

# **MINISTRY OF DEFENCE ACCOUNTING OFFICER SYSTEM STATEMENT – 2017/18**

## **1. Introduction**

1.1 'Defence' covers all those matters that are the responsibility of the Secretary of State for Defence. In practice this means the business of the Secretary of State and his fellow Ministers, of the Ministry of Defence (MOD) as the Department of State that supports them, and of the Armed Forces as constituted by the Defence (Transfer of Functions) Act 1964.

1.2 The MOD's objectives are articulated in the 'Single Departmental Plan' which can be accessed at <https://www.gov.uk/government/publications/mod-single-departmental-plan-2015-to-2020>.

1.3 The Defence Operating Model is described in 'How Defence Works' which can be accessed at <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model> . This document also outlines the way in which the department makes sure that it is meeting its business aims.

## **2. Principal Accounting Officer's Statement**

2.1 As the MOD Permanent Secretary I am the government's principal civilian adviser on Defence. I have primary responsibility for policy, finance and business planning, and I am the MOD Principal Accounting Officer.

2.2 My responsibilities as Principal Accounting Officer include:

- Ensuring that resources authorised by Parliament are used for the purposes intended by Parliament;
- Providing assurance to Parliament and the public through the Committee of Public Accounts that the department exercises the highest standards of probity in the management of public funds;
- Having personal accountability to Parliament for the economic, efficient and effective use of Defence resources;
- Accounting accurately and transparently for the department's financial position and transactions;
- Delegating financial and other authority and accountability to senior colleagues.

2.3 This System Statement sets out all of the accountability relationships and processes within the MOD.

2.4 The Secretary of State for Defence and his fellow Ministers have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of this Department and its agencies. They look to me as the Department's Principal Accounting Officer to delegate within the department to deliver their decisions and to support them in making policy decisions and handling public funds.

2.5 I delegate responsibility to control the Department's business and meet the standards required by the relevant regulatory authorities within the scheme of delegation. This gives me insight into the business of the Department and its use of resources, and allows the Defence Board - the senior corporate decision-making body in Defence - to make informed decisions about progress against departmental objectives, and if necessary to steer performance back on track.

2.6 Nevertheless, as Principal Accounting Officer I am personally responsible for safeguarding the public funds for which I have been given charge under the MOD and Armed Forces Pension and Compensation Schemes Estimates. Where I have appointed Accounting Officers, their responsibilities are also set out in this System Statement.

2.7 The Statement covers my core department, its Arm's Length Bodies (i.e. Executive Agencies and Non-Departmental Public Bodies) and other arm's length relationships. It describes accountability for all expenditure of public money through my department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible.

2.8 Estimates are the means of obtaining the legal authority from Parliament to consume resources and spend the cash needed by the Government to finance a department's agreed spending programme. Full details of the MOD's Main Estimate and Supplementary Estimate can be found at <https://www.gov.uk/government/collections/hmt-main-estimates> and <https://www.gov.uk/government/collections/hmt-supplementary-estimates> respectively.

2.9 This System Statement sets out how I ensure that I am fulfilling my responsibilities as an Accounting Officer, in accordance with the Treasury's guidance set out in Managing Public Money, which can be accessed at <https://www.gov.uk/government/publications/managing-public-money>. The Statement describes the accountability system which is in place and will continue to apply until a revised statement is published. The diagram at the appendix to this document provides an overview of MOD's funding arrangements, with more detail provided in the narrative below.

### **3. Distribution of Funding through the MOD**

3.1 The MOD operating model delegates authority to those best able to deliver outputs for each business area. The core financial structure of the department comprises seven Top-Level Budget (TLB) organisations and three Executive Agencies.

3.2 The TLBs are:

- Navy Command
- Army Command
- Air Command
- Joint Forces Command

- Director General Nuclear
- Defence Infrastructure Organisation
- Head Office and Corporate Services

3.3 The Executive Agencies are listed below, and further information on their role can be found by following the links:

- Defence Equipment and Support (DE&S)  
<https://www.gov.uk/government/organisations/defence-equipment-and-support>
- Defence Science and Technology Laboratory (Dstl)  
<https://www.gov.uk/government/organisations/defence-science-and-technology-laboratory>
- Defence Electronics and Components Agency (DECA)  
<https://www.gov.uk/government/organisations/defence-electronics-and-components-agency>

3.4 The Department has established a new Submarine Delivery organisation which will be formally launched as an agency during the course of financial year 2017-18. This new organisation will work alongside DE&S but focus solely on the procurement and in-service support of the UK's nuclear submarines.

