

# SSRO

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Regulations Office



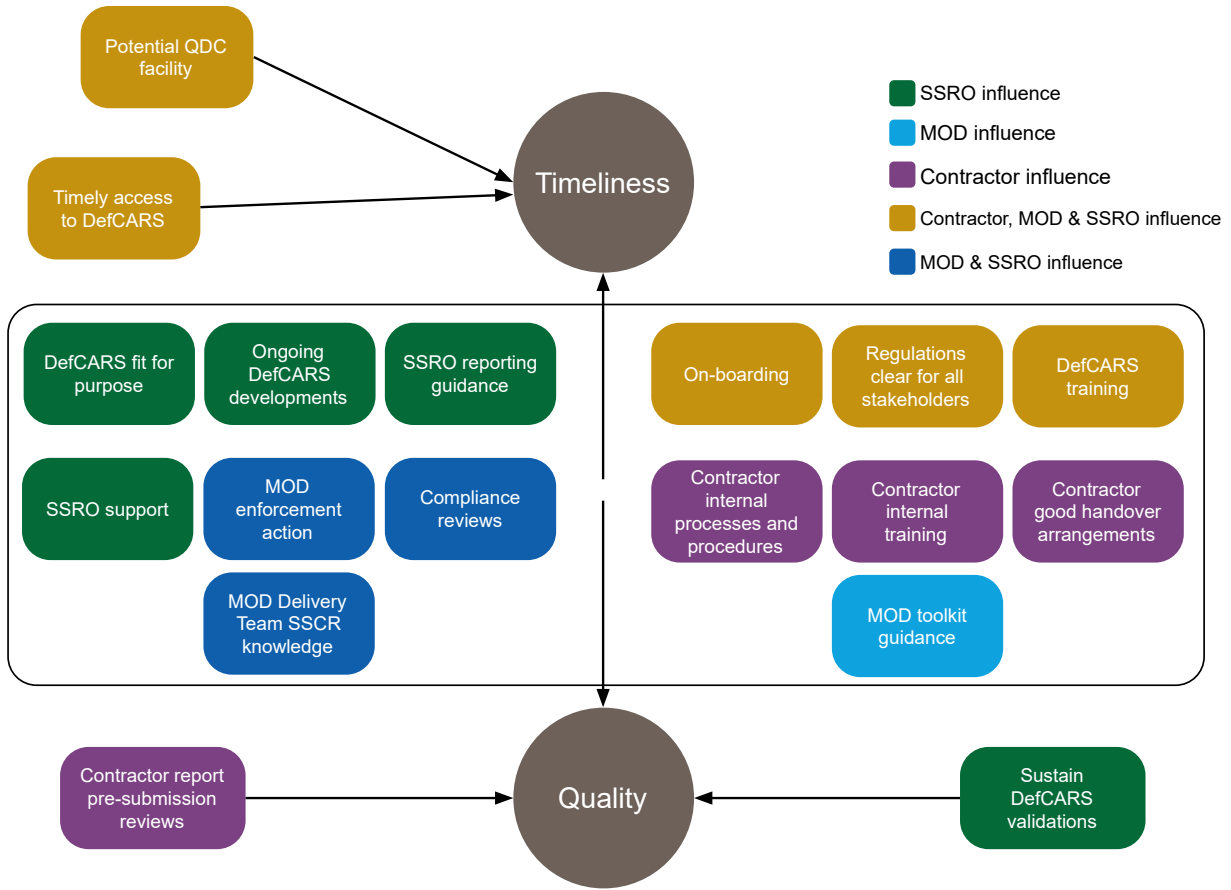
## Annual Compliance Report Summary and Infographic

