

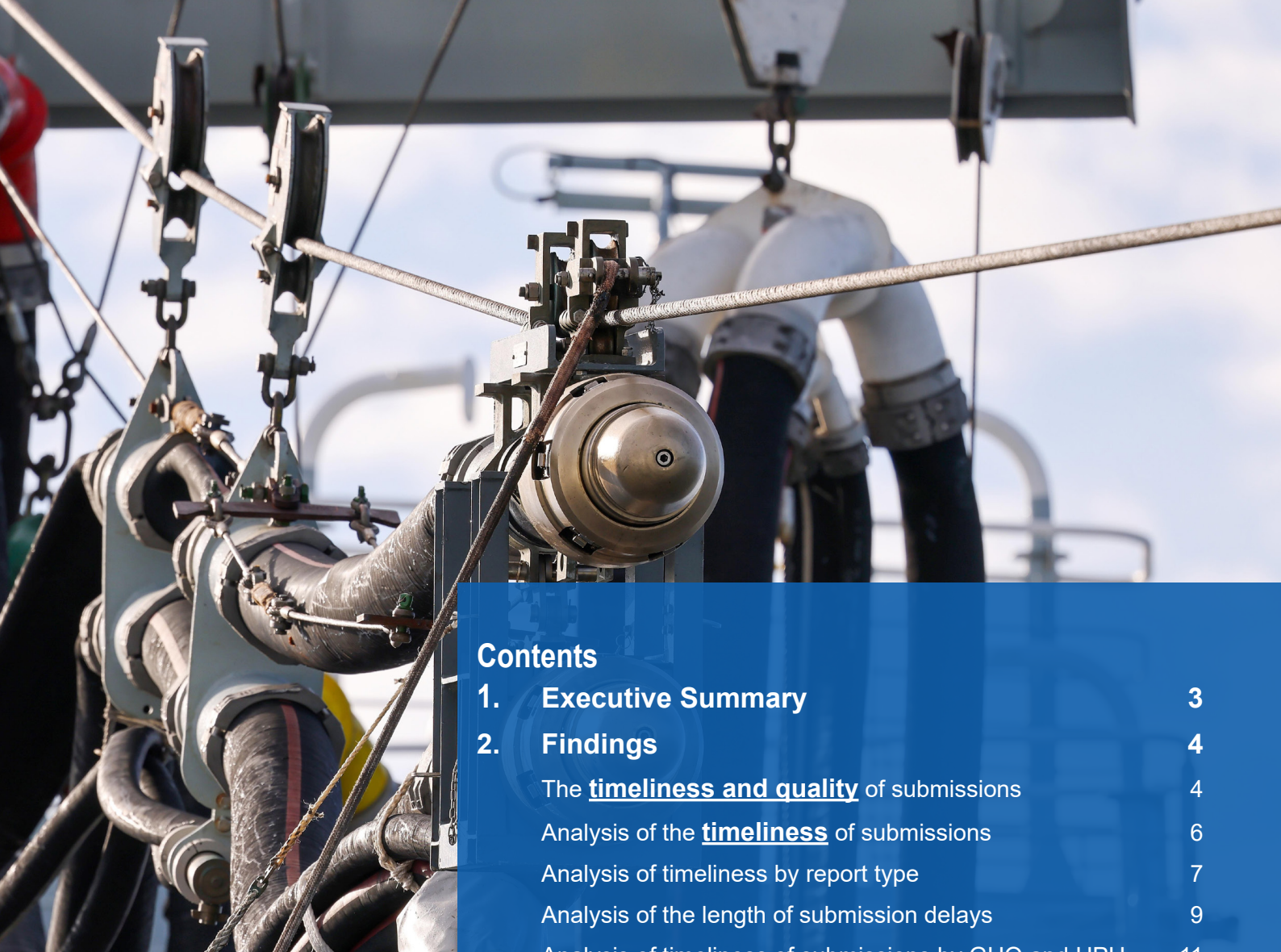
SSRO

Single Source
Regulations Office



Annual Compliance Report

November 2022



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1. Executive Summary

- 1.1 The SSRO's published [Compliance and Review Methodology](#) describes how we discharge our function under section 36(2) of the Defence Reform Act 2014 to keep under review the extent to which persons subject to reporting requirements are complying with them, and how we use the reported information to inform our function under section 39(1) of the Act to keep under review the provision of the regulatory framework (the framework). In this Compliance Report, we consider performance indicators on the timeliness and quality of submissions. We aim to ensure that reported data is fully utilised in support of the regulatory framework, but do not seek to measure the value of that usage as part of our compliance activities.
- 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 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. This 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 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 in 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 on late or poor quality submissions.
- 1.7 We have identified nine recommendations which are assigned between contractors, the SSRO and the MOD. They are based upon the review findings and are intended to improve reporting and support the increased use of the data. All three parties have a role to play to improve the timeliness and quality of report submissions.

2. Findings

The timeliness and quality of submissions

Significant messages

The volume of expected contract and supplier reports continues to rise year on year. There were over 200 additional reports expected in 2021/22 compared to the prior year.

Sixty-seven per cent of contract reports and 66 per cent of supplier reports were received on time in 2021/22. Where the MOD and the SSRO reviewed reports, 64 per cent of contract reports and 14 per cent of supplier reports were submitted right first time.

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.

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.

The SSRO, the MOD and contractors should work together to improve timeliness and quality.

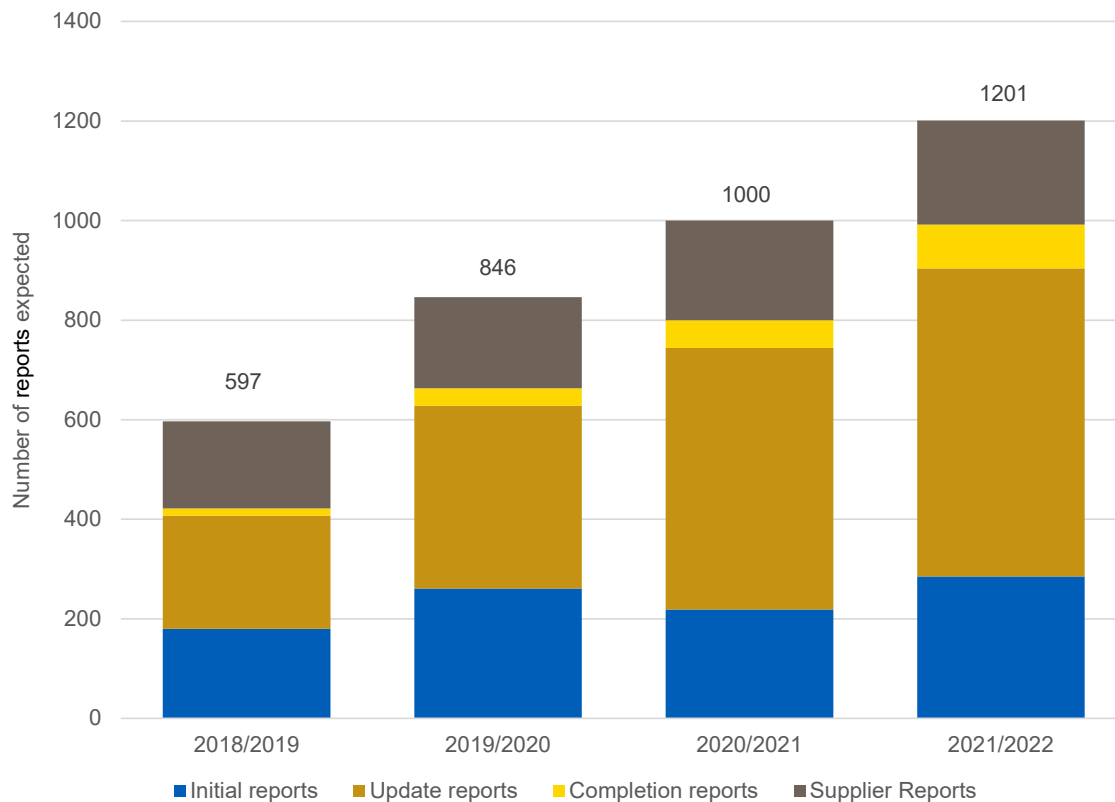
- 2.1 This report examines QDCs and QSCs entered into between 1 April 2021 and 31 March 2022, setting out a factual commentary on the data and highlighting emerging themes and areas where improvement is required.
- 2.2 The volume of expected contract reports¹ and supplier reports² continues to rise year on year and DefCARS acts as a repository for information in relation to over 440 contracts, with a total estimated contract price of over £66bn³. There were over 200 additional reports expected in 2021/22 when compared to the prior year, representing an increase of 20 per cent, made up primarily of update and initial contract reports. Figure 1 details the total number of expected reports by year.