3.5 In addition, MOD sponsors a mix of Non-Departmental Public Bodies, a Trading Fund, Public Corporations, Grants-in-Aid and General Grant recipients who in turn deliver other defence related outputs.

3.6 Further detail on how these bodies are held accountable, and the arrangements in place to provide assurance to me, is provided in section 6.

#### **4. MOD's Delivery Bodies**

4.1 Between them, the seven TLBs and the three Executive Agencies deliver the department's principal outputs.

##### TLBs

4.2 The head of each TLB – the TLB Holder- is personally accountable for the performance of their organisation. They have to deliver agreed outcomes as effectively, efficiently, safely, sustainably and economically as possible. They also have to operate effective controls to protect regularity and propriety; and stay within financial limits (known as "control totals").

4.3 Each TLB Holder chairs a TLB Board, with the exception of Defence Infrastructure Organisation whose Board is chaired by a Non-Executive Director. TLB Board members include a Director of Resources and four Non-Executive Directors. Non-executives are generally from the private sector with one chairing the relevant TLB audit committee. To assist in assessing the adequacy of control arrangements across the department, each TLB Holder submits an Annual Assurance Report, endorsed by their Management Board and Audit Committee.

4.4 Command Plans set the outcomes and standards that the TLB Holder will plan and deliver against in the short, medium and longer term, within agreed resources. Each Command Plan is proposed by the TLB Holder and agreed with me and the Chief of Defence Staff before the start of the financial year. In addition each TLB Holder participates in a mid-year and end-year Performance and Risk Review against the Command Plan with me and the Chief of Defence Staff.

4.5 I delegate financial authority to the TLB Holders. Each TLB has a Director of Resources (DRes) who acts as the principal adviser on financial matters to the TLB Holder.

4.6 Director General Finance, who is my Principal Finance Officer and the Defence Authority for Financial Management and Approvals, exercises functional authority over the DsRes. She issues each DRes with a letter of authority outlining their core roles and the standards against which those roles are to be discharged. The letter also outlines the approval limits the DRes holds in respect of equipment and operating cost expenditure.

4.7 In June 2014 a strategic business partner (SBP) was appointed to lead and manage the Defence Infrastructure Organisation (DIO) for a 10-year period. Because of this MOD has put a specific governance structure in place for DIO. The Defence Infrastructure Governing Authority manages how the SBP contract operates on behalf of Director General Head Office and Commissioning Services.

#### Executive Agencies (EA)

4.8 The EAs each have a Chief Executive who is appointed as an Accounting Officer by me, and produce their own accounts which are audited by the NAO. Furthermore the EAs are subject to a Framework Agreement with their Owner who is the Secretary of State for Defence. Governance is provided through the EA Boards, each of which includes four Non-Executive Directors. Dstl and DECA are also held to account through regular Performance and Risk Reviews with their TLB sponsor.

4.9 Dstl was previously a Trading Fund but has been operating as an on-vote EA since April 2017. It owns a subsidiary company 'Ploughshare Ltd' about which further detail can be found in Section 9 of this Statement.

### **5. Non-Departmental Public Bodies (NDPBs)**

5.1 Like all central government departments, MOD decides how much of its budget provision it should cascade to its various public bodies in each year of a multi-year agreement. Longer term assistance to external organisations in support of defence objectives is provided through a Grant-in-Aid (GIA). These are generally regular or recurring payments and the recipient has a certain level of autonomy concerning the utilisation of the funds.

