taken place in DefCARS there is no recorded audit trail, nor any log of issues identified, within the system itself.
- 4.7 Table 8 shows the quality of submissions analysed, which requires both the MOD and SSRO to have reviewed the submissions. Forty-five per cent of contract reports and 50 per cent of supplier reports were right first time in 2020/21.

4 The SSRO's Data Strategy states that Data will be relevant if what is prescribed by the Regulations and submitted by contractors is that which is needed for the regulatory framework and no more. The data must also be submitted on time. To be usable, data must be comparable over time and will be standardised to aid comparability. Data will be reliable if it is accurate when submitted and complete.

**Table 8: Proportion of reports submitted right first time in 2020/21**

	Review by MOD and SSRO	Review by MOD or SSRO
Contract reports	45%	58%
Supplier reports	50%	59%

4.8 If we continued to analyse the quality of submissions based upon the KPI in this report, a third of contract reports and very few supplier reports would be included in the analysis. We have therefore based the rest of the analysis using those report submissions reviewed by at least one of the MOD or the SSRO.

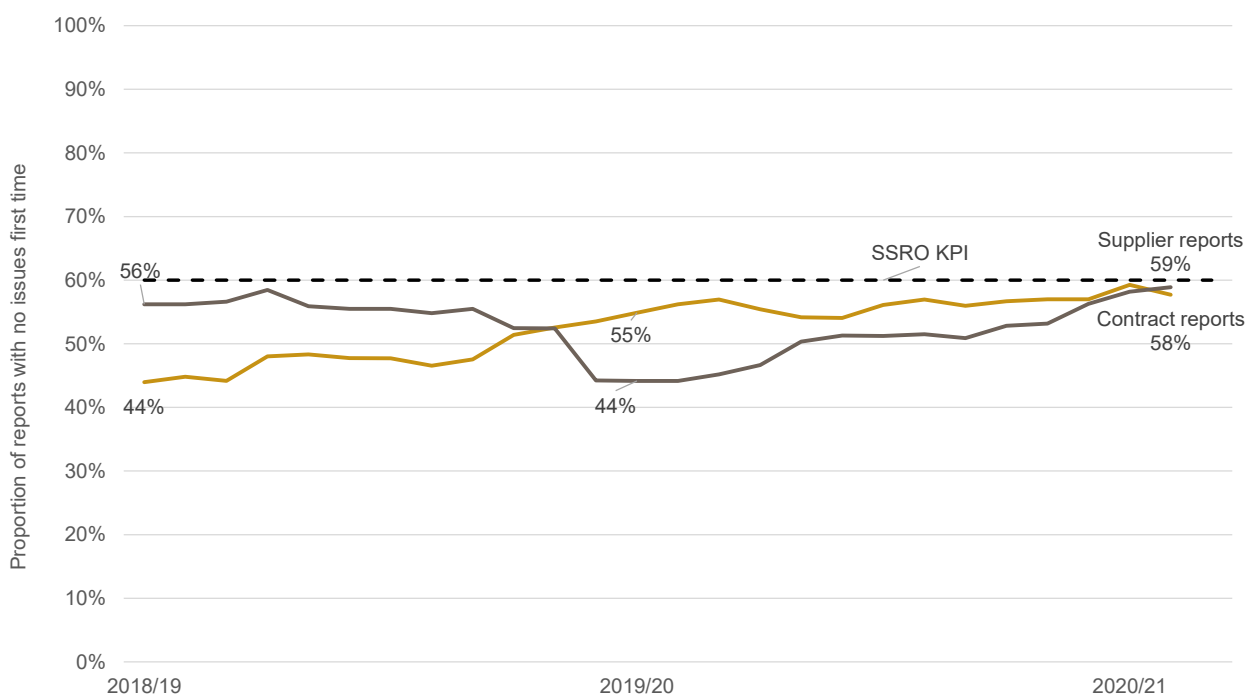
**Analysis of the quality of submissions**

**Key messages**

- The percentage of contract and supplier reports submitted correct first time is steadily improving.
- Following the resolution of issues raised with contractors, the quality of the subsequent submissions increases considerably for both contract and supplier reports.
- Greater attention is needed from the MOD to resolving quality issues. We found 42 issues left open by the MOD in DefCARS after the contractor had responded, and the SSRO closed 261 issues that it had forwarded to the MOD as no response had been received for more than six months.

4.9 Figure 7 details the proportion of contract and supplier reports submitted with no issues raised by the SSRO or MOD in the period 2018/19 to 2020/21. It shows a steady improvement in the quality of contract report submissions over the past three years, and an increase in the quality of supplier report submissions in 2020/21 when compared to the prior year.

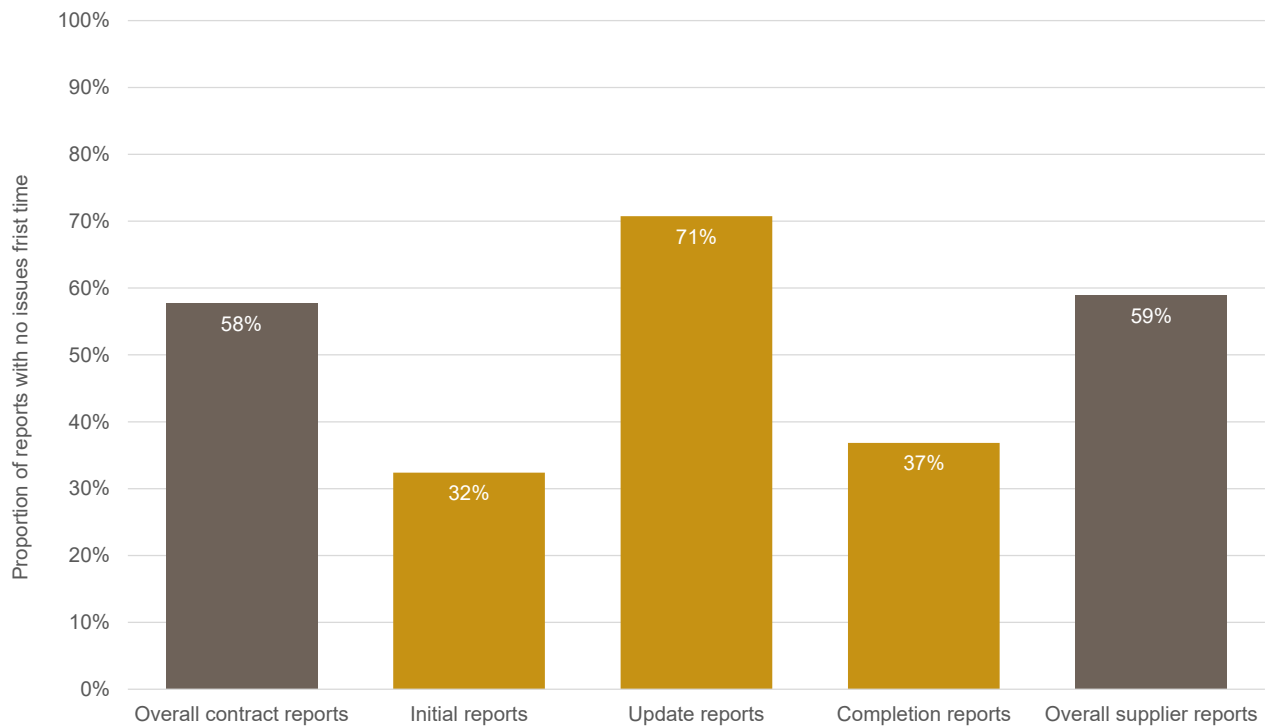
**Figure 7: Proportion of contract and supplier report submissions correct first time, 2018/19-2020/21, 12 month rolling average**





4.10 Figure 8 provides a breakdown for different types of contract reports. It shows that the initial and completion contract reports had the lowest percentage of right first time submissions, which was the same as last year.