November 2022

# 1. Introduction

- 1.1 This summary of the 2022 Annual Compliance Report provides the significant messages from our report findings and feedback through our compliance work.
- 1.2 The framework requires transparency on the part of defence contractors regarding prices and strategic matters such as their capacity to continue to meet the MOD's requirements. Timely, good quality submissions are essential to achieving the legislative intent that the use of the data reported will ensure that good value for money is obtained in government expenditure on qualifying defence contracts, and that persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts. The compliance report identifies that where submissions are not timely, or are of a poor quality, alternative information may be unnecessarily sought by the MOD.
- 1.3 The proportion of reports submitted on time in 2021/22 was below our target of 75 per cent. Late report submissions may impact the MOD as information may not be available when required, or is sought through alternative means, which subsequently affects the MOD's contract management, benchmarking and estimating activities. Late and outstanding completion reports, of which there were 23 at the time of drafting, could impact the MOD through delayed and unresolved Final Price Adjustment (FPA) calculations and Target Cost Incentive Fee (TCIF) adjustments. Information gaps may also impact the MOD's ability to manage contracts and suppliers, analyse cost variances and outturn profit, prepare estimates for budgeting or to challenge contractor costs, and to inform strategic planning. This results in an asymmetry of information for ongoing contract negotiations.
- 1.4 The quality of contract reports has continued to improve whereas that of supplier reports declined, but both were below our target of 75 per cent. Following the resolution of reporting issues with contractors, the quality of the subsequent submissions increases considerably.
- 1.5 The MOD has accessed just over 50 per cent of 2021/22 contract and supplier report submissions in DefCARS and has subsequently reviewed 26 per cent of contract reports and 5 per cent of supplier reports submitted within the system. This is an area that requires attention from the MOD. We are aware that the MOD uses a parallel process to agree and set rates with contractors rather than utilising the information in DefCARS. This is due to the timing of supplier report submissions and the MOD has stated that it is working to address this as a proposal under the reforms to the legislative framework. The SSRO considers the completeness and consistency of submissions, but the low level of MOD report reviews in DefCARS means the accuracy of submissions is unclear. Where submissions are reviewed on the system by the MOD, contract and supplier report specific issues are often highlighted that cannot be identified through the SSRO's routine reviews.
- 1.6 Increasing the volume and depth of DefCARS report reviews on the system by the MOD will improve the quality of the submissions and aid useful analysis in future. Stakeholder attitudes and behaviours towards report submissions are unlikely to improve if there is no follow up from the MOD in relation to late or poor quality submissions.
- 1.7 While the responsibility to make the submissions lies with the contractor, there are a number of factors that influence the quality and timeliness of submissions, as shown in Figure 1. The SSRO, the MOD and contractors all have a role to play to ensure that these factors are considered on an ongoing basis for qualifying contracts.

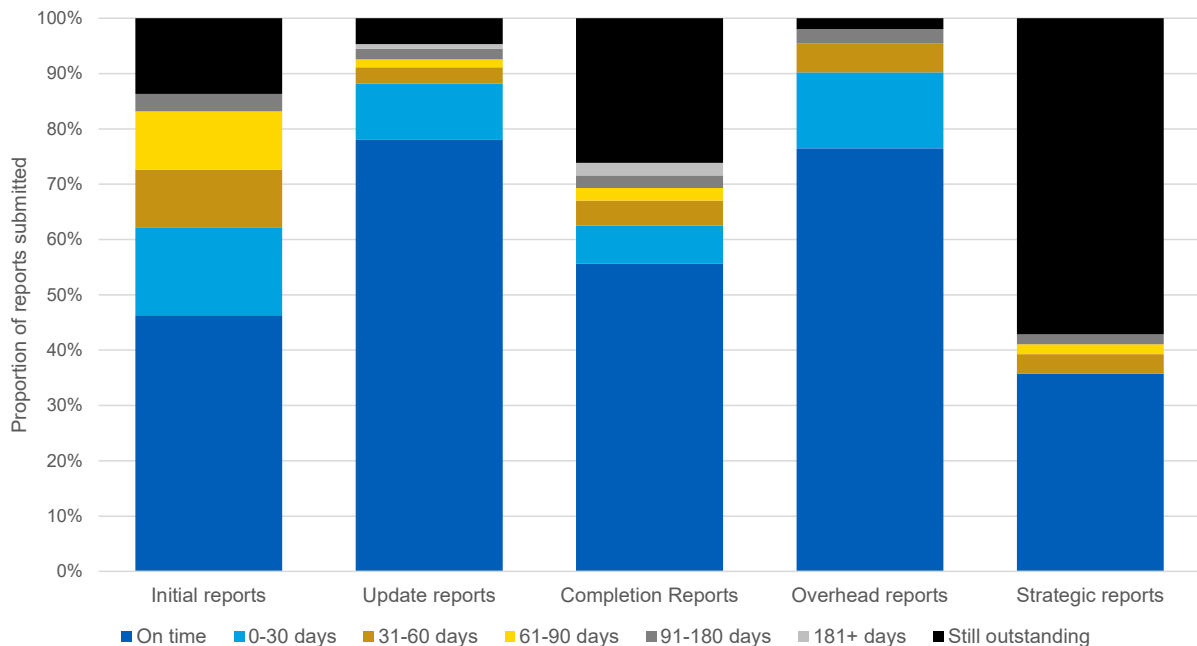
**Figure 1: Factors influencing good quality, timely submissions**



