



MINISTRY OF DEFENCE ACCOUNTING OFFICER SYSTEM STATEMENT

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 and a summary of our spending 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 letters of appointment reflect the principles outlined in Managing Public Money which can be accessed at <https://www.gov.uk/government/publications/managing-public-money>, and 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 my personal view of 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. 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. Modernising Defence Programme (MDP)

3. As part of the MDP work strand I am developing a new Defence Operating Model, centred on a more strategic and authoritative Head Office. This includes the roll-out of government's approach to Functional Leadership to coherently oversee cross-cutting functions, e.g. finance and commercial, adopting best practice in governance across Defence; and a new approach to delivering change and efficiency. More detail of the entire MDP Programme, and the impact of this upon the

governance of the department can be found at <https://hansard.parliament.uk/Commons/2018-01-25/debates/002ED98B-7B42-424B-8213-7EC5650664BC/ModernisingDefenceProgramme> .

4. **Distribution of Funding through the MOD**

4.1 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 five Executive Agencies.

4.2 The TLBs are:

- Navy Command
- Army Command
- Air Command
- Joint Forces Command
- Defence Nuclear Organisation
- Defence Infrastructure Organisation
- Head Office and Corporate Services (HOCS)

4.3 The Executive Agencies are listed below, with links to further information on their roles and the Framework Agreements under which they operate:

- Defence Equipment and Support (DE&S)
<https://www.gov.uk/government/organisations/defence-equipment-and-support> and <https://www.gov.uk/government/publications/defence-equipment-and-support-framework-document>
- Defence Science and Technology Laboratory (Dstl)
<https://www.gov.uk/government/organisations/defence-science-and-technology-laboratory> and <https://www.gov.uk/government/publications/defence-science-and-technology-laboratory-framework-document>
- Defence Electronics and Components Agency (DECA)
<https://www.gov.uk/government/organisations/defence-electronics-and-components-agency> and <https://www.gov.uk/government/publications/defence-electronics-and-components-agency-framework-document>
- Submarine Delivery Agency (SDA)
<https://www.gov.uk/government/publications/submarine-delivery-agency-sda-corporate-plan-financial-year-2018-to-2019> and <https://www.gov.uk/government/publications/submarine-delivery-agency-framework-document>
- UK Hydrographic Office (UKHO) which also has Trading Fund status
<https://www.gov.uk/government/organisations/uk-hydrographic-office> and https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/392992/20150106_UKHO_Framework_Document.pdf

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

4.5 Further detail on how these bodies are held accountable, and the arrangements in place to provide assurance to me, is provided in the following sections.

5. MOD's Delivery Bodies

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

TLBs

5.2 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”).

5.3 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 up to 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 Board and Audit Committee.

5.4 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 quarterly Performance and Risk Reviews against the Command Plan, chaired either by me, the Chief of Defence Staff, the Vice Chief of the Defence Staff or the Chief Operating Officer.

5.5 I delegate financial authority to the TLB Holders. Each TLB has a Director of Resources (DRes) who acts as the Senior Finance Officer (SFO) and is the principal adviser on financial matters to the TLB Holder. The letters of delegation state that the SFOs are functionally responsible to Director General Finance, and outline their core roles and the standards to which those roles are to be discharged. The letter also includes Control Totals and delegated approvals limits in respect of equipment, infrastructure and operating cost expenditure.

5.6 On 4 December 2017 I appointed a Chief Operating Officer (COO). Quite apart from being the HOCS TLB Holder, the COO role is a pivotal part of the future of Defence as we seek to maximise efficiency and ensure that decision making across the department is as effective as possible. The COO works across Defence

to enable the development of the necessary skills, governance and support required for the MOD to operate more effectively, and ensure that we can resource the capacity and capability needed to face the challenges of the future.

5.7 A key focus of the COO is to support the TLBs in delivering their required outputs, and to help the department achieve its efficiency targets. The COO has recently been appointed as a Non-Executive member of each of the TLB's Boards, where he will seek to ensure that the Commands better understand Head Office's issues and priorities when making decisions, and that Head Office better understands the strategic issues arising in the Commands when setting defence policy. The COO is also leading the work to develop a new strategic approach to delivering change and efficiency. To this end, the COO has also established a Change and Efficiency Board where he, the Vice Chief of Defence Staff, DG Finance and others in the senior leadership team can take a pan-Defence view of, and provide direction to, the major change and efficiency programmes. The COO is also leading work to review the governance frameworks in place, in particular the relationship between Head Office, TLBs and the broader delivery and enabling organisations to ensure that these organisations are suitably supported to be effective, efficient, well-run and accountable.