**Figure 8: Proportion of report submissions correct first time, by report type for reports submitted in 2020/21**



4.11 The SSRO has included automatic validation rules in DefCARS which are designed to help contractors make their submissions 'right first time'. We have implemented over two hundred [validation rules](#) since the system first went live, flagging warnings for contractors to review prior to submission, focusing on the areas where contractors had consistently made errors in submissions. We reviewed validation rules in the system to check whether they are effective, as set out in section 3 of Appendix 6.

4.12 We found that post-validation compliance issues decreased across the four areas we reviewed. In some cases, however, it appears that the validation warnings have been ignored prior to initial submission as subsequent submissions have rectified pre-warned data quality issues. We cannot be certain that the introduction of the validation rules is the sole reason for the decrease in compliance issues being raised as other factors may have contributed to this decrease. For example, the SSRO highlights during DefCARS demonstrations with contractors key areas where frequent issues are raised in DefCARS.

4.13 When a contractor does not respond to an issue raised by the SSRO, or if the response appears to be out of line with the legislation or statutory guidance, the issue is forwarded to the MOD. If the MOD does not respond within 6 months from the date the report was due the issue is automatically closed by the SSRO. Where the issue relates to a reporting requirement, as opposed to an issue in relation to a pricing matter, the SSRO will mark the issue as impacting on the overall quality of the submission but take no further action in any subsequent submissions for the same contract where the same issue arises.

4.14 The SSRO closed 227 issues in DefCARS in 2020/21 where no response was received from the MOD within six months. However, where an issue arises on a CIR submission and is applicable to each of the three initial reports, it is counted as three individual issues (taking this into account, 261 issues were closed due to no response from the MOD). The SSRO additionally closed 13 issues where an identical matter on a previous submission was forwarded to the MOD and no response had been received and 87 issues where no response had been received from the contractor within six months after the date the report was due. These 361 matters include issues such as:

- inconsistencies in the contract profit rate six step calculation;
- recovery rates being reported inconsistently;
- contractors selecting the wrong statutory guidance on the contract profit rate in force at the time of agreement;
- inconsistencies in the dates that reports are due based on contractor reporting plans; and
- inconsistencies in the reported contract price.

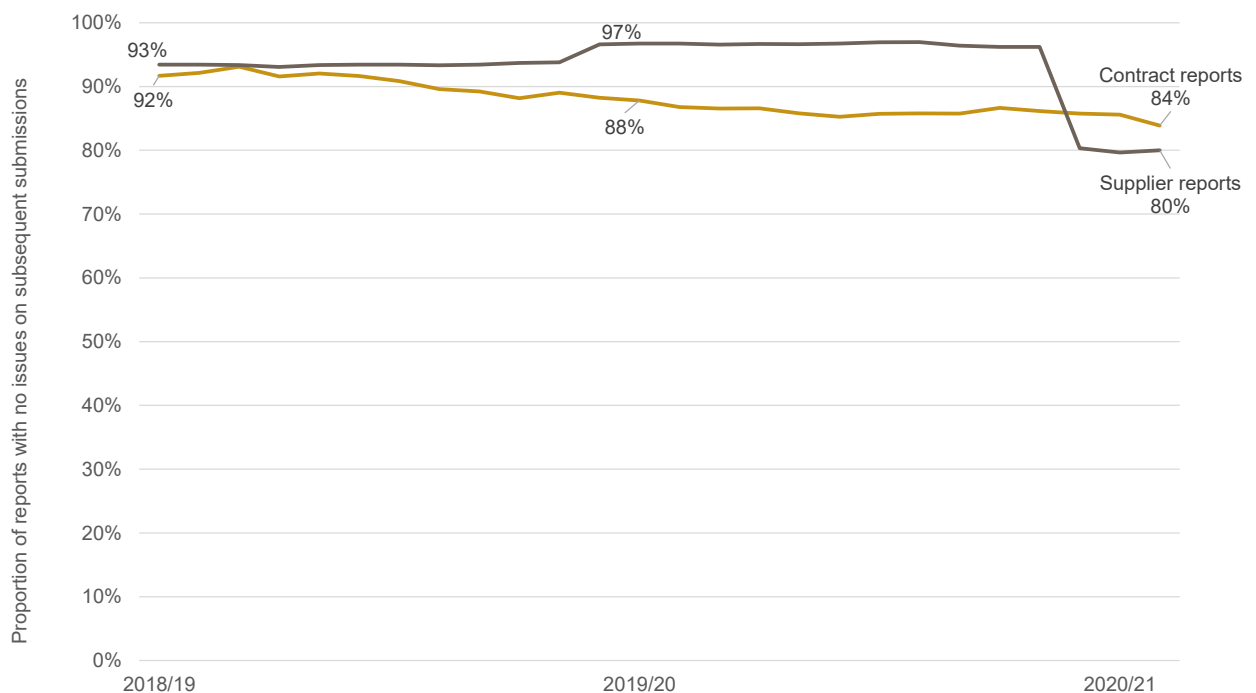
4.15 Closing unresolved issues leaves potential data quality issues in the system and may hinder the use of the data in future. 282 of the 361 issues that have been closed after six months were in relation to reporting matters which remain unaddressed, with the balance in relation to pricing matters.

4.16 Figure 9 shows all submissions set to “no current issues” by the SSRO. This includes:

- reports submitted right first time; and
- reports in which issues have subsequently been addressed.

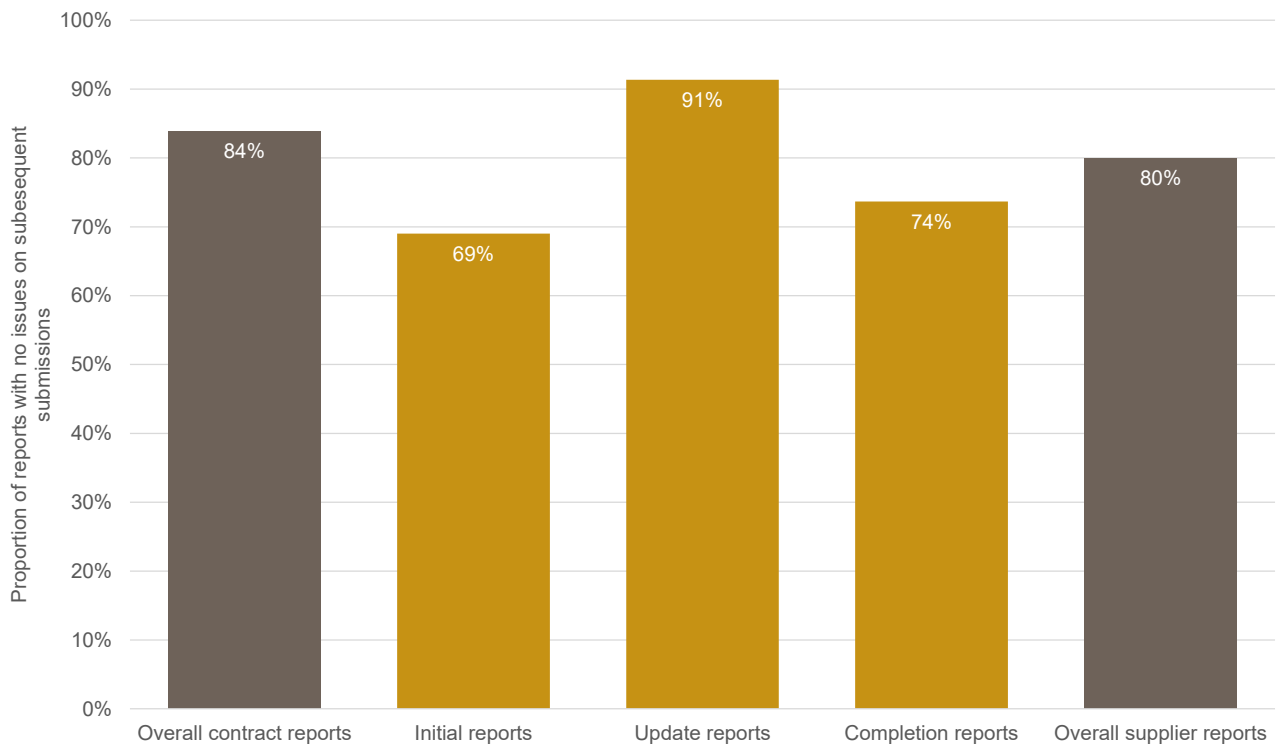
4.17 When considering the subsequent resolution of issues raised, the quality of the submissions increases considerably for contract reports to 84 per cent and the quality of supplier reports increases to 80 per cent. Submissions within which reporting issues have not been addressed but the issues closed after six months have not been counted as being correct once the issues have been closed.