1 Initial reports (the Contract Pricing Statement (CPS), Contract Reporting Plan (CRP) and Contract Notification Report (CNR)), update reports (the Quarterly Contract Report (QCR) and Interim Contract Report (ICR)), and completion reports (the Contract Completion Report (CCR) and Contract Costs Statement (CCS)).

2 Overhead reports (Qualifying Business Unit Cost Analysis Report (QBUCAR), Estimated Rates Claim Report (ERCR), Actual Rates Claim Report (ARCR), Estimated Rates Agreement Pricing Statement (ERAPS), Rates Comparison Report (RCR)) and strategic reports (Strategic Industry Capacity Report (SICR) and Small and Medium Enterprise report (SMER)).

3 [Annual qualifying defence contract statistics: 2021/22](#)

Figure 1: Total number of expected reports by year



- 2.3 The SSRO keeps under review whether statutory reports are submitted by contractors in accordance with legislative deadlines, setting a KPI of 75 per cent in our corporate plan as a measure for this. Sixty-seven per cent of contract reports and 66 per cent of supplier reports were received on time in 2021/22.
- 2.4 The SSRO considers whether reports are complete and submitted on time, as these reports are more likely to contain good quality data. As indicated in our data strategy, the SSRO aims to ensure that reported data is fully utilised in support of the regulatory framework and this is more likely if the data is relevant, comparable and reliable⁴. We also set a KPI, at 75 per cent, for the proportion of reports submitted that are complete and meet the requirements of the legislation at the first attempt. Sixty-four per cent of contract reports and 14 per cent of supplier reports were right first time in 2021/22.
- 2.5 The regulatory framework requires transparency on the part of defence contractors regarding their prices and strategic matters such as their capacity to continue to meet the government’s requirements. Timely, good quality submissions are essential to achieving the legislative intent that use of the data collected 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. Where submissions are not timely, or are of a poor quality, alternative sources of information may be unnecessarily sought by the MOD, when it should be available under the legislation.
- 2.6 While the responsibility to make the submissions lies with the contractor, there are a number of factors that influence this as shown in Figure 2. 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.

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

Figure 2: Factors influencing good quality, timely submissions



Analysis of the timeliness of submissions

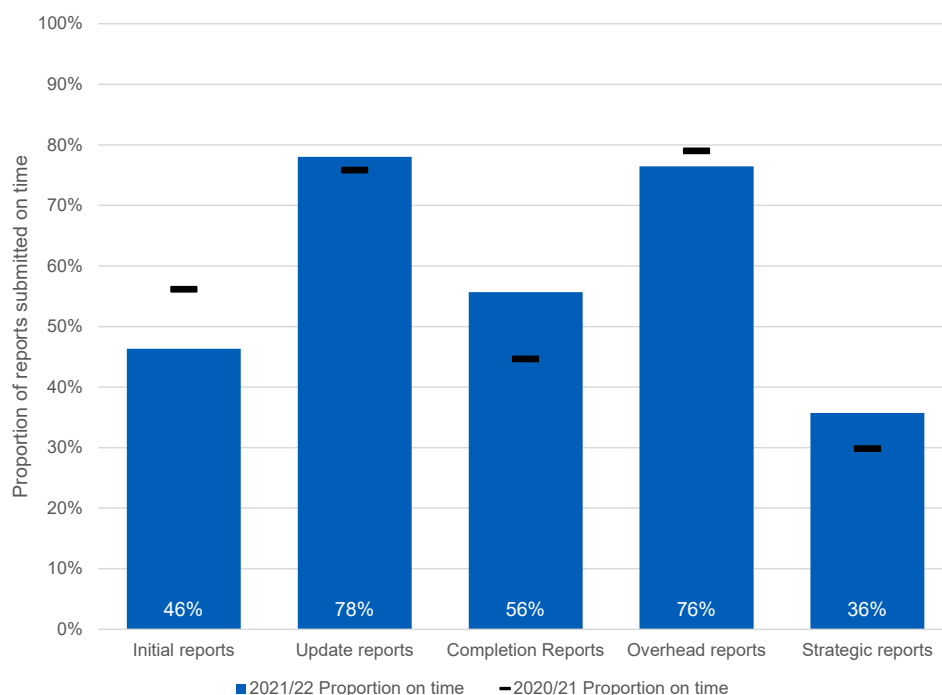
2.7 Table 1 details submission timeliness for contract and supplier reports over the previous four years. It shows there has been little change in overall timeliness in 2021/22 when compared to the previous year and overall timeliness remains below the SSRO’s target of 75 per cent.

Table 1: Contract and supplier report submission timeliness 2018/19 – 2021/22

Report type	2018/2019	2019/2020	2020/2021	2021/2022
Contract reports	71%	63%	68%	67%
Supplier reports	71%	72%	65%	66%

2.8 The overall timeliness has reduced by one per cent for contract reports and increased by one per cent for supplier reports in 2021/2022, although we recognise that an increase in volume of approximately 200 expected reports in 2021/22 could be a contributing factor to seeing no improvement in overall timeliness. Figure 3 shows the timeliness of reports in 2021/22 by report type.

Figure 3: Proportion of reports submitted on time in 2021/22, by report type



Analysis of timeliness by report type

Significant messages

We frequently receive late notification or late confirmation of new QDCs and QSCs, which impedes our ability to support contractors prior to their initial report due date.

Some contractors are unaware of the 'potential QDC' facility which should be utilised for their initial report submissions.

The highest percentage of late report submissions in 2021/22 were strategic reports, with only 36 per cent being made on time.

Completion report submissions improved from 45 per cent last year to 56 per cent, however the SSRO continues to identify changes that have been made to reported contract completion dates where no corresponding change has been made to reporting plans.