5.8 In June 2014 a Strategic Business Partner (SBP) was appointed to lead and manage the Defence Infrastructure Organisation for a 10-year period. Following the Defence Infrastructure Model Review (DIMR) the contract will now be brought to an end by no later than 30 June 2019. The DIMR recommendation to replace key SBP roles with Civil Servants has led to the recruitment of a Commercial Director and Finance Director. There is an agreed phased transition plan to replace other SBP roles with Civil Servants throughout 2018/19. The Defence Infrastructure Governing Authority manages how the SBP contract operates on behalf of the Chief Operating Officer.

Executive Agencies (EA)

5.9 With the exception of UKHO (see section 7 below), the EAs each have a Chief Executive who is appointed as an Accounting Officer by me. They all 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 up to four Non-Executive Directors.

5.10 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 10 of this Statement.

5.11 The SDA is a new EA that was formally launched on 1 April 2018. It focuses solely on the procurement, in-service support and disposal of the UK's nuclear submarines.

6. Non-Departmental Public Bodies (NDPBs)

6.1 The two different types of NDPB and the way they are funded are described below.

Non-Departmental Public Bodies (NDPBs) with Executive Functions

6.2 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.

6.3 Longer term assistance to a variety of external organisations in support of defence objectives is provided through a Grant-in-Aid (GIA), and this is the case with MOD's NDPBs with Executive Functions. GIAs are generally regular or recurring payments, and the recipient has a certain level of autonomy concerning the utilisation of the funds. The recipient is often, though not always, an NDPB with Executive Functions.

6.4 The department's NDPBs with Executive Functions are listed below, with links to further information on their roles and the Framework Agreements under which they operate:

- Single Source Regulations Office (SSRO) <https://www.gov.uk/government/organisations/single-source-regulations-office> and <https://www.gov.uk/government/publications/ssro-corporate-governance-framework>
- 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/> and https://www.rafmuseum.org.uk/documents/freedom_of_information/What_we_spend_and%20how/Financial-Framework-Document.pdf

6.5 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 and to articulate how this is monitored and against which performance indicators by the sponsoring TLB within MOD. 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.

6.6 Each of the NDPBs has an Accounting Officer appointed by me, and each produces its own accounts which are audited by the Comptroller and Auditor General.

6.7 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.

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

NDPBs with Advisory Functions

6.9 NDPBs with Advisory Functions 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 NDPBs with Advisory Functions is not made through GIAs; instead it 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.

6.10 The MOD's NDPBs with Advisory Functions 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>
- 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>

7. MOD funding to other bodies

Trading Fund

7.1 United Kingdom Hydrographic Office (UKHO) is an Executive Agency with Trading Fund status. Its 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.

7.2 The UKHO is owned by the Secretary of State for Defence. It is subject to a Framework Agreement which can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/392992/20150106_UKHO_Framework_Document.pdf and 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.

7.3 A biannual Owner's Council is chaired by Minister Lords to approve the Corporate Plan and monitor performance against a set of indicators. Around 90% of UKHO's revenue is derived from commercial shipping; the rest is funded by MOD and the Maritime and Coastguard Agency. UKHO produces its own accounts which are audited by the NAO.

7.4 UKHO also has a subsidiary company (Admiralty Holdings Ltd) whose activities are highlighted below in Section 10 of this Statement.

Statutory Public Corporation

7.5 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.

7.6 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.

7.7 More information on the OPA and the framework document under which it operates can be found at the following links:

<https://www.gov.uk/government/organisations/oil-and-pipelines-agency> and <https://www.gov.uk/government/publications/oil-and-pipeline-agency-framework>.

Private Company by Guarantee

7.8 The Navy, Army and Air Force Institutes (NAAFI) provide catering, retail and leisure facilities for the armed forces in numerous overseas locations. 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.

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

Other

7.10 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 NDPBs with Advisory Functions, 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 People 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 NDPBs with Advisory Functions, 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.