**Figure 9: Proportion of contract and supplier report submissions correct first time and in subsequent submissions, 12 month rolling average**



4.18 Figure 10 provides a breakdown of reports without issues for different types of contract reports. It shows that the initial and completion contract reports had the lowest percentage of issue free reports when subsequent correct submissions are included.

**Figure 10: Proportion of report submissions correct first time and in subsequent submissions, by report type from May 2020 to April 2021**



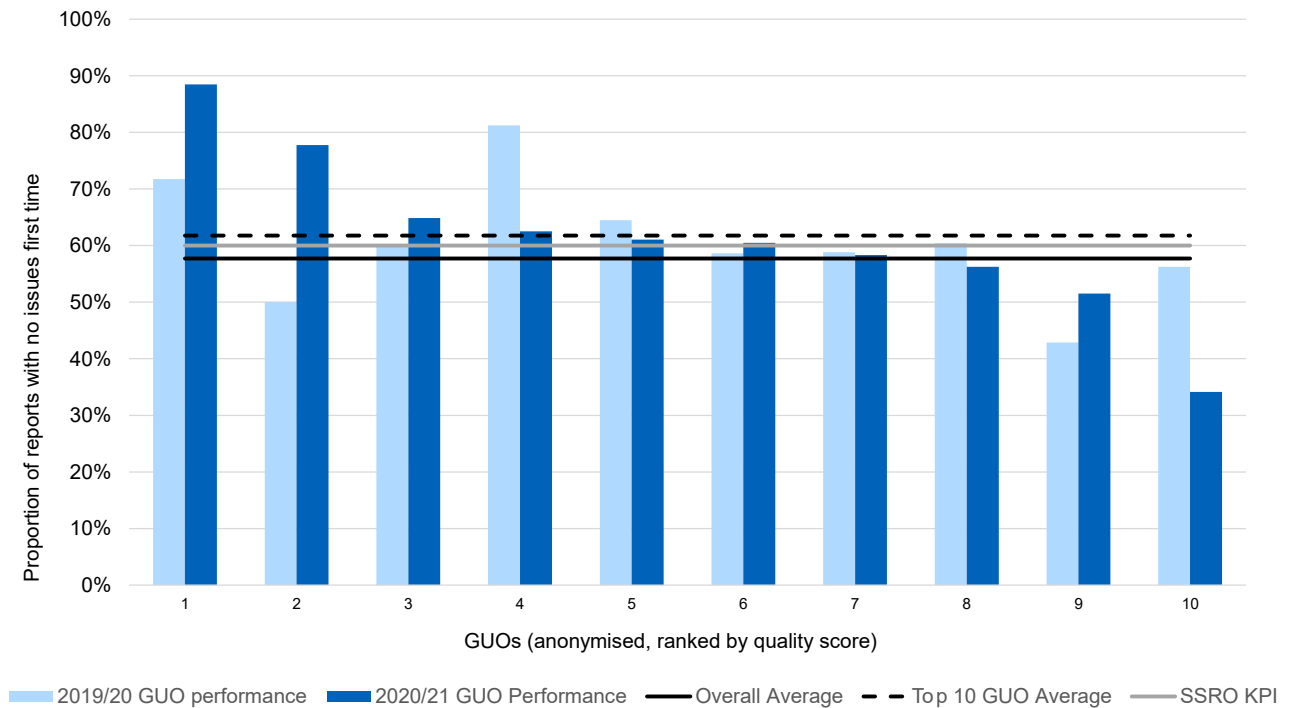
4.19 In 2020/21, we reviewed 798 contract report submissions. The SSRO and the MOD raised a total of 1,078 issues with contractors. Of these 867 (80 per cent) have been closed, with 785 resolved and 82 closed after six months without response from the MOD. We reviewed 180 supplier report submissions and raised 118 issues with suppliers, of which 54 (46 per cent) have been resolved and 64 remain in progress. Tables 1 and 2 of Appendix 5 detail the number of MOD and SSRO issues raised by year for both contract and supplier reports.

4.20 The number of issues raised against contract reports in 2020/21 has increased from the 964 issues in 2019/20, although this is probably to be expected as the number of submissions has increased. However, the number of issues raised against supplier reports has decreased from 228 issues in 2019/20.

### Analysis of the quality of submissions by GUO

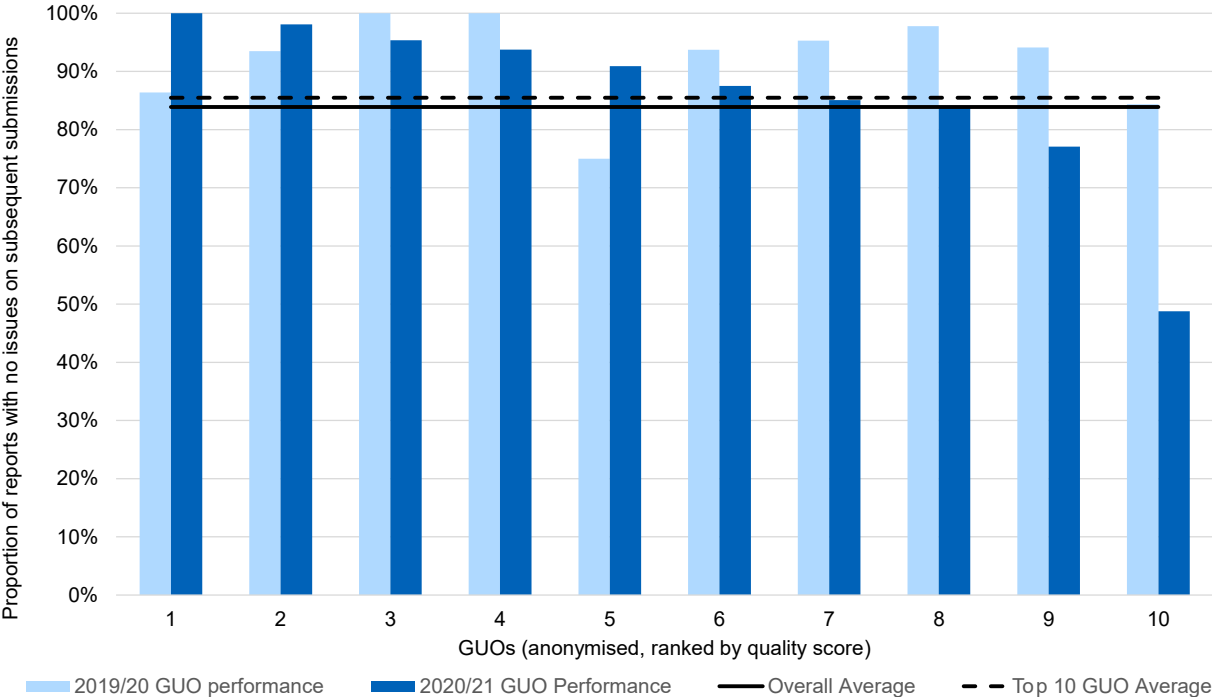
4.21 The top 10 GUOs, by number of report submissions, account for 68 per cent of all contract report submissions reviewed in 2020/21 and the quality of their submissions impacts the overall quality indicator substantially. Figure 11 details the proportion of contract reports submitted in 2019/20 and 2020/21 with no issues raised following first submission for the 10 GUOs. Five of the ten GUOs improved in 2020/21 by reference to the SSRO's indicator. The first and second GUOs' on the chart improved the quality of submissions by 17 per cent and 28 per cent respectively. Six of the GUOs were above the average quality across the whole regime in 2020/21 and above our KPI. Two GUOs, the fourth and tenth on the chart, deteriorated by 19 per cent and 22 per cent respectively when compared to the prior year.