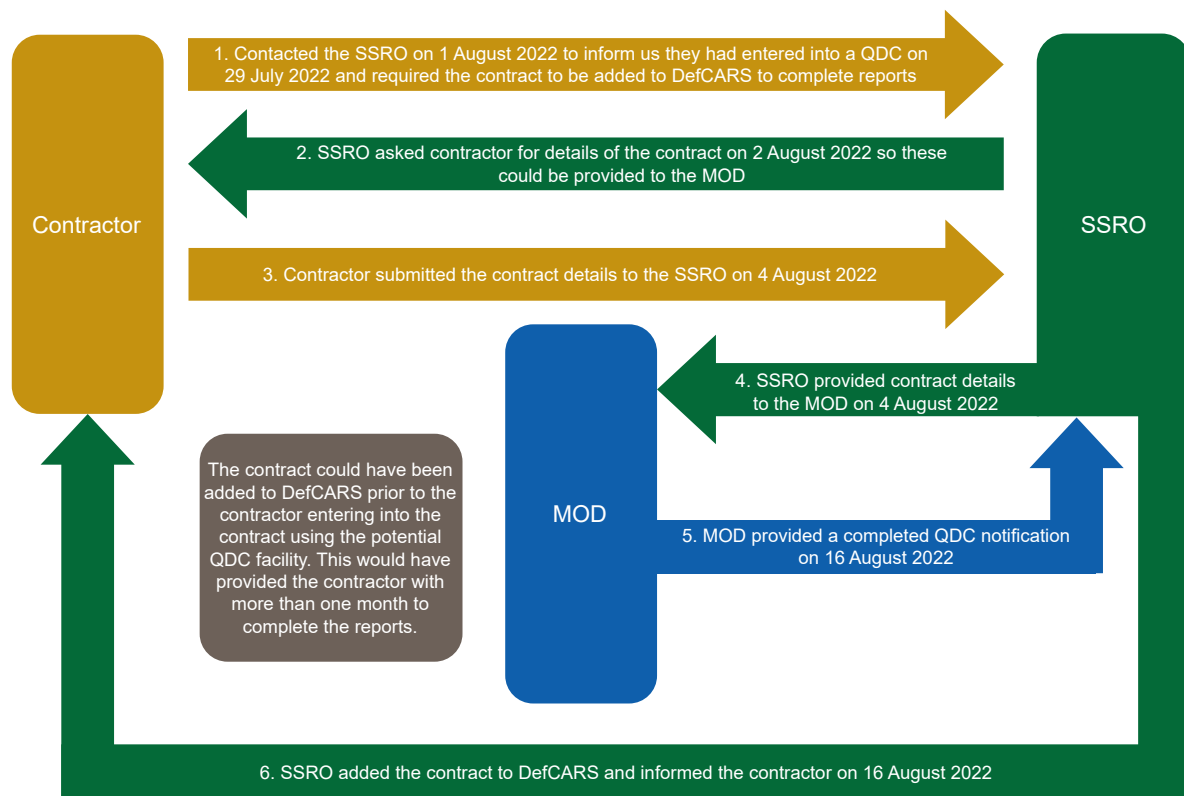
It is important for the MOD to continue to raise awareness internally of the need to notify the SSAT and the SSRO of both potential and new QDCs and QSCs.

2.9 The timeliness of submissions remains uneven across report types:

- Initial report timeliness reduced to 46 per cent on time compared with 56 per cent reported for last year. The number of new contractors has remained consistent over the two years and therefore does not explain this reduction. This reduction in initial report timeliness relating to existing contractors may be due to staff turnover or programme teams new to the regime.
- There was a slight improvement in the timeliness of update reports at 78 per cent when compared with the 76 per cent reported last year.

- Completion report submissions improved from 45 per cent timeliness in 2020/21 to 56 per cent. In our thematic review last year, we explained that to improve this, reporting plans need to be updated when contract completion dates are extended to ensure the correct expected completion dates are recorded. During the period April 2021 to June 2022, the SSRO raised 22 issues on DefCARS after identifying changes to the contract completion date that no longer aligned to the CRP, suggesting that more needs to be done by contractors to ensure reporting plans on the system are current and accurate.
 - The majority of strategic reports continue to not be submitted on time, although there has been an increase compared with the 30 per cent submitted on time last year. SICR timeliness has changed little at 32 per cent on time, although SMERs increased to 39 per cent.
- 2.10 The SSRO has no visibility of when a new QDC or QSC is entered into. We rely on the MOD or the contractor to inform us of a new, or of a potential, QDC or QSC. We do not add qualifying contracts to DefCARS until we have received confirmation of the contract from the MOD's Single Source Advisory Team (SSAT). MOD delivery teams should:
- use the MOD commercial toolkit guidance describing actions to take pre-contract award when placing a qualified defence contract; and
 - always inform the SSAT that they are awarding a qualifying defence contract before the contract is entered into or, as a minimum, as soon as the contract is entered into.
- 2.11 Contractors making positive QSC assessments should also always notify the contractor with the QSC in a timely manner. Early notification is important as contractors have one month only from when the contract is entered into to submit their initial reports. Any delay in the process for confirming contracts and adding them to DefCARS impacts the time a contractor has available to prepare and submit their initial reports.
- 2.12 We frequently receive late notification or late confirmation of new QDCs and QSCs, which impedes our ability to support contractors to submit their initial reports within the timescale set by the legislative framework. Some contractors tell us they were unaware of the 'potential QDC' facility until too late in the process for it to be utilised. Figure 4 provides an example of where a late confirmation of a contract resulted in the contract not being added to the system for more than two weeks after it had been entered into.

Figure 4: Potential QDC facility – Case study



2.13 It is important for the MOD to continue to raise awareness internally of the need to notify the SSAT and the SSRO of both potential and new QDCs and QSCs.

Analysis of the length of submission delays

Significant messages

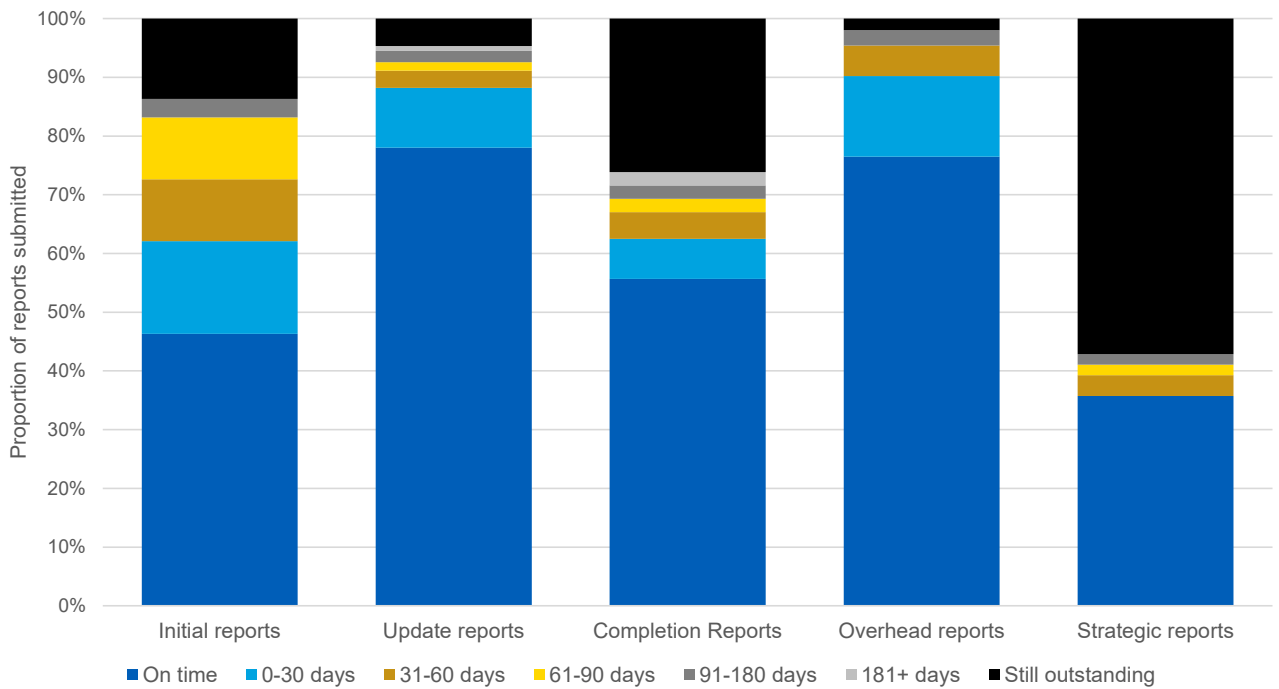
The majority of contract report submissions and supplier overhead report submissions are ultimately received, however often this is post the report due dates.