**Analysis of timeliness**

1.8 Sixty-seven per cent of contract reports and 66 per cent of supplier reports were received on time in 2021/22. The volume of expected contract and supplier reports continues to rise year on year. Over 200 additional reports were expected in 2021/22 compared to the prior year. The majority of contract report submissions and supplier overhead report submissions are ultimately received, however, often this is post the report due dates. Figure 2 shows how late reports are submitted over time by each of the report types.

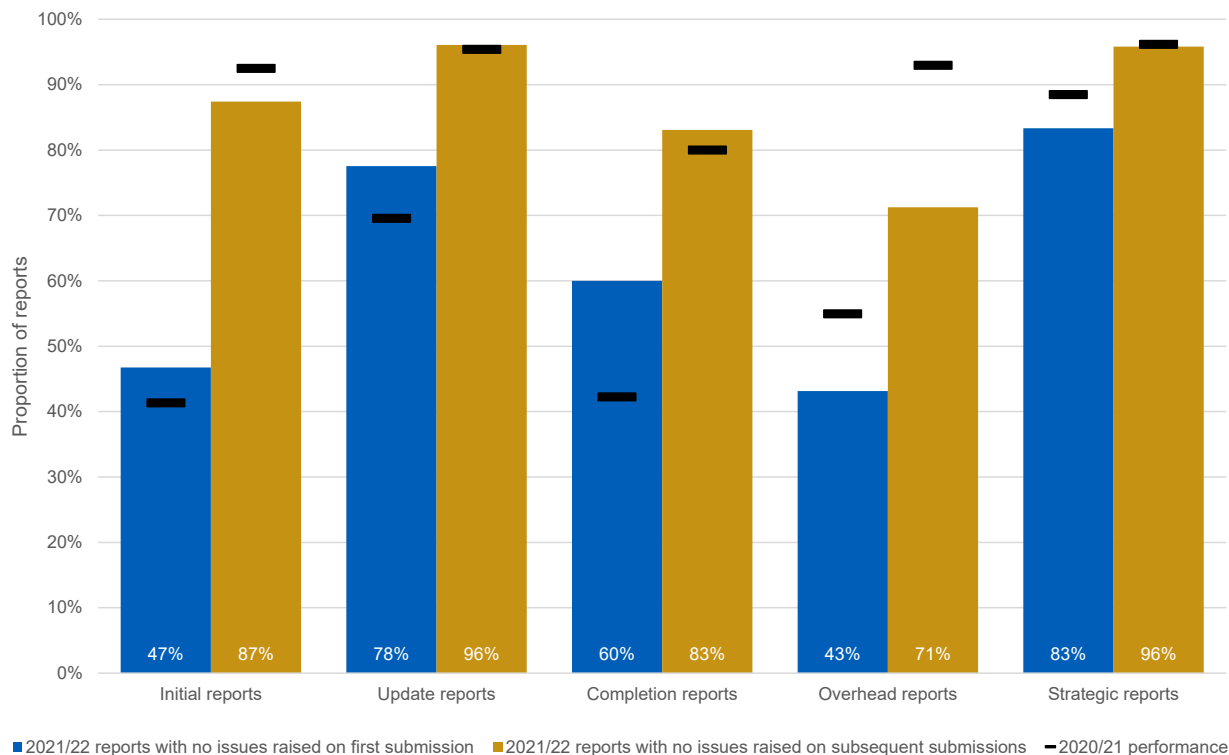
**Figure 2: Analysis of the time taken to make late report submissions, by report type for reports due in 2021/22**