**Figure 11: Proportion of contract report submissions correct first time, by top 10 GUOs**



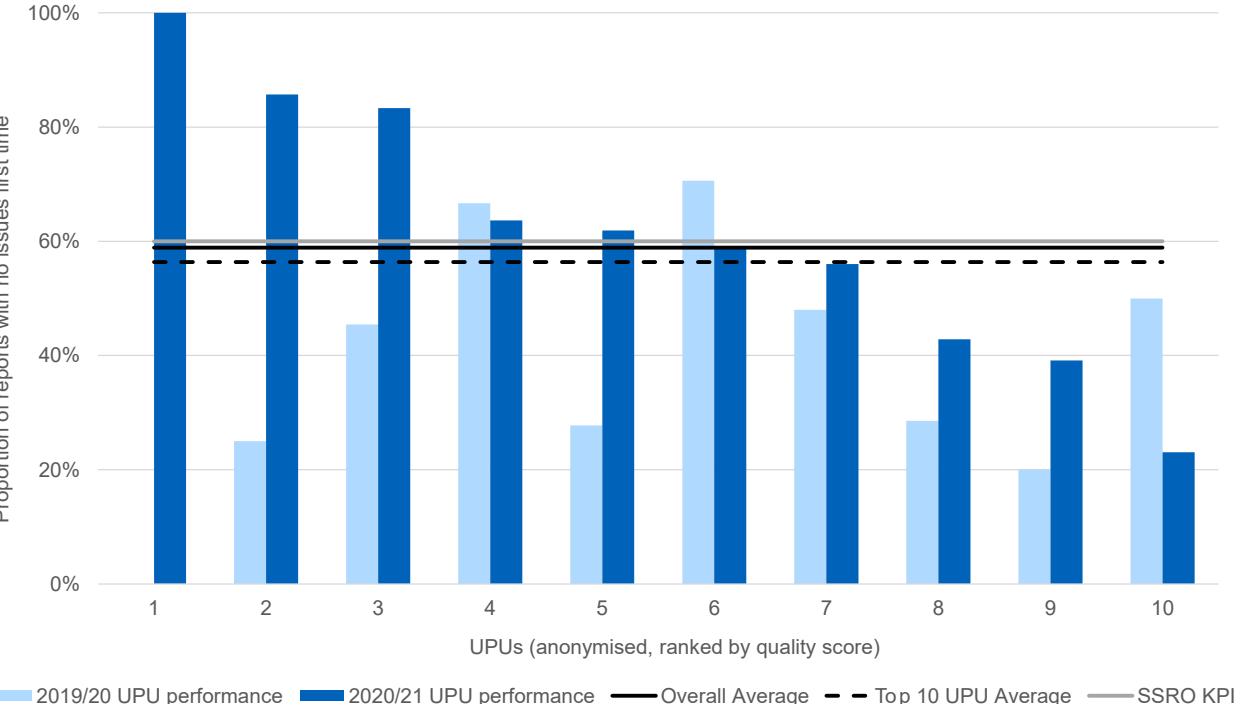
- 4.22 The top 10 GUOs’ average at 62 per cent correct first time. This exceeds the SSRO’s KPI target and overall average (that includes contract report submissions made by all contractors) at 60 per cent. Four of the top 10 GUOs are not achieving our KPI target and three do not meet the overall average. The GUOs at numbers nine and ten both held regular meetings with the SSRO in 2020/21 and improved their timeliness considerably, but there has not been a corresponding improvement in the quality of submissions during 2020/21.
- 4.23 Figure 12 details the proportion of contract reports submitted in 2019/20 and 2020/21 correct either first time or in subsequent submissions for the top 10 GUOs. We would expect the top 10 GUOs to achieve 100 per cent when including subsequent submissions, but Figure 12 shows that one of the ten GUOs resolved all issues that had been raised by either the MOD’s or the SSRO’s reviews in 2020/21.
- 4.24 We are aware that on some occasions contractors respond to MOD issues in DefCARS, but the MOD has not closed the issues on the system. This will affect the analysis of the quality of submissions. There were 42 issues raised in the system by the MOD in 2020/21 (81 between 18/19 and 20/21) that had been responded to by the contractor but remained open in the system. Without the MOD’s input we are unable to confirm how many of the responses were satisfactory and should have been closed.
- 4.25 The top 10 GUO average increased from 62 per cent for correct first time (Figure 11) to 85 per cent when resubmissions are included in the correct first time analysis (Figure 12). Two of the top 10 GUOs did not achieve the overall average. The chart shows that seven GUOs’ 2020/21 quality scores had deteriorated when compared to 2019/20, but as the cut-off date for this report was 30 June 2021 contractors have had less time in 2020/21 to resolve any issues raised compared to the previous year.

**Figure 12: Proportion of contract report submissions correct first time and in subsequent submissions, by top 10 GUOs**