Information gaps may impact the MOD’s ability to manage contracts and suppliers, analyse cost variances and outturn profit, prepare estimates for budgeting or to challenge contractor costs, and to inform strategic planning. This results in an asymmetry of information for ongoing contract negotiations.

Late and outstanding completion reports could impact the MOD through delayed and unresolved Final Price Adjustment (FPA) calculations and Target Cost Incentive Fee (TCIF) adjustments.

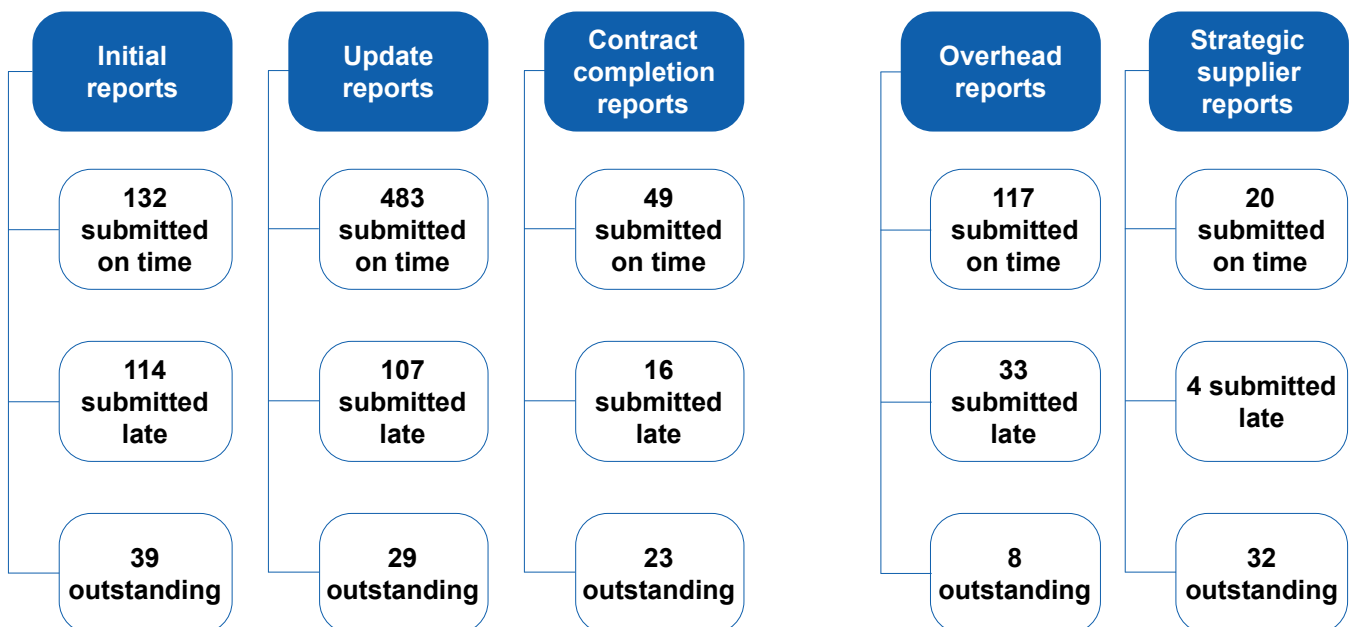
2.14 Many of the reports that are not submitted on time are subsequently submitted. A total of 91 per cent of the contract reports and 83 per cent of the supplier reports expected during 2021/22 were received by the cut-off date for this report of 30 June 2022. Figure 5 shows how late reports are submitted over time by each of the report types.

Figure 5: Analysis of the time taken to make late report submissions, by report type for reports due in 2021/22



2.15 Submission of update reports and overhead reports are the most timely. Submission of strategic supplier reports and initial reports are the least timely. Figure 6 provides the breakdown for each report type. Whilst there were more initial reports outstanding than strategic supplier reports, a total of 57% (32) of the strategic supplier reports expected for 2021/22 were not received at the cut-off date.

Figure 6: Breakdown of contract and supplier report submissions for 2021/22

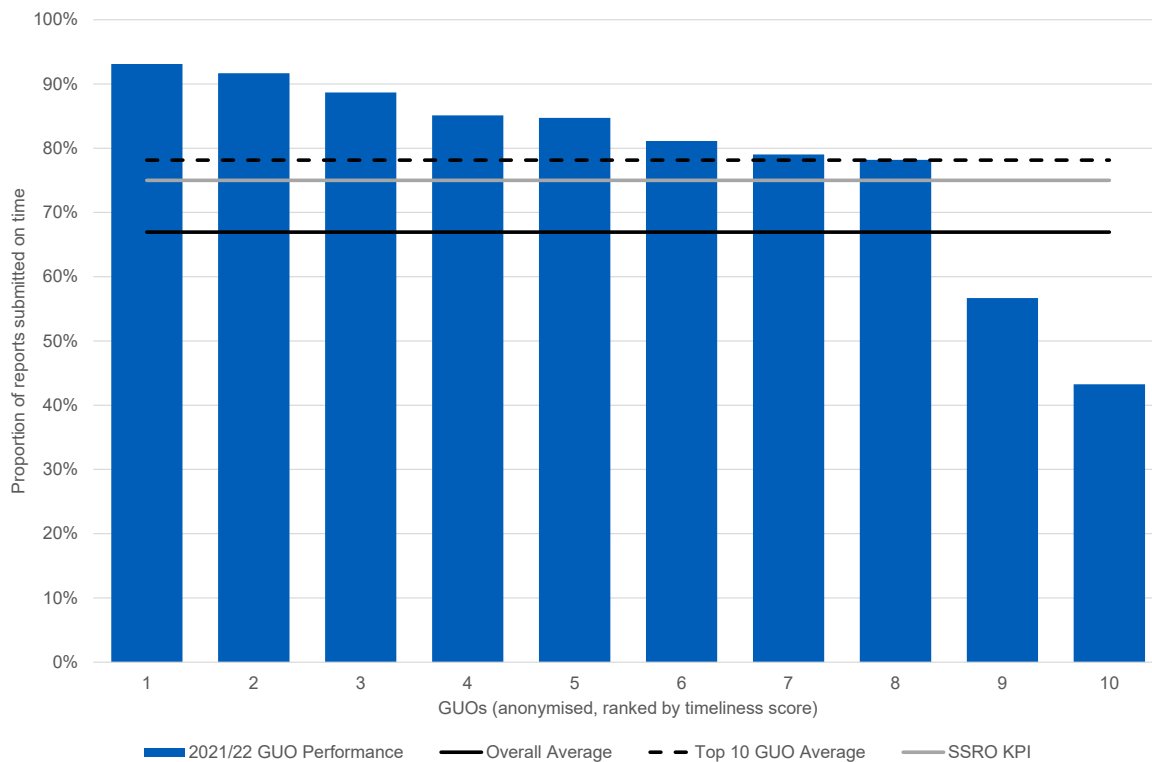


2.16 Information gaps created by late and outstanding report submissions may impact the MOD’s ability to manage contracts and suppliers, analyse cost variances and outturn profit, prepare estimates for budgeting or to challenge contractor costs, and to inform strategic planning. This results in an asymmetry of information for ongoing contract negotiations, although the MOD often makes duplicative requests for information directly from contractors which should be available under the regime. Late and outstanding completion reports could financially impact the MOD or the contractor through delayed and unresolved FPA calculations and TCIF adjustments, subsequently deferring contract closure. The MOD has, however, informed us that it is reviewing the timescales set in relation to making an FPA.

