



Ministry  
of Defence

# **MINISTRY OF DEFENCE ACCOUNTING OFFICER SYSTEM STATEMENT**

## **2020**



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[DFinStrat-FMPA-FinPol-AHd-2@mod.gov.uk](mailto:DFinStrat-FMPA-FinPol-AHd-2@mod.gov.uk)

## 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 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/ministry-of-defence-single-departmental-plan>.

## 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 Secretary of State - through the Defence Board - to make informed decisions about progress against Departmental objectives, and if necessary to steer performance back on track.

2.6 Below the Defence Board sits the Executive Committee (ExCo) which is chaired by me. ExCo membership comprises the Chief of the Defence Staff (CDS), the Vice Chief of the Defence Staff (VCDS), and Head Office Directors General and Deputy Chiefs of Defence. It provides top-level leadership across Defence, as a Department of State, by; Owning the operating model of Defence and managing its risks; Agreeing plans for delivery of defence objectives; Ensuring coherence' Leading transformation which drives the annual defence plan.

2.7 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.

2.8 This 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.

2.9 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 and Supplementary Estimates can be found at <https://www.gov.uk/government/collections/hmt-main-estimates>.

2.10 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, 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. Defence Operating Model**

3.1 I have developed a revised Defence Operating Model centred on a more strategic and authoritative Head Office. Key changes in place or underway include:

- The roll-out of the Government's approach to Functional Leadership to cohere cross-cutting functions, e.g. finance and commercial, largely replacing the previous Defence Authority framework;
- Adopting best practice in governance of our Enabling Organisations and Arm's Length Bodies through an improved Sponsorship model;
- Disaggregation of the Head Office and Corporate Services (HO&CS) Top Level Budget from April 2020 to individual Director General (DG) business units or Enabling Organisations (see paragraph 5.11);

- Implementing the findings of reviews of the Acquisition System, structure and governance of individual Enabling Organisations and single Service Commands.
- Reviewing the role of Joint Forces Command as MOD's key enabling organisation for the delivery of digital services and capabilities. This resulted in the recommendation of an enhanced role in cyber, pan-command capabilities, space, training and coordination of joint operations. To reflect this broader contribution to defence, JFC was renamed as UK Strategic Command and has launched the Defence Digital enabling organisation as the engine room of a wider Defence Digital Function.

The current published Defence Operating Model can be accessed;

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/920219/20200922-How\\_Defence\\_Works\\_V6.0\\_Sep\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/920219/20200922-How_Defence_Works_V6.0_Sep_2020.pdf)

3.2 The revised Defence Operating Model groups together 12 Enabling Organisations providing supporting services across MOD:

- Five Executive Agencies (see paragraph 4.3)
- One Statutory Public Corporation (7.5)
- Three delivery organisations (Defence Business Services, Defence Digital (Within the Strategic Command), and the Ministry of Defence Police),
- A Top-Level Budget (Defence Infrastructure Organisation)
- Two bodies that carry out regulation (Defence Safety Authority and the Single Source Regulation Office).

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

4.1 The Defence Operating Model delegates authority to those best able to deliver outputs for each business area. The core financial structure of the Department comprises six Top-Level Budget (TLB) organisations, five Executive Agencies, the Head Office DG business units and those delivery bodies which were formerly part of HOCS TLB.

4.2 The TLBs are:

- Navy Command
- Army Command
- Air Command
- Strategic Command
- Defence Nuclear Organisation
- Defence Infrastructure Organisation

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](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 Through the annual Defence Plan, Head Office directs delivery of the Department's outputs by the six TLBs, twelve Enabling Organisations including the five Executive Agencies and other delivery bodies, and the Head Office DG business units.

### 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, and Defence Nuclear Organisation (see paragraph 5.4 below). TLB Board members include at least the Senior Finance Officer and up to five independent Non-Executive Directors. Non-executives are vital to provide support and challenge to the TLBs, as well as chairing the relevant TLB sub-committees, including audit and risk assurance committees. To assist in assessing the adequacy of control arrangements across

the Department, each TLB Holder submits an Annual Assurance Report, reviewed by their Board and Audit Committee.