- Central Advisory Committee on Compensation <https://www.gov.uk/government/organisations/central-advisory-committee-on-compensation> provides advice on policy issues affecting the War Pensions Scheme and the Armed Forces Compensation Scheme including reviews of the control and governance arrangements, and maintains a credible and visible consultative mechanism for these schemes. The committee does not advise on issues of wider concern to veterans or service personnel, such as welfare, for which other forums exist, or routinely become involved in issues of scheme operation and delivery where, again, other mechanisms are in place.
- International Organization for Migration (IOM) <https://www.iom.int/> is the leading international organisation for migration, acting with its partners in the international community to assist in meeting the growing operational challenges of migration management; advance understanding of migration issues; encourage social and economic development through migration; and uphold the human dignity and well-being of migrants. The IOM comprises 169 member states of which the United Kingdom is one. Until FY2017/18 the UK contribution to the IOM was funded through the Foreign and Commonwealth Office. The IOM sends MOD a quarterly and then yearly breakdown of expenditure demonstrating how the GIA has been spent in undertaking specific tasks on the UK's behalf.
- The Service Prosecuting Authority (SPA) <http://spa.independent.gov.uk/> provides for the independent, efficient and consistent consideration of criminal cases and offences contrary to service discipline. It will initiate prosecutions where justified and conduct fair and thorough proceedings in the service courts of first instance and the service appellate courts, whilst liaising effectively with the police and dealing with prosecution witnesses and victims of crime with care and sensitivity. Whilst maintaining independence from the service chain of command, the Service Prosecuting Authority fulfils its functions in support of operational effectiveness of the Armed Forces throughout the world.
- The United Kingdom Reserve Forces Association (UKRFA) <https://www.gov.uk/government/organisations/united-kingdom-reserve-forces-association> promotes the efficiency of the reserve forces by providing opportunities for education, personal development and international experiences. It does this by sharing ideas and good practice through formal channels with reserve forces in the NATO alliance. UKRFA is an unregistered charity, open to all ranks of the reserve forces of the Crown, serving or retired. It is funded jointly by the MOD and by corporate, unit and individual subscriptions.
- The Defence and Security Media Advisory (DSMA) Committee <http://www.dsma.uk/index.htm> oversees a voluntary code which operates between the UK Government departments which have responsibilities for national security and the media. It uses the DSMA-Notice System as its vehicle. The objective of the DSMA-Notice System is to prevent inadvertent public disclosure of information that would compromise UK military and intelligence operations and methods, or put at risk the safety of those involved

in such operations, or lead to attacks that would damage the critical national infrastructure and/or endanger lives.

7.11 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 Charitable Fund <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/>
- Army Regimental Museums (through the Army Ogilvy Trust) <http://www.armymuseums.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/>

8. General Grants

8.1 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.

8.2 The MOD disburses general grants in accordance with the 'Functional Standard for Government General Grants' laid down by the Cabinet Office, a copy of which can be found at: <https://www.gov.uk/government/publications/grants-standards>. The Cabinet Office grants team undertakes a compliance exercise at least once a year.

8.3 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.

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

- Armed Forces Covenant Fund Trust <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/>
- First Aid Nursing Yeomanry <http://www.fany.org.uk/>
- RAF Sports Federation <http://www.raf.mod.uk/rafsportsboard/funding/>
- Royal Navy Recognised Sea Scouts <http://www.rnseascouts.org.uk/>
- Volunteer Cadet Corps <https://volunteercadetcorps.org/>
- Chivenor Creche <https://www.royalnavy.mod.uk/welfare/find-help/community-centres-and-houses/community-centres/chivenor-community-centre>
- Defence Relationship Management <https://www.gov.uk/government/groups/defence-relationship-management>
- Scott Polar Research <https://www.spri.cam.ac.uk/>

9. Contracts and outsourced services

9.1 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.

9.2 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.

9.3 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 COO is a member of IAC for Business Change cases. 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.

9.4 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.

9.5 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.

9.6 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 (see also section 11 below).

9.7 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.