Analysis of timeliness of submissions by GUO and UPU

2.17 Ten Global Ultimate Owners (GUOs⁵) with the highest number of expected report submissions were responsible for 64 per cent of expected contract reports in 2021/22. Figure 7 details the timeliness of contract report submissions in 2021/22 for these ten GUOs in timeliness order. The average timeliness for these GUOs was 78 per cent. Eight of the GUOs achieved a timeliness score above our KPI of 75 per cent.

Figure 7: Timeliness of contract report submissions for the top 10 Global Ultimate Owners for reports due in 2021/22



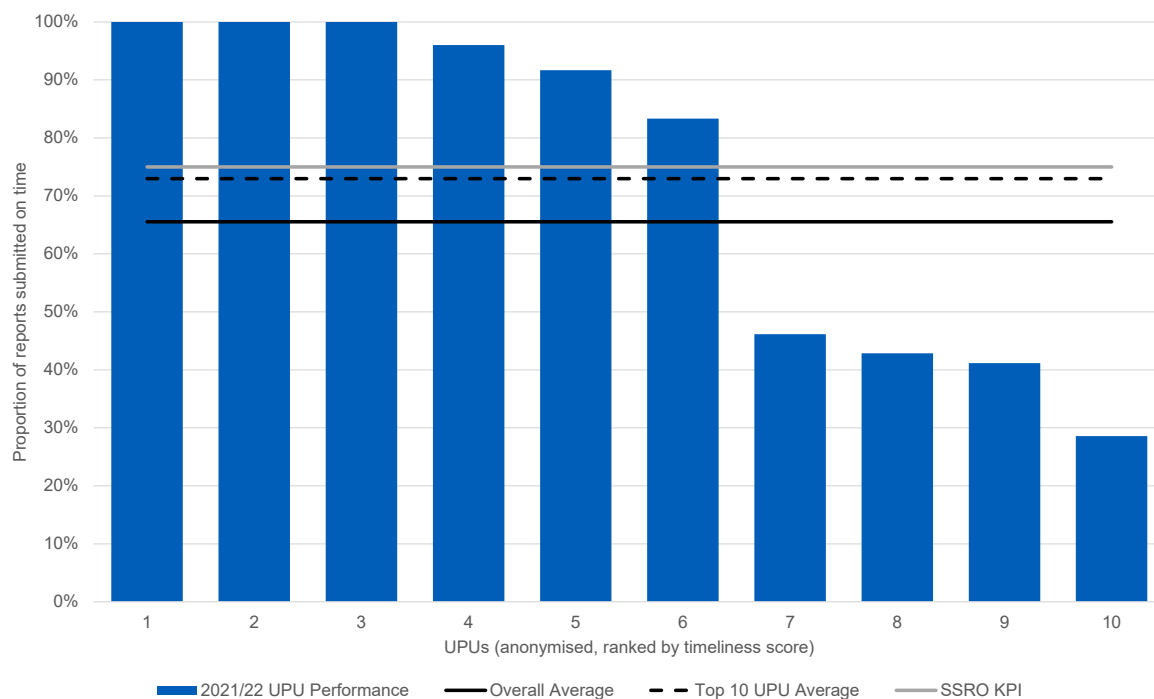
Note: The ‘Top 10 GUO average’ is a weighted mean score of all the reports due for the top 10 GUOs, weighted by the number of reports due for each organisation.

2.18 Ten Ultimate Parent Undertakings (UPUs⁶) with the highest number of expected report submissions were responsible for 78 per cent of expected supplier reports in 2021/22. This high percentage is expected, as the requirement to submit supplier reports only arises if a contractor or a company in the contractor’s group is party to at least one QDC or QSC with a value at or above the threshold of £50 million. Figure 8 details the timeliness of supplier report submissions due in 2021/22 for the top 10 UPUs in timeliness order. Six of the ten UPUs achieved a timeliness score above our KPI of 75 per cent.

5 The SSRO uses the GUO definition from the Orbis database, provided by Bureau van Dijk for contract reports.

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

Figure 8: Timeliness of supplier report submissions for the top 10 UPU for reports due in 2021/22



2.19 There are two GUOs and four UPU whose timeliness scores are below expectation. The last placed GUO submitted 21 out of 37 contract reports late. The last placed UPU submitted five out of seven of its supplier reports late.

2.20 The SSRO continued to hold regular compliance meetings with five contractors from the top 10 GUOs and top 10 UPU. We highlighted outstanding submissions and supported key contacts within these contractors to explore reasons for delays and assist others to submit reports. All five of these contractors sit within the top six based on timeliness of contract report submissions. Three of the contractors also sit within the top five based on timeliness of supplier report submissions, but the remaining two occupy the ninth and tenth positions on the chart. Contract and supplier reports are often submitted by different areas of business within a contractor. Supplier reports tend to be completed by the finance function and contract reports by the commercial function. We will work with the two contractors in the ninth and tenth positions to understand why a number of their supplier reports are being submitted late and what actions should be taken to improve their submission timeliness.

Improving the timeliness of submissions

Significant messages

Proposed changes to the regulatory framework may result in a reduction in the number of SICR submissions due in future years and may improve the timeliness of remaining submissions.

Contractors should submit an on-demand contract reporting plan to update their reporting plans in DefCARS when the contract completion date is extended.

The MOD has increased its use of compliance notices. Enforcement action taken by the MOD has successfully resulted in two thirds of those outstanding reports for which a notice was issued being submitted within the timescales specified in the notice.

The SSRO will continue to support contractors through its guidance, improvements to DefCARS and providing SSRO Support, however further action is needed to address avoidable delays, especially with initial report submissions.