5.4 The Defence Nuclear Organisation (DNO) has separate arrangements, with a Senior Management Board that fulfils the same function as a TLB Board. It is chaired by the Director General Nuclear, with a Senior Financial Officer and nuclear capability directors, and representation from across the DNO. The organisation also provides the Departmental sponsorship function for the Submarine Delivery Agency (SDA). The SDA has a Board, and a non-executive Audit Committee. DNO also has oversight of the Atomic Weapons Establishment (AWE), a Government Owned Commercially Operated (GOCO) body responsible for warhead production and support.

5.5 Command or Corporate Plans set the outcomes and standards that the TLB Holder will plan and deliver in the short, medium and longer term, within agreed resources and to meet Defence Plan outputs. Each Command or Corporate Plan is proposed by the TLB Holder and agreed with me and the Chief of the Defence Staff before the start of the financial year. In addition, each TLB Holder is held to account in quarterly Performance and Risk Reviews for delivery against their Command Plan or Corporate Plan.

5.6 Performance and Risk Review meetings are held quarterly to review the performance of the Commands and Enabling Organisations. This is achieved through challenge and support sessions between the Head Office and the relevant Chief or Chief Executive. In the last year, the Chief of the Defence Staff and I have chaired quarterly meetings with the Chiefs of the Navy, Army, Royal Air Force and Strategic Command. At the meetings we have discussed key performance issues and standing items such as safety, security, finance, people, current operations and infrastructure at each meeting. Decisions and actions are recorded and followed up to ensure that performance issues are addressed. The Defence Nuclear Organisation Performance and Risk Reviews are conducted as part of the Defence Nuclear Executive Board agenda.

5.7 I delegate financial authority to the TLB Holders. Each TLB has a Finance Director 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 have hard reporting lines to both the TLB Holder and to DG Finance for the integrity of the financial system and processes relating to resource consumption within the TLB. The letter also includes delegated approvals limits in respect of equipment, infrastructure and operating cost expenditure. TLB's are given the freedom to sub-delegate throughout their respective organisations to provide effective empowerment.

5.8 My Chief Operating Officer (COO) works across Defence to enable the development of the necessary governance and support required for MOD to operate more effectively, and to ensure that we can resource the capacity and capability needed to face the challenges of the future.

5.9 The COO is a member of each of the Command Boards supporting transparency between the Commands and the Head Office and improving

understanding of key issues, from both a Head Office and Command perspective, which can then inform planning and decision making. The COO is leading the ongoing work to implement the results of the reviews of the governance frameworks in place for Enabling Organisations to ensure that these organisations are suitably supported to be effective, efficient, well-run and accountable.

5.10 A key focus of the COO is to help the Department achieve its efficiency target and as a result he is leading the new strategic approach to delivering transformational change and efficiency. To this end, the COO has also established a Transformation Board where he, the Vice Chief of the Defence Staff, DG Finance, the senior leadership from TLBs and others across the Department, can take a pan-Defence view of, and provide direction to, the major transformation programmes.

5.11 With effect from 1 April 2020, the HO&CS Top Level Budget was disaggregated and its activities delegated to the Director General business units (DGs) and those Enabling Organisations which were part of the HO&CS TLB. The key aim of this change is to create a stronger, more strategic Head Office by better aligning resources with responsibility, accountability and delivery. The new arrangements are underpinned by the Functional Leadership model, providing direct support and expertise through finance, HR and commercial functional business partners. The process for managing assurance after the HO&CS transition has been agreed by ExCo with the focus on functional reporting and assurance arrangements for holding the DGs to account.

5.12 Some central requirements will continue to be co-ordinated at the Head Office level (e.g. Main Building management and safety, empowerment and unique projects, such as strategic workforce planning). The ExCo will act as the Executive Committee of the Head Office. The HO&CS TLB Board is replaced by the Head Office Board which oversees the new structure and ensures that it is operating effectively and provides coherence across the disaggregated business units on central/cross cutting functions and initiatives. The Head Office Board escalates to the ExCo any strategic issues requiring direction or approval that will impact on the outputs of the Department.

### COVID-19

5.13 The Department continues to support the government's response to the COVID-19 pandemic, e.g. through the provision of personnel to assist in operating virus testing centres and helping with the construction of the Nightingale hospitals. All such activity is being undertaken in accordance with existing Departmental delegations and internal controls. Where additional financial support has been provided to suppliers, we have ensured that we are acting within the additional delegated authority provided by the Cabinet Office and the Treasury for dealing with the pandemic.

### Executive Agencies (EA)

5.14 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 National Audit Office (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 EAs' Boards, each of which include independent Non-Executive Directors. EA risks are reported centrally into MOD, and each submits an Annual Assurance Report to assess the adequacy of control arrangements supporting Defence outputs.