9.8 The MOD also protects its supply chain from the potentially fraudulent and costly cyber threat through participation in the Defence Cyber Protection Partnership (DCPP). This is a joint MOD/Industry initiative which aims to protect our military capability by improving cyber defence through the MOD's supply chain while preserving existing investment in cyber security measures. As part of the partnership the MOD has created a number of cyber security standards that have to be met to contract with MOD. These are outlined in the Cyber Security Model which articulates the minimum required cyber security standards depending on the cyber risk level of each contract.

10. Joint Ventures and other investments

10.1 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 can be 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.

10.2 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 avionics 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 0Commerce 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.

11. Audit and Assurance in the Core Department

Defence Authorities (DAs)

11.1 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.

11.2 The Modernising Defence Programme is reviewing this area as part of its work on Functional Leadership, but currently 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

11.3 Terms of Reference for the DAs can be found in 'How Defence Works' <https://www.gov.uk/government/publications/how-defence-works-the-defence-operating-model>. 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)

11.4 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.

11.5 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.

11.6 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 and Risk Assurance Committee (DARAC); a subcommittee of the Defence Board. The plan may only be amended with the approval of the DARAC.

11.7 The DARAC is a sub-committee of the Defence Board. It supports the Board and me in our responsibilities for risk control and governance by reviewing the comprehensiveness, reliability and integrity of the MOD's risk and assurance framework. It is chaired by one of the non-executive members of the Defence Board.

National Audit Office (NAO)

11.8 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.

11.9 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

11.10 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.

11.11 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) but has been tailored to meet the specific needs of the department.

11.12 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.

11.13 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.

Fraud Defence

11.14 Fraud Defence is the central counter fraud function for the MOD. Its remit covers fraud, corruption, bribery, theft and irregularity.

11.15 I am proud of the strong ethical culture which has been instilled in both our service and civilian personnel who recognise that fraud and other unethical behaviour within the department is not acceptable. Those who would abuse the system are not only defrauding taxpayers but also our service personnel on the front line.

11.16 The MOD's formal policy on fraud, theft, bribery and corruption can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/367144/FOI2014_05558_MOD_policy_about_bribery_or_financial_irregularity.pdf

11.17 The Department has a confidential hotline which acts as the single point for the reporting and recording of suspicions and incidents of fraud, corruption, bribery, theft or other irregularity. Reports are treated in strict confidence and we are committed to the protection of Whistleblowers. Information about the hotline can be found at <https://www.gov.uk/guidance/mod-confidential-hotline>.

Single Source Regulations Office (SSRO)

11.18 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 Non-Departmental Public Body (NDPB) with Executive Functions, 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.

11.19 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.

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

Cyber Risk

11.21 MOD policy requires all Information and Communication Technology (ICT) to go through an assurance process to assess its information and cyber security against departmental requirements. This process ensures appropriate protection and monitoring measures are in place. Core networks and services are managed through MOD's Chief Information Officer and Information Systems and Services

(ISS) organisation, with other systems delegated to TLB level to manage within a governance and architecture framework.

11.21 In addition to protection and monitoring capabilities implemented by ISS, Defence Business Services (DBS) operates additional protections such as firewalling the commercial and finance systems from general access. User access to systems is carefully controlled by login and password credentials in addition to those required for access to generic MOD ICT systems. These additional controls also apply to personnel, vetting and other DBS 'owned' systems. Administrator and Superuser credentials are yet more closely controlled.

11.22 Staff across the MOD and especially DBS are regularly reminded of cyber best practice, including how to deal with phishing emails and other forms of cyber-attack. Outgoing connections are either air-gapped or transit MOD gateways via permitted target systems. Finally, if a cyber-attack is suspected, MOD system operators are authorised to take all necessary actions to protect the department's core systems.

12 Conclusion

12.1 This System Statement provides my personal view of how I ensure that I am currently fulfilling my responsibilities as an Accounting Officer. However it also describes how my department is continuously striving to improve and become more efficient in how it conducts the business of defence, for example through the Modernising Defence Programme and the appointment of a Chief Operating Officer.

12.2 At the heart of everything we do are the principles of sound governance to enable me to demonstrate a robust stewardship of the resources placed at the department's disposal, not only to Parliament and my colleagues across government, but most importantly of all to the public.



Stephen Lovegrove
Accounting Officer

17 July 2018

APPENDIX

DIAGRAMMATIC OVERVIEW OF THE MOD'S FUNDING ARRANGEMENTS