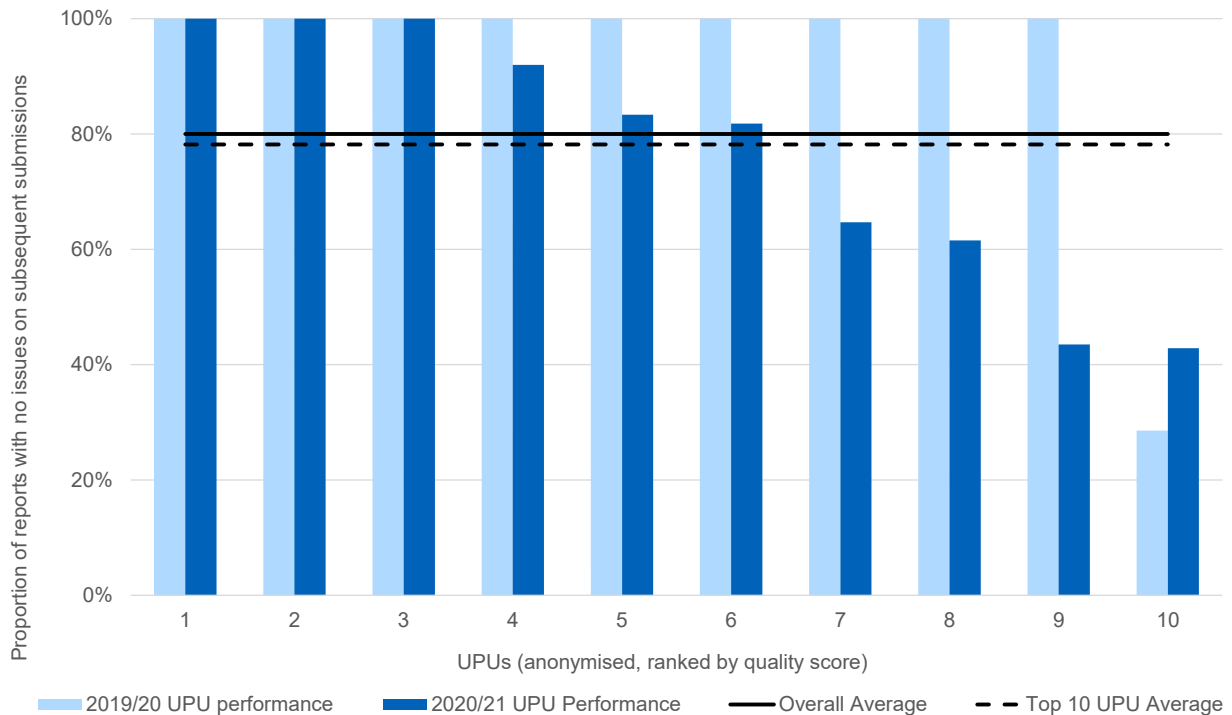
4.26 Figure 13 details the proportion of supplier reports submitted in 2019/20 and 2020/21 with no issues raised on first submission for the top 10 UPU. The top 10 UPU, by number of report submissions, account for just under 90 per cent of all supplier reports reviewed and five of them are getting 60 per cent or more of their reports right first time. The chart shows that seven UPU have improved from 2019/20 to 2020/21 and three have declined. The UPU improvements range from 8 per cent to 100 per cent, with the first and second UPU on the chart achieving a 100 per cent and 61 per cent increase on 2019/20 respectively. The UPU with a decline in the quality of submissions have ranged from 27 per cent to 3 per cent, where the tenth UPU on the chart has reduced by 27 per cent when compared to the prior year.

**Figure 13: Proportion of supplier report submissions correct first time, by top 10 UPU**



4.27 Figure 14 details the proportion of supplier reports submitted in 2019/20 and 2020/21 correct either first time or in subsequent submissions for the top 10 UPU. The top 10 UPU average increases from 56 per cent in Figure 13 to 78 per cent in Figure 14 and the overall average increases from 59 per cent to 80 per cent. It is relevant to note that contractors have had less time in 2020/21 to resolve any issues raised compared to the previous year and there were 64 open supplier report issues as at 30 June 2021.

**Figure 14: Proportion of supplier report submissions correct either first time or in subsequent submissions, by top 10 UPU**



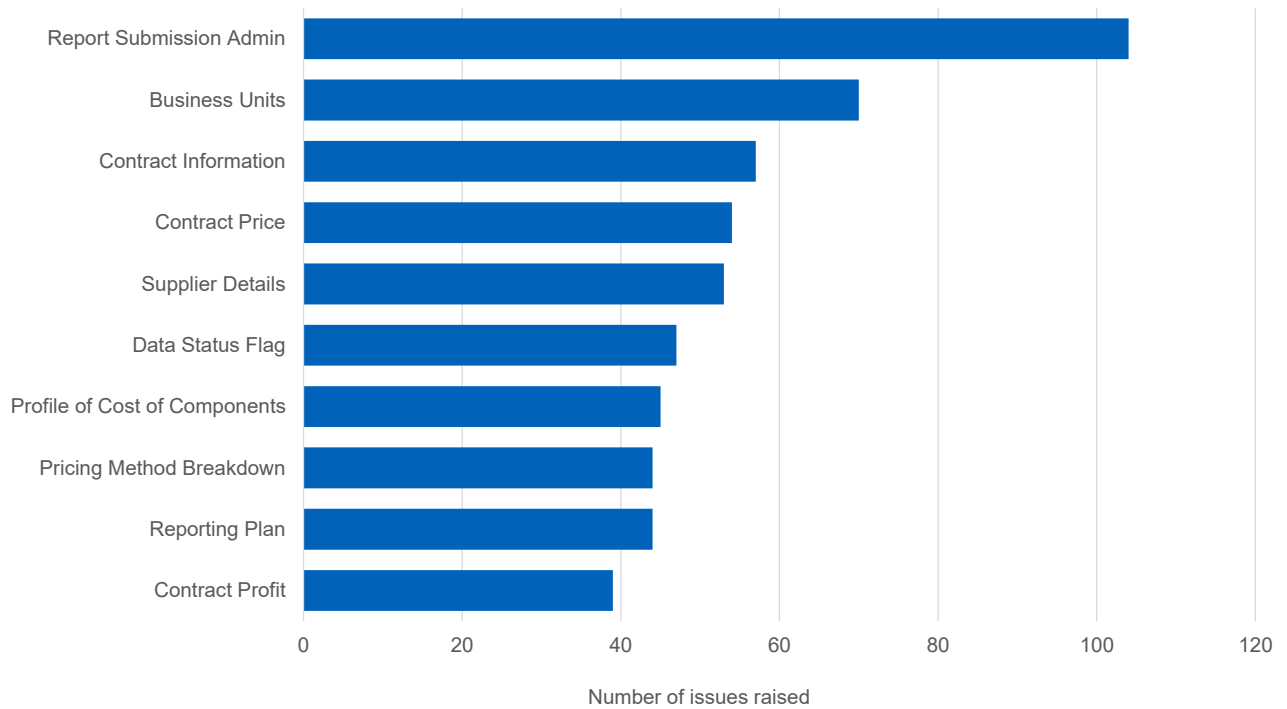
## Themes arising from identified issues on contract reports

### Key messages

- The MOD raised issues where reported price information did not reflect the contract, which is a good use of the system, but also incorrectly raised repeat issues against a single contract.
- The SSRO continued to identify avoidable issues in reports, such as internal inconsistencies in reports due to price information being reported differently on different pages and incorrect reporting of basic information such as report due dates and contact details.
- A review of all contracts found 56 where issues were identified with the six-step profit calculation.
- Further work is needed to improve reporting of details of sub-contracts. Our analysis showed that 43 per cent of affected contracts subject to the additional transparency requirements introduced in 2019 did not provide the required information and 178 sub-contracts were reported as not having been subject to a QSC assessment.

4.28 The issues raised by the SSRO and the MOD on the statutory reports cover a wide range of issues, but some general themes can be identified. In 2020/21 around half of the issues raised on contract reports centred on ten themes. Figure 15 show the themes we have identified, and how they may impact on future use of the data.

**Figure 15: Top ten themes from contract report issues raised by the MOD or SSRO in 2020/21**



4.29 We have further reviewed three themes from the most common ones in contract reports identified in Figure 15 (report submission admin, business units and contract price categories). Tables 9, 10 and 11 detail the breakdown of the key issues raised across these three themes.