5.2 The department's NDPBs are listed below:

- Single Source Regulations Office (SSRO)  
<https://www.gov.uk/government/organisations/single-source-regulations-office>

- National Museum of the Royal Navy (NMRN) <https://www.nmrn.org.uk/>
- National Army Museum (NAM) <https://www.nam.ac.uk/>
- Royal Air Force Museum (RAFM) <http://www.rafmuseum.org.uk/>

5.3 While NDPBs enjoy a certain level of autonomy over their own affairs, a Framework Agreement is in place to agree the conditions of expenditure of the GIA. They are signed by the Chair, Chief Executive or equivalent of the external body, and the Budget Holder and Director of Resources of the TLB providing the funds.

5.4 Each of the NDPBs has an Accounting Officer appointed by me, and each produces its own accounts.

5.5 The three museums are registered charities and as such also have a statutory obligation to meet the requirements of the various Charities Acts. They are managed by Boards of Trustees who provide oversight and governance on decision making.

5.6 SSRO has a Board, which is chaired by a Non-Executive Director. It is comprised of Executive and Non-Executive Directors.

## 6. MOD funding to other bodies

### Advisory NDPBs

6.1 Advisory NDPBs provide MOD with a wide range of useful advice and support. They do not manage MOD funds and therefore have no Accounting Officer of their own. MOD expenditure on its Advisory NDPBs is restricted to daily rate payments for their members (i.e. a fixed fee negotiated with the individual within certain limits and dependent on their qualifications, skill set, etc.) and/or travel expenses when the various bodies convene to conduct their business.

6.2 The MOD's Advisory NDPBs are listed below, and more information about their role can be found at the links:

- Advisory Committee on Conscientious Objectors  
<https://www.gov.uk/government/organisations/advisory-committee-on-conscientious-objectors/about>
- Armed Forces Pay Review Body  
<https://www.gov.uk/government/organisations/armed-forces-pay-review-body>
- Veterans Advisory and Pensions Committees  
<https://www.gov.uk/government/organisations/veterans-advisory-and-pensions-committees-x13>
- Defence Nuclear Safety Committee  
<https://www.gov.uk/government/organisations/defence-nuclear-safety-committee>
- Nuclear Research Advisory Council  
<https://www.gov.uk/government/organisations/nuclear-research-advisory-council>

- Independent Medical Expert Group  
<https://www.gov.uk/government/organisations/independent-medical-expert-group>
- National Employer Advisory Board  
<https://www.gov.uk/government/organisations/national-employer-advisory-board>
- Scientific Advisory Committee on the Medical Implications of Less Lethal Weapons  
<https://www.gov.uk/government/organisations/science-advisory-committee-on-the-medical-implications-of-less-lethal-weapons>
- Central Advisory Committee on Compensation  
<https://www.gov.uk/government/organisations/central-advisory-committee-on-compensation>

### Trading Fund

6.3 United Kingdom Hydrographic Office (UKHO)  
<https://www.gov.uk/government/organisations/uk-hydrographic-office> Chief Executive (CE) is appointed as an Accounting Officer by HM Treasury's Permanent Secretary, while I delegate to the CE, within certain constraints, the necessary authority for effective management of financial, contractual, pay and personnel aspects of UKHO's operation.

6.4 The UKHO is owned by the Secretary of State for Defence. It is subject to a Framework Agreement which sets out its responsibilities and governance arrangements. It has a Board which is chaired by an independent Non-Executive Director and also has three independent and two formal Non-Executive Directors amongst its members.

6.5 A biannual Owner's Council is chaired by Minister Lords to approve the Corporate Plan and monitor performance against a set of indicators. 91% of UKHO's revenue is derived from commercial shipping; the other 9% is funded by MOD and the Maritime and Coastguard Agency. UKHO produces its own accounts which are audited by the NAO.

6.6 UKHO also has a subsidiary company (Admiralty Holdings Ltd) whose activities are highlighted below in Section 9 of this Statement.

### Statutory Public Corporation

6.7 The Oil and Pipelines Agency (OPA) provides an Oil Fuel Depot and Petroleum Storage Depot capability to the Ministry of Defence. The MOD funds the infrastructure and maintains it, and additionally pays the OPA for providing a fuel storage service.

6.8 The OPA is governed by the Oil and Pipelines Act 1985. It has an Accounting Officer appointed by me, and its activities are overseen by a board which is responsible for taking forward the OPA's strategic aims and objectives. It produces its own accounts which are audited by the NAO; they are not consolidated into the MOD's accounts.