- 2.21 The Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations⁷ proposes reforms to the legislative framework. There are two proposals that may result in the number of SICR submissions due being reduced in future years and may improve the timeliness of the remaining submissions when they become due:
- It is proposed to amend the legislation to allow the MOD to agree that the SICR can be produced at a level below the UPU. The SSRO understands there may be legislative restrictions within some countries which prevents UPU based overseas from submitting a SICR due to the sensitivity of the information contained within it. Such a situation may fall within the definition of a 'relevant restriction' under Regulation 46 and may explain why some of the 32 outstanding SICR submissions for the 2020/21 financial year were not submitted. Some UPU based overseas have, however, still managed to submit SICRs by restricting the level of information to that which is attributable to their UK operations.
 - It is also proposed to amend the legislation to allow the MOD to exempt a contractor from the requirement to provide a SICR, but not the other supplier reports. The MOD has previously informed the SSRO that, although not provided for in the current legislation, it had excused some contractors from making SICR submissions. To date the MOD has not provided the SSRO with details of which SICRs this has been applied to.
- 2.22 There were 23 outstanding completion reports that were due in 2021/22 based on the information submitted into DefCARS by contractors. We know from our thematic review of completion reports published in the 2021 Annual Compliance Report that the actual number of outstanding completion reports is likely to be less than that reported in DefCARS. This is due to contractors not updating their reporting plans by submitting an on-demand contract reporting plan in circumstances where the contract completion date is amended.
- 2.23 The overall number of reports that have been outstanding for more than 6 months as at 30 June 2022 was 140 for contract reports and 98 for supplier reports.
- 2.24 The MOD issued twelve compliance notices in 2021/22. The legislation limits the MOD's power to issue compliance notices to within six months of the submission due date in cases where the notice is to be issued for failure to comply with reporting requirements. All twelve compliance notices were issued during December 2021 and January 2022.
- 2.25 The MOD seems reticent to issue compliance notices until all other avenues have been exhausted with a contractor, which can take time in some cases. Eight of the twelve compliance notices issued resulted in reports being submitted within the notice deadline, which demonstrates that enforcement action works. The MOD has informed us that it is primarily concerned with late and outstanding initial and completion reports. The MOD may wish to consider whether the current six month time limit set by the legislation for issuing a compliance notice in relation to a contractor's failure to comply with reporting requirements ought to be extended to allow it time to pursue these other avenues without compromising its ability to then take enforcement action.
- 2.26 At the cut-off date for the analysis used in this report, four contractors had not complied with compliance notices issued to them by the MOD. These notices were in relation to two ICRs and two QCRs. The MOD has since reported that of the four other cases, one contractor did submit the required report after the notice deadline; a second is actively engaged with MOD to rectify the situation; and a third responded by submitting further reports which were outstanding, which MOD considered a sufficient interim response. Only one contractor has not responded in any way and the MOD is considering what further action should be taken in this case.

7 [Defence and Security Industrial Strategy: reform of the Single Source Contract Regulations](#), published April 2022.

Thematic Review – SICR update

In the 2021 Annual Compliance Report we undertook a [thematic review](#) on SICRs and we provide an update in this year's report. The SICR provides a long term view of a key supplier's capacity and overheads relevant to the MOD's current and future single source requirements. The SICR is concerned with forward planning and must include prescribed information.

The SSRO expected to receive 28 SICR submissions based upon QDCs and QSCs submitted with a value of £50m or more. We received and reviewed eleven SICRs. Seventeen SICRs were not received, which is comparable with the previous year. For the past two years over half of the SICR submissions due were not provided, which is a significant shortfall, with no enforcement action taken by the MOD. The MOD has, however, stated that it is receiving all the SICR submissions that it considers necessary. The proposals in the Defence and Security Industrial Strategy referred to earlier may result in a reduced number of SICR submissions becoming due in future years and may improve the timeliness of those that are required.

Reporting financial year	Reports expected	Submitted on time	Not submitted on time	Late but now submitted	Remain overdue
2020/21	28	9	19	2	17

Regulation 33(5) states all reports relating to overheads and forward planning must be provided to the Secretary of State and to the SSRO. Some contractors continue to submit their SICR solely to the MOD or the SSRO, requiring the SSRO and SSAT to have to then reconcile the submissions received.

It is evident from the SSRO reviews undertaken over the past two years that a high number of contractors use the previous submitted SICR submission as a template for the new submission. Any areas of non-compliance or poor quality are simply repeated each year, with no noticeable improvement. We previously identified one contractor who referred to their QBUCAR submission to satisfy the SICR requirements under Regulation 43 (forecast costs of maintaining industrial capacity) and this continued in their 2020/21 submission.

We have also previously identified that some contractors have attached published annual accounts, corporate training or graduate/apprenticeship brochures. This is acceptable as supplemental information, but should not be a substitute for preparing a standalone document focused on the regulatory requirements. When reviewing the 2020/21 SICR submissions we did acknowledge that contractors had reduced the number of attachments and no longer referred to attachments that were not included with or within the submission.

Areas of poor quality exist amongst the SICR submissions, despite clear requirements being set out in Regulation 43 (forecast costs of maintaining industrial capacity). A number of contractors could improve compliance by:

- providing a comprehensive response to every applicable reporting requirement;
- stating in their submission why, if a particular requirement is not applicable, that is so, rather than disregarding the requirement or providing information which is inconsistent with requirement.

As previously recommended, the MOD should ensure that effective, consistent use of the SICR is made. SICR submissions are made outside of DefCARS, so there is no compliance issue logging functionality in the same way there is for other statutory reports and the SSRO is unable therefore to raise issues on SICRs with contractors in the system. Where the submission does not comply with reporting requirements, this needs to be made clear by the MOD in order to improve the quality of information available to it.

- 2.27 The time limit for issuing a penalty notice is three months after the date specified in the compliance notice by which a submission must be made. This time limit has expired for the fourth contractor where no response has been made to the compliance notice. The MOD should better track whether compliance notices have been adhered to and, where not, either issue a penalty notice or record an explanation for choosing not to do so, as appropriate.
- 2.28 The SSRO will continue to support contractors through updating its guidance, implementing DefCARS developments and providing SSRO Support. If the timeliness of initial contract report submissions is to improve, the SSRO and the SSAT require better notification of new QDCs and QSCs to ensure that contractors have access to the DefCARS potential QDC facility prior to entering formally into a contract. This will also enable the contractor to receive the SSRO's on-boarding training and DefCARS demonstrations in a timely manner that will better facilitate compliance with reporting requirements.

Analysis of the quality of submissions

Significant messages

The quality of contract reports continued to improve from 60 per cent in 2020/21 to 68 per cent correct first time, but supplier reports declined from 60 per cent to 49 per cent. Following the resolution of issues with contractors, the quality of the subsequent submissions increased considerably with contract reports at 93 per cent and supplier reports at 75 per cent.

Improved data quality within DefCARS should help to improve data utilisation as the MOD seeks to rely on the information provided by contractors for contract management and analysis.

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.

In cases where issues raised by the MOD have been responded to by the contractor, these have not always been subsequently reviewed by the MOD, which affects the analysis of the quality of submissions and potentially leaves matters outstanding unnecessarily.

Contractors need to pay greater attention to validation warnings in DefCARS as this will help increase the correct first time percentages, improving the quality of the submissions.

The SSRO can support the MOD to utilise more information by providing management information directly from DefCARS in support of the MOD's analytical requirements.

- 2.29 We assess the quality of submissions based on those reviews conducted by both the MOD and the SSRO. Our performance indicator is based on a 'pass or fail' assessment, so a single error in a report will result in a fail assessment, which in the case of a reporting matter impacts the quality rating for that submission.

2.30 Table 2 shows the quality of submissions analysed, which requires both the MOD and the SSRO to have reviewed the submissions. Sixty-four per cent of contract reports and 14 per cent of supplier reports were right first time in 2021/22, which is below our KPI of 75%.

Table 2: Proportion of reports submitted right first time in 2021/22

	Review by MOD and SSRO	Review by MOD or SSRO	Review by SSRO	Review by MOD
Contract reports	64%	68%	71%	84%
Supplier reports	14%	49%	49%	56%

2.31 In 2021/22, the MOD accessed just over 50 per cent of contract and supplier report submissions in DefCARS, subsequently reviewing 26 per cent of contract reports and 5 per cent of supplier reports. The MOD's Commercial Toolkit sets out the expectations on delivery teams with respect to performing reviews of contract report submissions. We are aware that the MOD uses a parallel process, using alternative information, to agree and set rates with contractors rather than using 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 reviewed almost all of the contract reports and 97 per cent of supplier reports. Consistent with the approach taken last year, the rest of the quality analysis within this compliance report is based upon those report submissions reviewed at least either by the MOD or the SSRO as this provides a greater population for the analysis.