**Table 9: Report Submission Admin breakdown of key issues from contract report issues raised by the MOD or SSRO in 2020/21**

Theme	Issues raised in DefCARS	Quantity of issues
Report Submission Admin (104)	“Date this report is due” needs to be amended	65
	Contact details need to be updated	13
	Other issues	26

4.30 The Regulations require that each report submission contains the date that the report is due. Within DefCARS this field is found on the Report Submission Admin page and requires contractors to enter the correct report due date. There were 65 issues raised in 2020/21 by the MOD or SSRO because the contractor had either not completed this field or had inputted a date that did not align to the contract reporting plan or the Regulations. To assist contractors, the SSRO has implemented a change to DefCARS so that the due dates in the contract reporting plan are displayed for contractors to select. This change has been implemented to try and reduce the number of issues previously raised.

4.31 The Report Submission Admin page also requires contractor and MOD contact details. 13 issues were raised by the MOD against this field explaining “contact details need to be updated” suggesting that the MOD’s review against the contract information it holds highlighted inconsistencies that needed to be addressed by the contractor.

**Table 10: Business Units breakdown of key issues from contract report issues raised by the MOD or SSRO in 2020/21 (from Figure 15)**

Theme	Issues raised in DefCARS	Quantity of issues
Business Units (70)	All rates need to be the pegged rates	36
	Rows to be completed/checked	16
	Calculation/breakdown required	15
	Other issues	3

- 4.32 All Business Unit issues were raised by the MOD. Thirty-six issues raised against “All rates need to be the pegged rates” were raised by one MOD reviewer against one contractor and one contract. We want the MOD to raise issues in DefCARS, but raising multiple issues against the same category for one contract is not using the system functionality correctly. The MOD needs to ensure staff responsible for reviewing submissions receive DefCARS training and understand how to use the system in an appropriate manner. This may include providing MOD teams with checklists to follow when undertaking reviews.
- 4.33 Six of the 16 issues relating to “rows to be completed/checked” were raised because the contractor had submitted the report but left some of the Cost Recovery Rates information blank and ignored the validation warning. The remaining ten issues required the contractor to check rates data to ensure it reflected what the MOD expected to find in the report. The 15 issues raised against ‘calculation/breakdown required’ were specific questions to contractors because the rates information did not match the contract.

**Table 11: Contract Price breakdown of key issues from contract report issues raised by the MOD or SSRO in 2020/21 (from Figure 15)**

Theme	Issues raised in DefCARS	Quantity of issues
Contract Price (54)	Total contract price should align with contract/profit page	37
	Further explanation/confirmation/work required	12
	Pre QDC costs and profit not recorded	5

- 4.34 The 49 contract price issues raised against the ‘Total contract price should align with contract/profit page’ and ‘further explanation/confirmation/work required’ all relate to the contract price not matching the breakdown within the report submission. Contractors need to ensure that the estimated allowable costs and profit in the report submission equate to the Total Contract Price.
- 4.35 The five issues relating to “Pre QDC costs and profit not recorded” refer to when a contract becomes a QDC or QSC by amendment and there are costs prior to the amendment. In accordance with the SSRO’s Reporting guidance on preparation and submission of contract reports, the contractor should provide an annual profile of the prior costs in a separate spreadsheet and include the total of these type of costs in the ‘not profiled’ column in DefCARS along with any supporting comments.



4.36 The SSRO undertook a review of the contract profit rate calculation. The full review is included in section 4 of Appendix 6 and is summarised in Themed Review 3. We found several issues with the calculation of contract profit rates, and while not all of these were data quality matters, there is a risk that such issues will result in the MOD not achieving good value for money on qualifying contracts or contractors not being paid a fair and reasonable price. We recommend that the regulatory requirements are reinforced with commercial teams to support correct application of the regulatory framework.

### **Themed Review 3: Contract profit rates (CPRs)**

There are 56 contracts that appear to have issues with the six step profit calculation reported in DefCARS. We identified five key categories of issue:

- 11 contracts where the contract profit rate did not result from the six step CPR calculation, either because it was different from the calculation (five contracts) or the six steps were not followed at all (six contracts).
- 18 contracts where elements were priced with a rate different from that calculated using the six steps. These included cases where the contractor had offered a 'discount' to the MOD for part of the contract, or where commercially priced items were included within the contract price.
- 11 contracts where the BPR used at step 1 of the six steps was not in force at the time the contract was agreed. In most of these contracts, negotiations started in one year and were finalised in another year, with the BPR not being updated.
- 2 contracts where the reported cost risk adjustment was above the maximum +25% of the baseline profit rate (BPR) allowed under the legislation.
- 14 contracts where the capital servicing adjustment (CSA) calculation in DefCARS did not reconcile with the CSA rate used within the contract. This was either because the contractor had used capital servicing rates that were not applicable at the time the contract was entered into, or because a different CSA had been negotiated with the MOD.

4.37 The SSRO conducted a detailed review of the quality of sub-contract information submitted by prime contractors. Additional reporting requirements were introduced in 2019, which aimed to increase transparency over sub-contracts below the QSC threshold of £25m. The full review is at section 5 of Appendix 6 and is summarised in Themed Review 4.

#### **Themed review 4: reporting of sub-contract information**

The Regulations were amended from September 2019, to enable greater transparency over the supply chain. Prime contractors were required to report details of sub-contracts valued at £15 million or more where the prime contractor had made an assessment that the sub-contract would not be a qualifying sub-contract. New fields were developed and introduced into DefCARS from December 2019 to allow contractors to report these additional requirements. The information was submitted through spreadsheets in the intervening period.

We found significant duplication in the reporting of sub-contracts in the different submissions made for individual contracts. Excluding duplicates, there were 1,458 individual sub-contract entries reported. In a number of cases, prime contractors appeared to report individual tasks or purchase orders as sub-contracts, which is likely to be incorrect.

We identified 75 sub-contracts that were subject to the additional transparency requirements. In respect of 43 of the 75 sub-contracts (57 per cent), the contractor appeared to have met the requirements by reporting whether the sub-contract was the result of a competitive process, arose before the Act took effect, or assessed that the contract would not exceed the £25 million QSC threshold. There were 32 sub-contracts (43 per cent) for which the contractor had reported 'N/A', '?' or left the fields incomplete, with total sub-contract values of £1.65 billion. It is unclear if a QSC assessment has been undertaken for these sub-contracts or, if not, whether there may be additional contracts that meet the QSC requirements that have not been reported as QSCs.

There were 144 sub-contracts reported as being QSCs. We checked these notifications against our list of known QSCs. We were able to match entries against 45 individual QSCs already known to the SSRO. Many of the entries appeared to be made in respect of purchase orders or tasks rather than sub-contracts. We queried contractors in respect of five entries that appeared to be QSCs unknown to the SSRO:

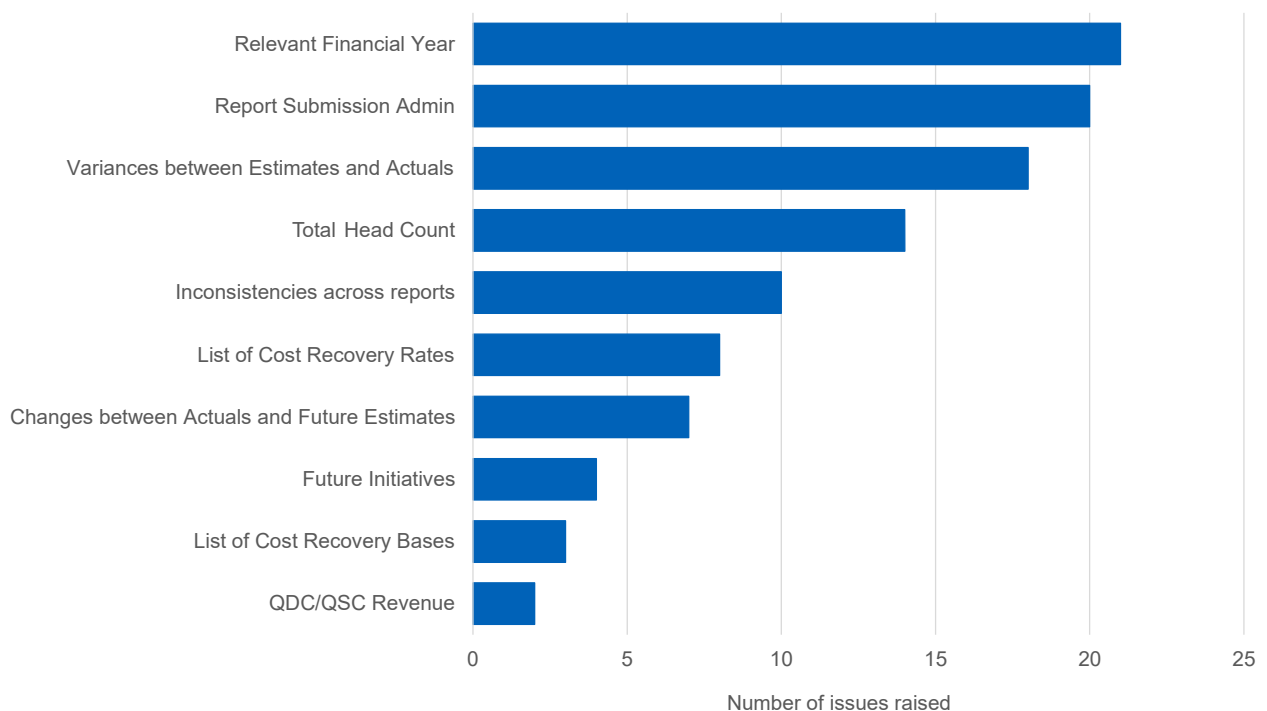
- Two sub-contracts had been assessed as QSCs, the sub-contractors had been notified and should be providing reports.
- One sub-contract was incorrectly reported as being assessed as a QSC and the contract value was below £15 million.
- In two cases we are awaiting a response from the prime contractor.

A total of 178 entries were shown within the system as not yet having been subject to a QSC assessment. These entries related to sub-contracts with a total value reported as £1.738 billion.

- 4.38 We have subsequently added the two additional QSCs to DefCARS that were identified as part of our review. We contacted the sub-contractors to make arrangements for an onboarding session. While these sub-contractors had been informed of the positive QSC assessment, they had not contacted the SSRO to be set up on DefCARS. We are committed to making the reporting process as easy and clear as possible and offer support to contractors through our guidance, DefCARS improvements, our helpdesk, onboarding sessions and training. It is clear, however, that contractors coming into the regime also need to take steps to familiarise themselves with the reporting requirements.

- 4.39 We have identified several steps that can be taken to improve the quality of information reported on sub-contracts:
- We will focus on the reporting of sub-contracts going forward, checking the appropriate fields are completed and querying where contractors have broken down sub-contracts to purchase orders or tasks.
  - We have updated the drop-down fields in DefCARS to clarify the response options to the question “Assessed as QSC?” In future, the free text fields could be improved to include as a drop-down the different categories that contractors may select.
  - As part of its 2021 [Recommendations to the Secretary of State](#) the SSRO suggested that contractors be required to specify the reasons for negative QSC assessments to provide greater transparency.
- 4.40 The regulatory framework does not bring QSCs into the regime unless and until the contracting authority provides notice in writing of a positive QSC assessment to the Secretary of State and the prospective sub-contractor. The SSRO encounters instances of contracting authorities failing to provide written notice of a positive QSC assessment to the Secretary of State and the sub-contractor, or providing that notice late. We will continue to check reported QSC assessments against reported QSCs and raise queries where there is a mismatch. It remains the responsibility of contracting authorities to notify the outcome of positive QSC assessments and for the MOD to enforce this. To facilitate compliance, we have recommended to the Secretary of State that a deadline be provided for completing and notifying a QSC assessment.<sup>5</sup>
- 4.41 In 2020/21, 70 per cent of the supplier report queries centred on five themes. Figure 16 shows the themes we have identified, and how they may impact on future use of the data.

**Figure 16: Top ten themes from supplier report issues raised by the MOD or SSRO in 2020/21**



<sup>5</sup> Review of Legislation recommendations June 2021, <https://www.gov.uk/government/publications/review-of-legislation-recommendations-june-2021>

4.42 We have further reviewed the issues relating to the top three themes in supplier reports from Figure 16. Tables 12, 13 and 14 detail the breakdown of the key issues raised across these three themes. All of the issues raised within supplier reports were raised by the SSRO, which is consistent with the low amount of supplier reports the MOD reviewed within DefCARS.

**Table 12: Relevant Financial Year breakdown from supplier report issues raised by the MOD or SSRO in 2020/21 (from Figure 16)**

Theme	Issues raised in DefCARS	Quantity of issues
Relevant Financial Year (21)	Report does not relate to relevant financial year	20
	Incorrect report due date	1

4.43 Table 12 breaks down the issues raised against Relevant Financial Year. It shows that 20 supplier reports were submitted but the information related to the wrong financial year, with the SSRO raising issues to request a submission that related to the correct financial year. Thirteen of the 20 supplier reports related to one contractor.

**Table 13: Report Submission Admin breakdown from supplier report issues raised by the MOD or SSRO in 2020/21 (from Figure 16)**

Theme	Issues raised in DefCARS	Quantity of issues
Report Submission Admin (20)	Amend report due date/relevant financial year	8
	Supporting documents not attached	8
	QBUCAR not submitted/completed for relevant financial year	4

4.44 Table 13 shows that 20 issues were raised against the Report Submission Admin page in DefCARS on supplier reports. Eight issues were raised because an incorrect report due date or relevant financial year was entered. There is no pre-defined structure for the ARCR and ERCR in DefCARS, so contractors can provide the relevant information using their own systems and formats and attach it to their submission. Eight issues were raised because contractors forgot to attach their reports when making their submission in DefCARS. Two of the QBUCAR submissions contained sections that had not been completed, one QBUCAR had not been submitted and another related to a different financial year to the ERCR submission.

**Table 14: Variances between Estimates and Actuals breakdown from supplier report issues raised by the MOD or SSRO in 2020/21 (from Figure 16)**

Theme	Issues raised in DefCARS	Quantity of issues
Variances between Estimates and Actuals (18)	Comments required for variance	18

4.45 All 18 of the issues raised against Variances between Estimates and Actuals in Table 14 were requests for commentary on the variances reported in QBUCARs, as none were supplied.

- 4.46 As explained in last year's report, there continue to be fewer issues identified with supplier reports than with contract reports. There are multiple reasons for the lower number of issues on supplier reports, including that:
- fewer supplier reports are submitted;
  - supplier reports are less structured in DefCARS than the contract reports and contain fewer standard fields; and
  - a high number of MOD reviews took place outside of DefCARS so there is no log of issues raised by the MOD.
- 4.47 There are two initiatives that may encourage use of supplier reports. The Secretary of State is reviewing the provision of the regulatory framework and the MOD is considering the reporting requirements. The SSRO hopes to progress its overheads project which may encourage better use of the overhead reports. The project will consider the reporting of information by suppliers in relation to overheads and forward planning. It aims to improve the overhead information submitted so that it is more useful for both strategic analysis and for the processing of rate claims.