## 6. Non-Departmental Public Bodies (NDPBs)

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

### 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.

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:

- 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](https://www.rafmuseum.org.uk/documents/freedom_of_information/What_we_spend_and%20how/Financial-Framework-Document.pdf)
- Armed Forces Covenant Fund Trustee Limited (AFCFT) <https://www.gov.uk/government/collections/covenant-fund>
- 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>

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 Finance Directors 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 NAO.

6.7 The AFCFT and 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 The 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 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>
- Science 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 owned by the Secretary of State for Defence. Its Chief Executive is appointed as an Accounting Officer by the Treasury's Permanent Secretary, while I delegate to the Chief Executive, within certain constraints, the

necessary authority for effective management of financial, contractual, pay and personnel aspects of UKHO's operation.

7.2 UKHO 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](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/392992/20150106_UKHO_Framework_Document.pdf). This sets out UKHO's 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 (i.e. permanent MOD personnel) Non-Executive Directors amongst its members.

7.3 Around 90% of UKHO's revenue is derived from commercial arrangements; 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 MOD. The Department 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 Limited by Guarantee

7.8 The Navy, Army and Air Force Institutes (NAAFI) provides 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 roles 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 specially appointed and ex officio Commissioners, who include the Army Senior Finance Officer. 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 the 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 <https://www.army.mod.uk/who-we-are/corps-regiments-and-units/adjutant-generals-corps/provost/military-provost-staff/mctc/> 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. The RFCA Review 2019 made a number of recommendations for restructuring. MOD is developing the proposals with colleagues across government and working closely with the Associations to determine the future framework and structure of a strengthened RFCA.

- Defence Science 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 their 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; nor does it 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. 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 SPA fulfils its functions in support of the 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 <https://dsma.uk/> 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.
- The Advisory Group on Military Medicine (AGoMM) <https://www.gov.uk/government/organisations/advisory-group-on-military-medicine> provides specialist advice to the Ministry of Defence on the medical aspects of defence against chemical, biological and radiological threats.

7.11 The GIA recipients in the list below share very similar governance arrangements and for the purpose of this 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/>
- Naval Families Federation <https://nff.org.uk>
- 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 <http://www.armymuseums.org.uk/>
- Gurkha Welfare Trust <https://www.gwt.org.uk/>
- Council of Voluntary Welfare Work <https://beta.charitycommission.gov.uk/charity-details/?regid=251809&subid=0>
- Royal Irish (Home Service) Benevolent Fund <http://www.aftercareservice.org/downloads.htm>
- Council for Cadet Rifle Shooting <http://www.ccrs.org.uk/>
- First Aid Nursing Yeomanry <http://www.fany.org.uk/>
- Sandhurst Trust <https://www.sandhursttrust.org/>
- RAF Sports Federation <https://www.rafsportsfederation.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 Charity 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.

- 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/>
- Royal Navy Recognised Sea Scouts <http://www.rnseascouts.org.uk/>
- Volunteer Cadet Corps <https://volunteercadetcorps.org/>
- Defence Relationship Management <https://www.gov.uk/government/groups/defence-relationship-management>
- Support to Sea Cadets <https://www.sea-cadets.org/>

8.5 The MOD working alongside the Office for Veterans Affairs secured some limited funding from the HM-Treasury COVID-19 Voluntary, Community and Social Enterprise scheme. The management and distribution of these funds to armed forces charities in the form of grants is administered on MOD's behalf by the Armed Forces Covenant Trust Fund noting that organisations seeking support have to meet eligibility criteria before being considered.

## 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. Some of this can involve significant investment of tax payers' money.

9.2 It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans to start or vary major projects, and then assess whether they measure up to the standards set out in Managing Public Money. I produce an 'Accounting Officer Assessment' for the Public Accounts Committee which provides

my assurance on regularity, propriety, value for money and deliverability. The Departmental support I draw on to do this is described in the following paragraphs.

9.3 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 the 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 Senior Finance Officer in each TLB, each of whom reports to Director General Finance as well as to their TLB holder.

9.4 Director General Finance chairs the IAC on my behalf, taking decisions or making recommendations in the light of the advice of committee members. The other appraising members are Vice Chief of the Defence Staff, Chief Operating Officer, Deputy Chief of the Defence Staff (Military Capability), Chief Information Officer, the Chief Scientific Adviser and a Non-Executive Director.