6.9 More information on the OPA can be found at the following link:  
<https://www.gov.uk/government/organisations/oil-and-pipelines-agency>

#### Private Company by Guarantee

6.10 The Navy, Army and Air Force Institutes (NAAFI) provides catering, retail and leisure facilities for the armed forces in numerous overseas locations. It generates a high proportion of its income from sales but, if it operates at a loss following the drawdown of British Forces Germany, the NAAFI also receives limited compensation from the MOD.

6.11 It is regarded as a related party outside the departmental boundary, but the NAAFI Council nevertheless includes serving senior officers from the three services; its board of directors includes a number of Non-Executive Directors. NAAFI's accounts are subject to external audit.

6.12 More information on NAAFI's role can be found at <http://www.naafi.co.uk/>

#### Other

6.13 Other recipients of MOD funding which do not fall neatly into a specific category are listed below, and information about their role can be found at the links provided.

- Royal Hospital Chelsea (RHC) <http://www.chelsea-pensioners.co.uk/> was founded by Royal Charter; its Chief Executive is appointed as an Accounting Officer by me. Governance is provided by a Board of Commissioners, whose meetings are attended by Director Resources (Army). A Framework Agreement with MOD governs the expenditure of MOD funding, and RHC produces its own accounts which are audited by the NAO.
- Commonwealth War Graves Commission (CWGC) <http://www.cwgc.org/> was founded by Royal Charter. The Secretary of State for Defence is the CWGC co-chair, I am the Accounting Officer and Assistant Chief of the Defence Staff (Personnel Capability) is a member of the finance committee. CWGC also receives funding from the governments of Canada, Australia, India, New Zealand and South Africa. CWGC's accounts are subject to external audit.
- Duke of York's Royal Military School (DYRMS) <http://www.doyrms.com/> is a company limited by guarantee and an exempt charity. MOD provides a GIA to fund equipment and services at the school in order to enhance its military ethos. The Board of Governors act as trustees for the DYRMS academy's charitable activities, and the MOD's Director of Young People is a member of the Academy Trust. DYRMS accounts are subject to external audit.
- The Independent Monitoring Board for the Military Corrective Training Centre <http://www.army.mod.uk/agc/provost/31946.aspx> is appointed by and reports to the Secretary of State for Defence. The MOD funds the payment of Board members' travel and subsistence costs.

- Service Complaints Ombudsman <https://www.servicecomplaintsombudsman.org.uk/> does not manage MOD funds. As with the Advisory NDPBs, daily rate payments and travel and subsistence allowances are made to individuals for their services.
- Reserve Forces and Cadets' Associations (RFCA) <https://www.gov.uk/government/organisations/reserve-forces-and-cadets-associations/about> are brigaded under the Council of Reserve Forces and Cadets Associations (CRFCA). Army TLB grants to the thirteen individual RFCAs are governed by Service Level Agreements set by Chief of Defence Personnel and Chief Executive CRFCA, from which the latter provides each RFCA with a Business Plan which is reviewed quarterly.
- Defence Scientific Expert Committee <https://www.gov.uk/government/organisations/defence-scientific-advisory-council> does not manage MOD funds. As with the Advisory NDPBs, daily rate payments and travel and subsistence allowances are made to individuals for their services.
- Air Training Corps (ATC) <https://www.raf.mod.uk/aircadets/> is headed by a full time reservist Air Commodore supported by a number of permanent staff, all directly funded by Air TLB. In addition Air pays for the training of the adult volunteers who help run the ATC squadrons. The ATC also receives money from the Air Training Corps (General Purposes Fund) which is a registered charity and derives its income from ATC fundraising activity, parental contributions and donations from the public, but does not receive any form of grant or other income from MOD.