Thematic Review – On-Demand Contract Pricing Statements (OD CPS)

The OD CPS reports were introduced in DefCARS in November 2020 to provide contractors with a standard way to update the CPS, following pricing amendments of a contract. This enables the MOD to have a record of up to date pricing information on contract profit rates and key pricing assumptions for contracts that are amended. The MOD's policy⁸ is for commercial teams to request an OD CPS following an amendment to the contract which materially alters its pricing.

The SSRO undertook a thematic review of the OD CPS for the period of 26 January 2022 to 30 June 2022. This followed publication of changes to Chapter 9 of our [statutory guidance on contract reports](#), specifically the introduction of an Amendment Spreadsheet to be submitted in the OD CPS, as part of our amendments and variances project in support of Objective 4 of our Corporate Plan.

The thematic review considered the number of:

- Amendment Spreadsheets completed and uploaded in OD CPS submissions;
- OD CPS submissions compared with the number of contract amendments affecting the price of a contract identified in QCR and ICR submissions; and
- OD CPS submissions accessed and reviewed by the MOD in DefCARS.

Four OD CPS submissions were made by contractors in the five month period following the changes to the reporting guidance. Of these, one did not provide any information to support the calculation of the contract profit rate following amendment. Two provided some information to support the calculation of the contract profit rate of the amended contract, although this was in a format different to the Amendment Spreadsheet which diminished the benefit of the standardisation and missed some information on the pricing segments that resulted from the amendments. No compliance issues for the missing Amendment Spreadsheets were raised by the MOD for these reports.

⁸ MOD commercial Toolkit, Chapter 5.

One OD CPS contained a completed Amendment Spreadsheet in line with the guidance. This represents a low level of compliance to the statutory guidance on OD CPS submissions.

A total of 60 QDCs and QSCs reported a price change in their update reports in the period covered by the review, of which 12 reported a significant price change, ranging from £13m up to £126m. No OD CPS was submitted in relation to these price changes. One of the four OD CPS submissions made was for a pricing amendment of a smaller amount, a reduction in price of around £1m, and the other three were submitted prior to an update report. Although there is no defined threshold of materiality set out by the MOD, the number of OD CPS submissions made was much lower than would be reasonably expected given the number of amendments to contract prices reported in update reports. The process of requesting an OD CPS is managed outside of DefCARS, and the SSRO is not always made aware of requests. Therefore it is not possible to determine whether additional requests for an OD CPS have been made but have not been submitted by the contractor.

Out of the four OD CPS submissions considered for this thematic review, three were accessed by the MOD within DefCARS, of which two were reviewed by the MOD within the system. The largest amendment reported in these four OD CPS was c.£360m, increasing by more than two fold the prior contract price. It was accessed by the MOD, and included a compliant Amendment Spreadsheet, but there was no evidence of review of the OD CPS or the Amendment Spreadsheet in DefCARS. The two OD CPS that were accessed and reviewed were for small value contract reductions, of £1m or less. These two submissions were missing the Amendment Spreadsheet, but no compliance issue was raised by the MOD in DefCARS.

The OD CPS that was received but neither accessed nor reviewed was for an amendment of £13m, that represented a 48 per cent increase in the contract price. This is consistent with a review rate of slightly less than 50 per cent for the total number of OD CPS submissions in the 12 month period 1 July 2021 to 30 June 2022, where only 8 out of 18 OD CPS were reviewed by the MOD.

The introduction of the Amendment Spreadsheet in the OD CPS was made in support of a priority requirement from the MOD to enhance the OD CPS by facilitating the ways to capture pricing information following a pricing amendment. MOD teams involved in a pilot exercise prior to the introduction of the Amendment Spreadsheet all found the template beneficial, as it supported a consistent approach to capturing pricing information for amended contracts, bringing clarity to the contract profit rate that applies to different parts of the contract following an amendment.

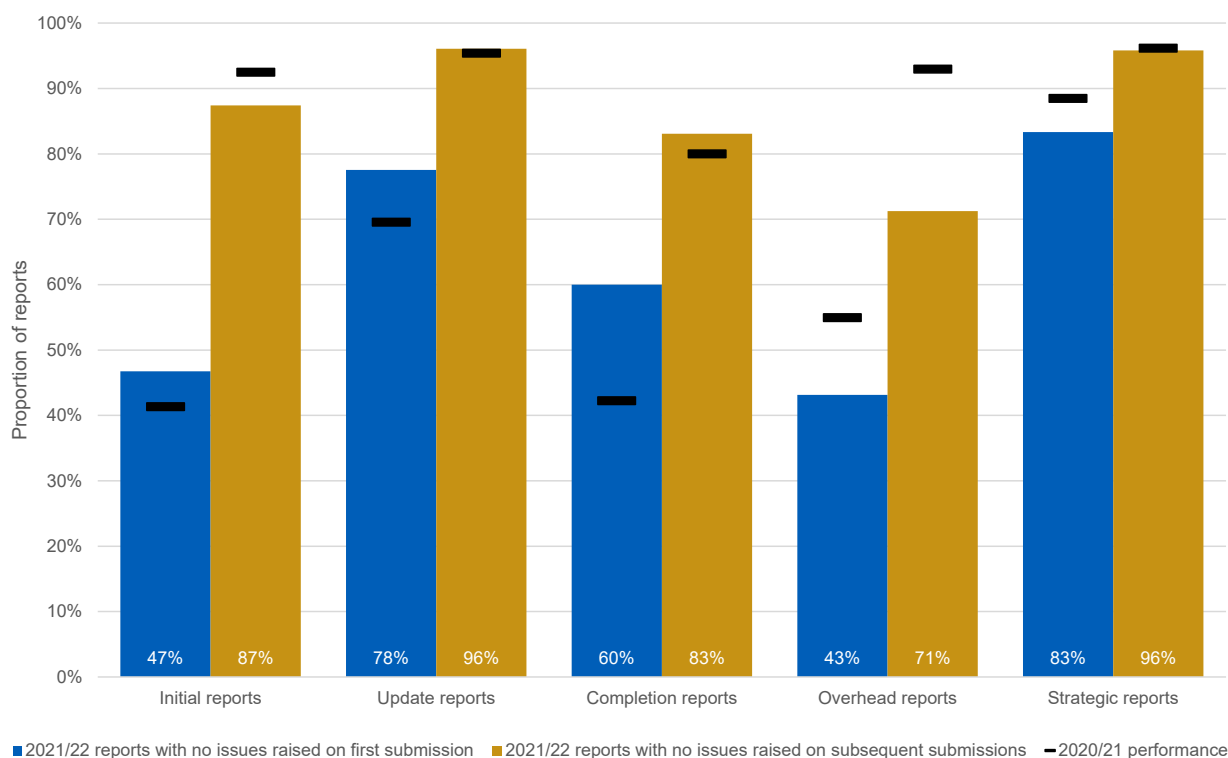
The MOD should consider ways to increase awareness internally of the purpose and value of the OD CPS, and the process that should be followed by commercial teams following a pricing amendment. In particular the benefits of collecting and reviewing the Amendment Spreadsheet information should be emphasised.