## Improving the quality of submissions and the use of data

### Key messages

- The SSRO, MOD and contractors must work together if data quality in report submissions is to improve.
- The SSRO will continue to offer support to contractors to improve the quality of report submissions.
- Contractors should take greater care when submitting reports to ensure that the data provided is correct and complete.

- 4.48 We expect to see the proportion of report submissions that are free from issues to increase to close to 100 per cent between the initial submission and subsequent submissions. We observed a good increase for both contract and supplier reports, but neither was close to 100 per cent.
- 4.49 The SSRO will continue to provide support to contractors to help them submit good quality information, as summarised earlier in this report. We provide regular guidance and DefCARS updates in response to reporting issues and we are carrying out projects to improve reporting of overheads and amendments and variances. We have also recommended legislative changes, which are being considered by the Secretary of State.
- 4.50 We recommend an increased level of activity by the MOD to improve the quality of report submissions, including:
- greater use of the reports;
  - reviewing the reports in DefCARS and reviewing greater numbers of reports;
  - responding to more issues raised by the SSRO; and
  - issuing enforcement notices in appropriate cases.
- 4.51 In our targeted reviews we considered the extent to which the MOD used the information in the reports. In doing so, we referred to the MOD's Commercial Toolkit, which sets out potential uses for the reports, such as contract management, setting and tracking baselines, understanding final price adjustments and budgeting support.

- 4.52 All the MOD teams that we spoke to reported comparing the information submitted in DefCARS against the contract or other contractor information. They felt that the reported data provided a useful source to aid comparison. These teams identified potential uses of the reports, suggesting that the data held in DefCARS could be used for:
- price reconciliation when a contract completes;
  - aiding discussions with the contractor regarding trends in costs, uncertainty and forward planning; and
  - benchmarking similar contracts to inform future contract negotiations or extensions.
- 4.53 The feedback from the MOD teams was that, contrary to expectations in the Commercial Toolkit, DefCARS information had not yet been widely used for contract management or internal reporting purposes. Some respondents thought the submitted information would be more relevant to MOD functions outside of the commercial team. We recommend that the MOD works with us to explore why the reports are not being used as expected by the Commercial Toolkit and to foster and support increased use of the data.
- 4.54 If the MOD makes greater use of the reports, it is more likely to identify and resolve issues with data quality. This is important, as only the MOD knows if report submissions reflect the contract that it has agreed. Where the MOD identifies issues with reports, we recommend that these be raised in DefCARS so that there is an audit trail or log of the issues raised. This will enable the SSRO to consider report quality by reference to reports reviewed by both the MOD and the SSRO.
- 4.55 Where issues are raised by the MOD or the SSRO, it would assist if the MOD dealt with these in accordance with the compliance functionality in DefCARS. We will have a much clearer picture of the quality of reports if the MOD takes the following steps in DefCARS:
- categorising issues correctly;
  - raising each issue a single time rather than multiple times;
  - closing down issues where the contractor has provided an adequate response; and
  - responding to queries raised by the SSRO.
- 4.56 We recommend that the MOD gives increased consideration to using compliance and penalty notices to improve the quality of reporting submission. The MOD took no enforcement action in 2020/21 in relation to quality issues and it is likely that multiple quality issues were left in the system which could have been resolved through enforcement action.
- 4.57 We identified a number of the high frequency issues associated with DefCARS fields that require basic information. The 2020 compliance report explained that contractors should take greater care when submitting reports to ensure that the data provided is correct and complete, particularly where it is basic information. Contractors should also ensure they refer to and make use of the SSRO's reporting guidance and contact the Helpdesk should they be unsure or require assistance.

## 5. Future work

5.1 The SSRO's compliance methodology emphasises working in partnership to improve reporting and achieve the objectives of the regulatory framework. We have proposed a range of action by the MOD, industry and the SSRO, which is intended to increase the timeliness and quality of reporting and encourage greater use of the reports.

### MOD

5.2 We have recommended that the MOD increases its focus on reviewing and using the statutory reports. The specific actions we have proposed include:

- providing regular information to the SSRO about expected QDCs and QSCs, including MOD and contractor contact details, so we can assist contractors with on-boarding training and access to DefCARS;
- reviewing more reports in DefCARS, including providing MOD teams with checklists to follow when undertaking reviews;
- taking prompt action to address issues with reported data, including raising and closing issues in DefCARS, liaising with contractors and responding to matters raised by the SSRO; and
- making appropriate use of both compliance and penalty notices.

5.3 The MOD has started to undertake some of these actions and receives regular feedback from the SSRO on report submissions that are outstanding or where issues have been raised on the quality of the data submitted. The SSRO will continue to monitor and report on these matters. We will look for ways to encourage use of the data by the MOD, for example by producing relevant management information. We expect that these actions will help ensure that outstanding submissions are made and that any issues identified are addressed.

### Industry

5.4 We identified several ways that contractors can improve the timeliness and quality of their reports, including:

- familiarising teams who must submit reports with the reporting requirements;
- making reporting requirements part of handover arrangements;
- using the 'potential QDC' facility in DefCARS to help prepare initial reports on time;
- encouraging staff to take greater care when submitting reports and to address validation warnings prior to initial report submissions;
- raising reporting issues promptly with the MOD or the SSRO; and
- responding promptly to issues raised in DefCARS.

5.5 We encourage contractors to take advantage of the SSRO's helpdesk, on-boarding and other support outlined on our [SSRO Support](#) page.

### SSRO

5.6 The SSRO will continue to improve its guidance, DefCARS and support arrangements to help contractors with reporting. We will also look for ways to encourage use of reported data by the MOD. Our projects on overheads and amendments and variances will continue to be vehicles for this work.

## Compliance meetings and management information

- 5.7 The SSRO held regular monthly meetings with selected contractors in 2020/21 to discuss compliance issues. The meetings helped to improve the timeliness and quality of submissions and we will consider expanding them to other contractors.
- 5.8 The SSRO meets regularly with the MOD's Single Source Advisory Team to discuss reporting issues. We will consider whether to issue more summarised information to senior levels within the MOD on a quarterly basis to show those reports outstanding, issues identified and progress made.

## Reporting issues

- 5.9 The SSRO will continue to log reporting issues, identified through our work under the regulatory framework, including matters raised by the SSRO, the MOD and industry. We will prioritise these issues in consultation with the MOD and industry and seek to resolve them through guidance, DefCARS or recommendations for legislative change. Our aim is to share more information about the issues we have logged, to increase engagement on appropriate action to address the issues.

## DefCARS Future

- 5.10 We published our technology strategy for the future of DefCARS on 13 October 2021. We aim to develop DefCARS to:
- efficiently and flexibly capture data;
  - provide value for money;
  - be easy to use and engaging to users; and
  - encourage use of data in line with the SSRO's data strategy.
- 5.11 We will update DefCARS over time in line with the strategy. Our current priorities for change to the system reflect our assessment that use of the data is the most pressing need to address. Meeting the MOD's need for information to support better procurement will require ongoing review and engagement, better analysis and reporting, and continuing guidance and support for industry.

## Review of the regulatory framework

- 5.12 We proposed limited changes to reporting requirements in our [Recommendations to the Secretary of State](#) in June 2021. We understand that the MOD is contemplating broader changes as part of the Secretary of State's periodic review of the regulatory framework, with the aim of:
- collecting only data that is useful to the MOD and increasing its utility; and
  - delivering the Government's [Defence and Security Industrial Strategy](#).
- 5.13 The timing of legislative changes is not yet clear. We will aim to support the implementation of new or revised reporting requirements through changes to guidance and DefCARS. We anticipate that it will take time to develop the changes and for contractors to become familiar with them.