6.14 The GIA recipients in the list below share very similar governance arrangements and for the purpose of this System Statement can be grouped together. They are registered charities whose accounts are produced and audited in accordance with Charities Commission regulations. For each, the GIA is managed within the terms of a framework agreed with MOD. The funding is variously intended to contribute towards staffing, administration and office equipment costs. More detail on the role of each can be found in the links provided:

- Army Sport Control Board <http://armysportcontrolboard.org/>
- The Dame Agnes Weston's Royal Sailors' Rest Home <http://www.aggies.org.uk/> on behalf of the Naval Families Federation
- Army Families Federation <http://www.aff.org.uk/>
- The National Memorial Arboretum Co Ltd <http://www.thenma.org.uk/>
- Marine Society and Sea Cadets <http://www.ms-sc.org/>
- Army Cadet Force Association <https://armycadets.com/>
- Combined Cadet Force Association <https://combinedcadetforce.org.uk/>



## 7. General Grants

7.1 General grants are one-off payments which are provided for specific purposes. The MOD runs a number of grant schemes, the recipients of which will vary according to the purpose of the grant.

7.2 The MOD disburses general grants in accordance with the standards laid down by the Cabinet Office, a copy of which can be found at:  
<https://www.gov.uk/government/publications/grants-standards>.

7.3 Grants are awarded only when the recipient organisation accepts the MOD's terms and conditions of payment. Many of the recipients manage the funds through a board of trustees or a covenant fund executive. Charities' accounts are audited by an external Statutory Auditor in accordance with Charities Commission regulations.

7.4 A list of MOD's current grant schemes is below. Further information can be found by following the links.

- Armed Forces Covenant Fund  
<https://www.gov.uk/government/collections/covenant-fund>
- Aged Veterans Fund <https://www.gov.uk/government/collections/aged-veterans-fund>
- Armed Forces related LIBOR grants are distributed on behalf of the Treasury LIBOR Grant Scheme <https://www.gov.uk/government/publications/libor-funding-applications>
- Armed Forces Day <https://www.armedforcesday.org.uk/>
- Army Regimental Museums (through the Army Ogilvy Trust)  
<http://www.armymuseums.org.uk/>
- First Aid Nursing Yeomanry <http://www.fany.org.uk/>
- Gurkha Welfare Trust <https://www.gwt.org.uk/>
- Council of Voluntary Welfare Work  
<http://armedforcescharities.org.uk/index.php/faqs/item/792-councilofvoluntarywelfarework>
- Royal Irish (Home Service) Benevolent Fund  
<http://www.aftercareservice.org/downloads.htm>
- Council for Cadet Rifle Shooting <http://www.ccrs.org.uk/>
- RAF Sports Federation <http://www.raf.mod.uk/rafsportsboard/funding/>

## 8. Contracts and outsourced services

8.1 In common with other government departments, the MOD enters into contracts with large numbers of third party suppliers of both services and equipment in the normal course of its business.

8.2 The Investment Approvals Committee (IAC) is the MOD's senior organisation responsible for considering major investment proposals on behalf of the Defence Board. All projects considered are categorised according to their value, complexity, risk and contentiousness. On particularly expensive, complex, innovative, risky, novel or contentious projects, the IAC makes recommendations to Ministers and to

HM Treasury. The IAC decides other cases itself or passes those decisions to a level consistent with the value or nature of the proposal. Investment decisions below certain limits are delegated to the Director of Resources in each TLB, each of whom reports to Director General Finance as well as to their TLB holder.

8.3 Director General Finance chairs the IAC, taking decisions or making recommendations in the light of the advice of committee members. The other members are Vice Chief of the Defence Staff, Deputy Chief of the Defence Staff (Military Capability), Chief Scientific Adviser, MOD Director Commercial and Head of Commercial Law Team, MOD Legal Advisers. The IAC is supported by teams of scrutineers who provide a detailed review of cases and advice in relation to technical, legal, affordability, value for money and commercial matters. The commercial scrutineers also provide due diligence on the contract documentation in high value cases prior to competition or contract award.

8.4 The MOD Director Commercial is responsible for developing procurement strategies; negotiating and managing contracts to meet agreed requirements for equipment, goods and services to support military capability throughout their life at best long-term value for money; developing a single clear framework of policies, standards and approaches to achieve consistency, efficiency and economy across all commercial activity, and throughout the life of the project; and developing and deploying a skilled commercial workforce across Defence.

8.5 The MOD Director Commercial also has delegated authority to enter into contracts and to pass commercial licences to senior commercial personnel and then to commercial staff across the TLBs. Only commercial staff holding the correct level of delegation are authorised to enter into contracts on behalf of the MOD.