## Analysis of the quality of submissions

- 1.9 Where either the MOD and the SSRO reviewed reports, overall 68 per cent of contract reports and 49 per cent of supplier reports were submitted right first time. Improved data quality within DefCARS will help to improve data utilisation as the MOD seeks to increasingly rely on the information provided by contractors for contract management and analysis. When considering the subsequent resolution of issues raised, the quality of the submissions increases considerably for contract and supplier reports, as detailed in Figure 3.

**Figure 3 Proportion of report submissions correct first time and in subsequent submissions, by report type for reports submitted in 2021/22**



- 1.10 The issues raised by the SSRO and the MOD on the statutory reports due in 2021/22 cover a wide range of issues, but some general themes can be identified. These include where contractors have reported an incorrect total contract price, contract completion date, the date the contract was entered into, the report due date, and the contract price breakdown by pricing method.
- 1.11 Report submissions reviewed by the SSRO appear to be of good quality in terms of completeness and consistency. The accuracy of submissions more widely, which can only be considered by the MOD as a party to the contract, is unclear given the low level of submissions reviewed by the MOD. Where submissions are reviewed on the system by the MOD, contract and supplier report specific issues are often highlighted that cannot be identified through the SSRO's routine reviews.
- 1.12 Stakeholder attitudes and behaviours towards report submissions are unlikely to improve if there is no follow up from the MOD on late and/or poor quality submissions.

## 2. Recommendations

2.1 Based on the review findings, we have identified nine recommendations in the compliance report to improve reporting and support the improved integrity and timeliness of data.

### Contractors

- 1 Contractors need to take greater care when preparing reports, especially with supplier reports where less than half were right first time. Validation warnings should be reviewed and addressed. We encourage contractors to perform a peer review prior to submission of a report.
- 2 Contractors should submit an On-Demand Contract Reporting Plan to update reporting plans in DefCARS whenever contract completion dates are changed.
- 3 Contractors should adhere to our statutory guidance on contract reports and provide a completed Amendments Spreadsheet alongside the On-Demand Contract Pricing Statement.

### SSRO

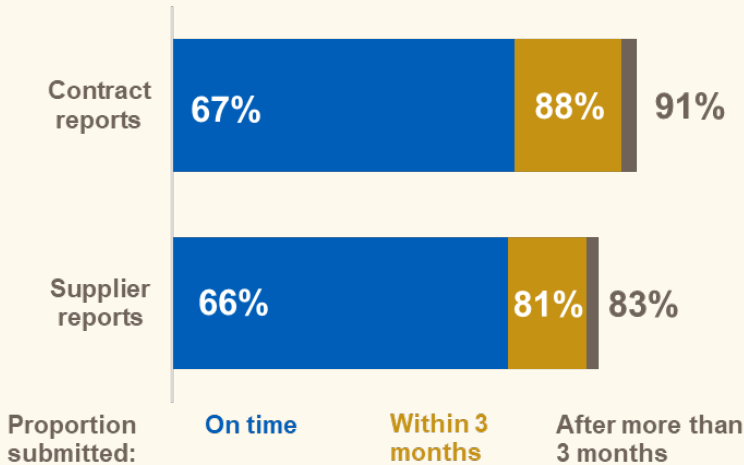
- 4 The SSRO should continue to update guidance, implement DefCARS developments and provide SSRO support to assist contractors to submit their reports correct first time, as well as providing direct feedback to individual contractors where appropriate.
- 5 The SSRO should investigate whether alternative measures can be developed for the quality indicator as our current analysis is based on a 'pass' or 'fail' approach against each submission.
- 6 The SSRO should support the MOD to utilise more information held in DefCARS by providing management information from DefCARS in support of the MOD's analytical requests under s.36 of the Act.