9.5 The IAC is supported by a number of advisors from a range of MOD functions including the Chief Commercial Officer, Chief Economist, and Head of Commercial Law.

9.6 The IAC is the sponsoring board of the Defence Portfolio and Approvals Secretariat (DPAS), whose role is to work closely with the services, TLB Holders and project delivery teams to ensure that qualifying projects are properly scrutinised, and that timely, relevant and accurate information is provided to IAC and to ministers so that an informed decision can be reached. It provides training to TLBs and enabling organisations and promotes awareness and best practice in investment appraisal. In order to take the highest value and most contentious cases forward, DPAS also works closely with the Treasury and the Cabinet Office in order to obtain external approvals.

9.7 A project to modernise MOD's Approach to Investment Decisions (Project MAID) has enabled effective, holistic and timely investment decisions, underpinned by a proportionate evidence base.

#### Chief Commercial Officer

9.8 MOD's Chief Commercial Officer 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.

9.9 The Chief Commercial Officer 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 MOD.

9.10 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 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).

9.11 Value for money is also achieved by 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.

9.12 MOD also protects its supply chain from the potentially fraudulent and costly cyber threat through participation in the Defence Cyber Protection Partnership. This is a joint MOD/Industry initiative which aims to protect our military capability by improving cyber defence through MOD's supply chain while preserving existing investment in cyber security measures. As part of the partnership the Department has created a number of cyber security standards that have to be met in order to contract with MOD. These are outlined in the Cyber Security Model which articulates the minimum required cyber security standards depending on the level of cyber risk for each contract. Information on the Model can be found at <https://www.contracts.mod.uk/announcements/cyber-security-model/> .

## **10. Joint Ventures and other relationships with Industry**

10.1 Joint Ventures (JVs) are just one form of legal entity in which MOD can potentially invest. They are created by two or more parties who choose collectively to provide a service and share the 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 Services 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 two directors from each of the three shareholders (i.e. MOD, BAE Systems (Holdings) Ltd and Northrop Grumman UK Ltd), with the appointment of the Chair rotating every two 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. Dstl holds the MOD

interest in Tetricus Ltd (Dstl was formed in 2001 from the split of DERA to form the privately-owned QinetiQ organisation and the remainder to carry out and retain the science and technology work that is best done within government). Each of the three 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 are 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 125 technologies and spun out 13 companies.
- 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.
- International Military Services Ltd (IMS) was incorporated as a private limited company in 1967. It ceased trading on 17 February 2010 but is still awaiting resolution of outstanding contractual matters dating back many years that are subject to ongoing negotiations. IMS has been indemnified by MOD in relation to these outstanding contractual matters. It became a Designated Body of the MOD from financial year 2019/20, at which point I became the Accounting Officer.

## 11. **Audit and Risk Assurance in the Core Department**

### Functional Leadership

11.1 Working with the Cabinet Office, Functional Leadership is being rolled out across Defence. This includes eight core Government functions and a number of other cross-cutting activities specific to Defence that the ExCo judges need to be carried out in a coherent way across all the organisations in Defence. Each is led by a 3\*/Director General-level Functional Owner.

11.2 The functional approach has in most cases replaced the previous Defence Authority framework; arrangements for former Defence Authorities that will not become functions are being considered as part of the implementation.

11.3 Functional Owners (and remaining Defence Authorities) are held to account for the effectiveness of their function, how proportionate its rules are and its development to reflect changes to regulation or strategic direction. Each Functional

Owner is required to provide me with an Annual Assurance Report capturing risks and outlining how relevant controls have operated during the year.

11.4 The current functions established in the Department are given below. Other functions may be added subject to ExCo approval.

- Government-wide Functions: Analysis, Commercial, Communications, Digital, Finance, Legal, Project Delivery, Security
- Defence-specific Functions: Healthcare and Medical Capability; Infrastructure, People (including both military and civilian HR), Health Safety and Environmental Protection, Support, Transformation.

#### Defence Audit and Risk Assurance Committee (DARAC)

11.5 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.

#### Defence Internal Audit (DIA)

11.6 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.

11.7 DIA is independent of all Defence Authorities and Functions (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, reviewed by the DARAC and 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.

11.8 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 DARAC. The plan may only be amended with the approval of the DARAC.

#### National Audit Office (NAO)

11.9 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, the Equipment Plan and undertaking value for money reviews as directed.