8.6 One of the ways that MOD assures value for money in contracting is to invite suppliers to compete for MOD business not only where the law requires it but also wherever feasible. Where the MOD finds itself having to enter into a single source contract, the Single Source Regulations Office ensures that MOD is only required to pay a fair and reasonable price for the services or goods being supplied.

8.7 Further value for money is achieved by other means, for example using Framework Agreements (i.e. pre-existing agreements between government departments and one or more suppliers for particular types of goods or services); buying common goods and services through the Crown Commercial Service; and using e-Catalogues.

## **9. Joint Ventures and other investments**

9.1 Joint Ventures (JVs) are just one form of legal entity in which MOD can potentially invest. They are legal entities created by two or more parties who choose collectively to provide a service and share risk, rewards and opportunity. They are a useful vehicle in larger projects where a single party may not itself have sufficient technical or financial resources or may otherwise prefer to share the risks and benefits with other parties, and therefore the members of a JV pool their expertise and resources to form a separate legal entity.

## 9.2 The MOD has invested in the following companies:

- Sealand Support Solutions Limited (SSSL) is a private limited company in which the MOD has a one third equity share. It was established to deliver a global repair hub providing maintenance, repair, overhaul and upgrade services for F-35 Lightning II avionic and aircraft components. SSSL's board comprises 2 directors from each of the 3 shareholders, i.e. MOD (through DECA), BAE Systems (Holdings) Ltd and Northrop Grumman UK Ltd, with the appointment of the Chair rotating every 2 years between the shareholders.
- Tetricus is a company limited by guarantee which was set up in 1999 by the Defence Evaluation and Research Agency (DERA), Great Western Commerce and Enterprise, and New Sarum Enterprises. Its purpose is to provide a mechanism for spinning out technology and incubating bioscience start-ups in redundant buildings at the Porton Down site.

In 2001 DERA was split between the privately owned QinetiQ organisation and the MOD's on vote executive agency Defence Science and Technology Laboratory (Dstl) which took over the MOD interest in Tetricus Ltd. Each of the 3 shareholders holds 26% of the share capital as Class A voting shares; the remaining 22% remains unissued as non-voting B shares. Tetricus is not currently provided with funding by Dstl, and Dstl receives a lease income from Tetricus for the accommodation it occupies. Governance and oversight is provided by MOD's involvement on the Tetricus Board via the Dstl Finance Director.

- Ploughshare Innovations Ltd (PIL) is a wholly owned technology transfer company. It was established in 2005 to exploit the Intellectual Property developed by Dstl. Since being set up, it has commercialised more than 110 technologies and spun out 11 companies. It currently manages more than 50 licensees.
- Admiralty Holdings Limited (AHL) is a subsidiary of UKHO and a private limited company owned wholly by the Secretary of State for Defence. It is a dormant company which was set up to enter into commercial arrangements with UKHO. AHL acts on the Secretary of State's behalf through the AHL Board which is comprised of the UKHO Board members including the UKHO Non-Executive Directors. Any liabilities on AHL Board members resulting from AHL's activities are indemnified by the MOD. AHL produces total exemption full accounts.
- The RAF100 Appeal brings together the 4 RAF Charities: Benevolent Fund, Association, Museum and Charitable Trust. The Appeal will use the RAF's Centenary to raise awareness of the Royal Air Force, raise money for the charities, and support the RAF100 team in delivering events. The four charities have all put in equity and the RAF is a 20% non-equity partner. Assistant Chief of the Air Staff and Air Member Personnel are board directors. As a registered charity, the Appeal is required to supply a copy of its annual audited accounts to the Charity Commission.

## 10. **Audit and Assurance in the Core Department**

### Defence Authorities (DAs)

10.1 I have appointed a number of Defence Authorities to ensure the effective delivery of corporate functions that cut across internal Defence boundaries. They hold a formal delegation to identify and manage corporate level risk, ensure coherence, and seek to maximise efficiencies across Defence. They establish and monitor internal controls (rules and standards), which are articulated through a Defence Directive supported by Joint Service Publications.