### MOD

- 7 To improve the timeliness of initial contract report submissions the MOD and SSRO require improved notification of new QDCs and QSCs to ensure contractors have access to the DefCARS potential QDC facility prior to entering into a contract. It is important:
  - a. MOD Delivery Teams follow the Commercial Toolkit guidance pre-contract award; and
  - b. for the MOD to raise awareness internally of the need to notify and to provide confirmation for both potential and new QDCs and QSCs to the SSAT and the SSRO.
- 8 The MOD should ensure that it considers the 2021/22 Targeted Review on supplier overhead reports and its recommendations.
- 9 To improve the integrity and completeness of the data held on DefCARS and the timeliness and quality of submissions, supported by the SSRO, the MOD should:
  - a. Set internal targets to perform more reviews within DefCARS, recording and closing issues raised in DefCARS on the system when contractors respond;
  - b. Provide feedback to the contractor where a SICR submission does not meet the requirements and expectations, and inform the SSRO when it has communicated to a contractor that a SICR is not required;
  - c. Improve tracking of adherence to compliance notices, issuing penalty notices as appropriate, and consider whether the six month time limit for issuing notices due to a contractor's failure to comply with reporting requirements needs to be extended; and
  - d. Increase awareness internally of the purpose and value of the On-Demand Contract Pricing Statements (OD CPS), and the process that should be followed by MOD Delivery Teams following a pricing amendment, including notifying the SSRO of OD CPS requests.

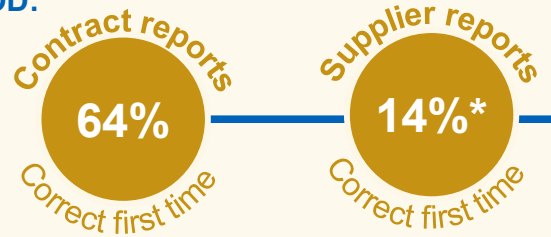
# Timeliness of reports

For reports due in 2021/22...

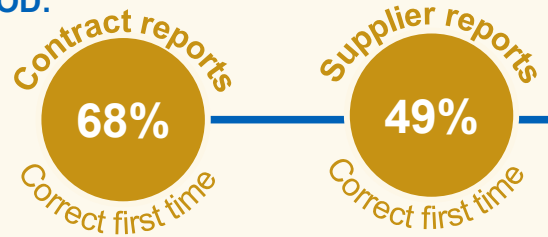


# Quality of reports

For reports reviewed by the SSRO AND MOD:



For reports reviewed by the SSRO OR MOD:

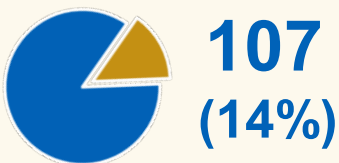


\*based on a small number of reports

# Outstanding reports



Total outstanding **contract** reports  
(of which, 140 for more than 6 months)

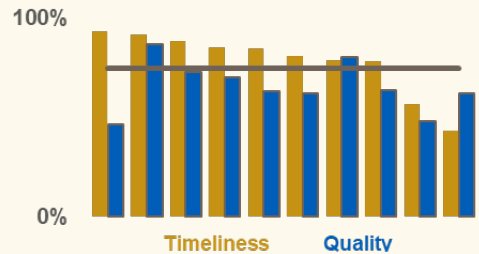


Total outstanding **supplier** reports  
(of which, 98 for more than 6 months)

**2021/22**  
Annual Compliance Report

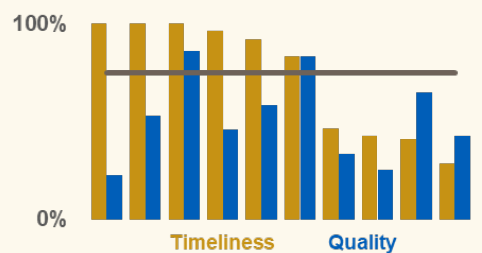
# Organisational performance

## Contract reports



**8** of the 10 companies submitting the most contract reports achieved the **timeliness** KPI target, whilst **2** of them achieved the **quality** target.

## Supplier reports



**6** of the 10 companies submitting the most supplier reports achieved the **timeliness** KPI target, whilst **2** of them achieved the **quality** target.

# MOD reviews

Proportion of 2021/22 reports reviewed within DefCARS by the MOD