11.10 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.

#### Defence Risk and Assurance (DRA)

11.11 DRA is the MOD's central risk, control and assurance organisation led by the Chief Risk Officer. DRA supports senior management scrutiny of strategic risk, control and assurance arrangements across Defence including at the Defence Board and at the Defence Audit and Risk Assurance Committee. 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 supported in this regard by a newly established Risk and Performance Committee.

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 MOD has implemented a risk management framework, which is reviewed during the year. It is aligned with the overarching principles of the Treasury's updated 'Orange Book' which MOD played a key role in updating (<https://www.gov.uk/government/publications/orange-book>) but has been tailored to meet the specific needs of the Department. Furthermore, the MOD is actively engaged in the maintenance and updating of the Orange Book.

11.14 The MOD vision for control management is for strategic risks and processes to have fully functioning and effective controls embedded across the organisation. To achieve this Assurance Frameworks will be developed and implemented capturing key controls with supporting evidence to demonstrate their effectiveness.

11.15 The MOD vision for assurance is to have a robust and intelligent risk aligned assurance reporting process which provides confidence to decision makers within Defence. To achieve this an assurance report is produced and signed by the Heads of departments within the MOD. These reports are scrutinised by senior Boards, Committees and the Defence Audit and Risk Assurance Committee, ultimately reporting to me as the Accounting Officer.

#### Fraud Defence

11.16 Fraud Defence leads the Counter Fraud Function in MOD. Fraud Defence provides strategic coordination in support of the Department's zero-tolerance policy towards fraud and corruption, represents the Department as the victim of fraud and co-ordinates the Department's delivery of the functional action plan. The Counter Fraud function works closely with other functions (notably Finance, Commercial, Analysis, Audit, Legal and HR) to ensure effective support to Defence business areas.

11.17 We work hard to instil a strong ethical culture in everyone working in Defence, providing clear understanding that fraud, corruption and other unethical behaviour is not acceptable. We respond robustly to the threat of fraud and corruption and its potential to undermine our capacity to deliver on our commitments. We identify risk to the public purse, particularly to reduce corruption in our procurement processes. We investigate failures of personal integrity and conduct that will harm our business and reputation and address tangible security threats from insider corruption that risk denigration of our operational effectiveness.

11.18 The MOD's formal policy on fraud, theft, bribery and corruption can be found via the following link: <https://www.gov.uk/government/publications/jsp-462-financial-management-policy-manual> (see Annex 28 of Part 2).

11.19 The Department values the important role of Whistleblowers who, by raising their concerns, help us get things right. The Defence Confidential Hotline provides a secure single point of contact for all Defence personnel (service, civilian and contractor) and members of the public to report 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 all Whistleblowers. Information about the hotline can be found at <https://www.gov.uk/guidance/mod-confidential-hotline>.

#### Single Source Contract Regulations (SSCRs) and the Single Source Regulations Office (SSRO)

11.20 The SSCRs provide a further level of assurance that MOD is spending money correctly and appropriately in single source procurement (although not all single source procurement is covered by the framework or by the SSRO). The regulations ensure that MOD has visibility of costs in single source contracts and requires suppliers to provide mandated reporting on all qualifying Defence contracts. The legislation also allows MOD to refer disputes on allowable costs to the SSRO for a legally binding determination.

11.21 The SSRO has three key roles:

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

11.22 In carrying out these core tasks established by legislation, the SSRO must seek to ensure that value for money is obtained in public expenditure on qualifying Defence contracts, and that single source suppliers are paid fair and reasonable prices.

11.23 The SSRO is also responsible for reviewing how the regulations are operating and for making recommendations to the Secretary of State on proposed changes.

#### Cyber Risk

11.24 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 the Defence Digital organisation, with other systems delegated to TLB level to manage within a governance and architecture framework.

11.25 In addition to protection and monitoring capabilities implemented by Defence Digital, Defence Business Services (DBS) manages security accreditation, data protection (GDPR) and information assurance of Civilian & Military Personnel (HR/Payroll), Finance & Commercial, and Veterans UK. Additional controls are in place and monitored for access control of Users, Superusers and Administrators. Firewalls are monitored as part of daily checks for any potential cyber-attack.

11.26 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 action 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 establishment of the Transformation Board.

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.

Sir Stephen Lovegrove  
Accounting Officer

2020

**APPENDIX**

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