10.2 I have appointed DAs for the following functions:

- Corporate Design
- Financial Management and Approvals
- People
- Health, Safety and Environmental Protection
- Healthcare and Medical
- Logistics
- Capability Coherence
- Security
- Business Resilience
- Commercial
- Communications
- Statistics
- Information
- Cyber and C4ISR (i.e. Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance)
- Public and Parliamentary Accountability
- Technical and Quality Assurance
- Acquisition System
- Operations

10.3 Terms of Reference for the DAs can be found in 'How Defence Works'. Each DA produces an Annual Assurance Report which is reviewed by the relevant senior Management Committee in the MOD Head Office.

### Defence Internal Audit (DIA)

10.4 DIA is the MOD's single internal audit organisation and is a key component of MOD's governance framework. DIA works to established internal auditing standards, and the team includes professionally qualified auditors and accountants.

10.5 DIA is independent of all Defence Authorities (i.e. those responsible for setting rules and standards for the delivery of a key function that cuts across Defence) and TLB Holders. It reports functionally to me as the Accounting Officer, and the Group Head of Internal Audit reports to Director General Finance. An Audit Charter, endorsed by me, defines the purpose, authority and responsibility of DIA and grants internal auditors full, free and unrestricted access to all functions, premises, assets

and personnel records, subject to compliance with MOD's security policies. DIA has no direct authority or responsibility for the activities it reviews.

10.6 With the exception of Military Operations, all business systems, processes, functions and activities within the MOD may be subject to internal audit work. The DIA annual risk based audit plan defines what activities will be reviewed by DIA and is formally approved by the Defence Audit Committee (DAC); a subcommittee of the Defence Board. The plan may only be amended with the approval of the DAC.

10.7 The DAC reviews and challenges the adequacy of internal controls and processes to deal with managing risk across Defence. It is chaired by one of the non-executive members of the Defence Board.

#### National Audit Office (NAO)

10.8 The NAO scrutinises public spending on behalf of Parliament. They are the MOD's external auditors reporting publicly on the department's annual report and accounts and undertaking value for money reviews as directed.

10.9 The NAO may place reliance on the work of DIA, and information sharing and co-ordination activities aim to minimise duplication of effort. Although the DIA reports primarily to its internal customers, it also shares its reports with the NAO.

#### Risk Management, Internal Control and Governance

10.10 Risk management is the identification, assessment, and prioritisation of risks followed by a co-ordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of an unfortunate event or to maximise the realisation of opportunities.

10.11 The MOD has implemented a risk management framework which is aligned with the overarching principles of HM Treasury's Orange Book ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220647/orange\\_book.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220647/orange_book.pdf)) but has been tailored to meet the specific needs of the Department.

10.12 The MOD vision for risk management is that all key risks to the achievement of our strategic objectives are identified, assessed and managed to within acceptable levels. To achieve this, an environment is being created where consideration of risk is embedded into MOD's culture, planning, decision making and business as usual activities in a common way.

10.13 The design and implementation of risk management, internal control and corporate governance processes and procedures is a management responsibility under the oversight of the Defence Board.

#### Single Source Regulations Office (SSRO)

10.14 The SSRO provides a further level of assurance that MOD is spending money correctly and appropriately in single source procurement (though not all single

source procurement is covered by the framework or by the SSRO). As a MOD-sponsored, executive Non-Departmental Public Body (NDPB) the SSRO has three key roles:

- issuing statutory guidance on the application of the Single Source Contract Regulations (SSCRs)
- providing the Secretary of State (SofS) with annual recommendations on Baseline Profit Rates
- providing impartial adjudication on specific disputes referred to it by either the MOD or the supplier in question.

10.15 In carrying out these core tasks, the SSRO must seek to ensure that value for money is obtained for the UK taxpayer in expenditure on qualifying defence contracts, and that single source suppliers are paid a fair and reasonable price under those contracts.

10.16 The SSRO is also responsible for reviewing how the regulations are operating and for making recommendations to SofS on proposed changes.



Stephen Lovegrove  
Accounting Officer  
11<sup>th</sup> July 2017



**APPENDIX**

**DIAGRAMMATIC OVERVIEW OF THE MOD'S FUNDING ARRANGEMENTS**