The MOD should also consider increasing the number of OD CPS requests it makes following a pricing amendment, particularly where pricing changes are evident in update reports. Without these submissions the records within DefCARS do not contain details of the latest contract pricing information for a contract that has been amended and limits the utility of information held on the system for contract management purposes.

In cases where submissions are made, the MOD should ensure these are reviewed within the system, with compliance issues raised through DefCARS as appropriate. It is also clear that contractors need to adhere more closely to the statutory reporting guidance in order to provide the information within the Amendment Spreadsheet in the correct format.

- 2.32 A total of 68 per cent of contract reports were submitted with no issues raised by the SSRO or the MOD during 2021/22 and 49 per cent of supplier reports. There has been a steady improvement in the quality of contract reports over the past four years rising from 43 per cent. The percentage of supplier reports correct first time was 54 per cent in 2018/19, 47 per cent in 2019/20, improving to 60 per cent in 2020/21, and declining in 2021/22 to 49 per cent.
- 2.33 When considering the subsequent resolution of issues raised, the quality of the submissions increases considerably for contract reports to 93 per cent and for supplier reports to 75 per cent. 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.
- 2.34 Figure 9 details the proportion of report submissions correct first time and following subsequent submissions (through correction reports), for the different types of contract and supplier reports in 2021/22.
- 2.35 Initial, update, completion and strategic reports achieved high correct percentages when reports following subsequent submissions were included. This demonstrates issues raised by the MOD and the SSRO are being addressed by contractors which is improving the overall quality of the data held. In line with the SSRO's review approach, for submissions where reporting issues raised by the SSRO have not been addressed by the contractor, the issues are closed after six months and have not been counted as being correct when the issues have been closed. The same issue is not raised again on further submissions.
- 2.36 Overhead reports achieved the lowest percentages for correct first time and in subsequent reports at 43 per cent and 71 per cent respectively. Despite strategic reports achieving a 96 per cent subsequent submission score, without the MOD's input into the quality of SICRs this is based only on SMER reviews as no issues are raised on the SICR.

Figure 9: Proportion of report submissions correct first time and in subsequent submissions, by report type for reports submitted in 2021/22

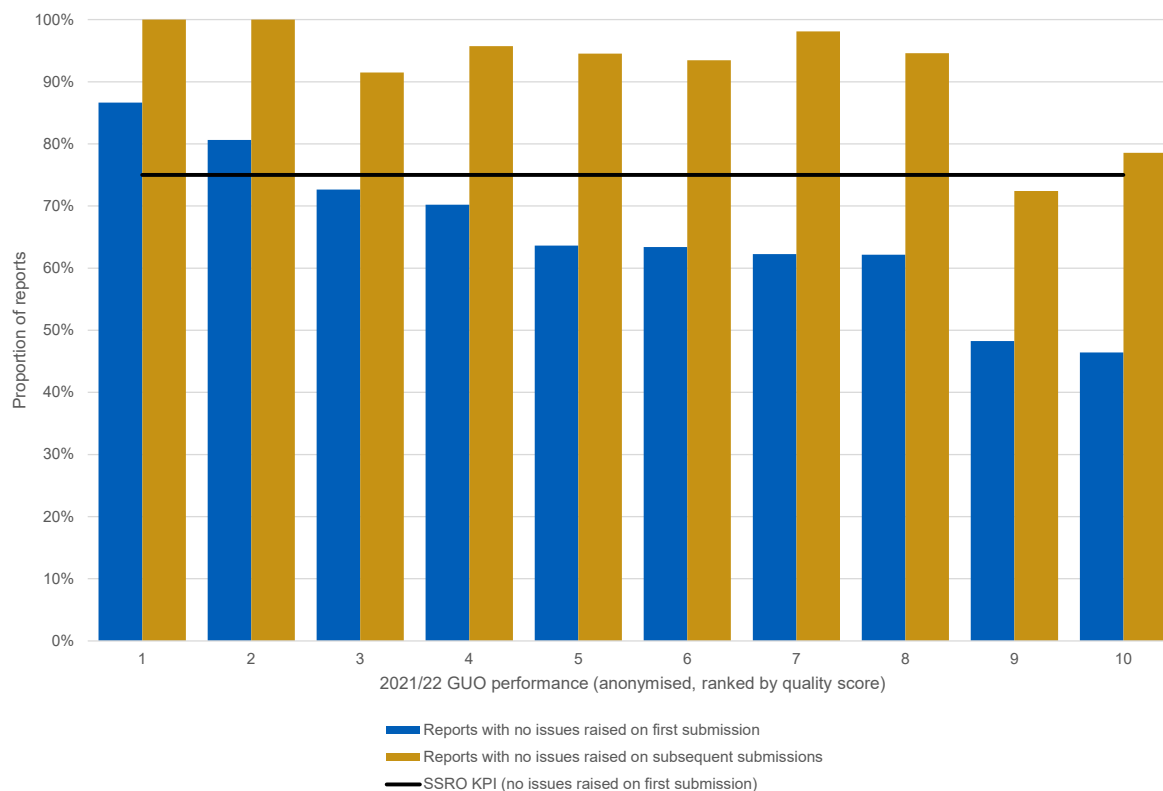


2.37 We know from our analysis in last year's Annual Compliance Report and the Targeted Review on supplier reports, summarised below, undertaken this year that the MOD performs a wide range of analytics work on overhead reports outside of DefCARS, but this means there is no recorded audit trail, nor any log of issues identified, within the system itself. Where the MOD has reviewed contract and supplier reports within the system, on a number of occasions contract and supplier specific issues are highlighted that are not identified through the SSRO's routine reviews. We therefore encourage the MOD to perform more, and timely, report reviews in DefCARS to ensure the accuracy of submissions.

Analysis of the quality of submissions by GUO and UPU

- 2.38 The top ten GUOs, by number of report submissions, account for 70 per cent of all contract report submissions reviewed in 2021/22 and the quality of their submissions impacts the overall quality indicator substantially. Figure 10 details the proportion of contract reports submitted in 2021/22 with no issues raised following first submission and following subsequent submissions for those ten GUOs.
- 2.39 The first and second GUO on the chart are achieving the SSRO's KPI of 75 per cent right first time for contract report submissions. This KPI target was increased from 60 per cent last year. Four of the GUOs were above the average quality across the whole regime in 2021/22 which was 68 per cent. The top ten GUOs' average was also 68 per cent correct first time.
- 2.40 We would expect the top ten GUOs to achieve 100 per cent when including subsequent submissions. Figure 10 shows that two of the ten GUOs resolved all issues that were raised by either the MOD's or the SSRO's reviews in 2021/22, but the others continue to have issues outstanding. Seven of the GUOs were equal to or better than the average for the top ten at 93 per cent following subsequent submissions.
- 2.41 The SSRO has held regular meetings with five contractors from the top ten GUOs. Four of these GUOs were within the top seven in Figure 10. The fifth GUO occupies the last position.
- 2.42 We are aware that on occasion contractors respond to MOD issues in DefCARS, but the MOD has not closed these issues on the system. This affects the analysis of the quality of submissions and incorrectly leaves matters recorded as outstanding. There were 16 issues raised in the system by the MOD in 2021/22 that had been responded to by the contractor, but remained open. There are a further 84 issues from previous years that still remain open. Without the MOD's input we are unable to confirm how many of the responses were satisfactorily resolved and should be closed.
- 2.43 The number of open issues which were responded to by the contractor but remained open in the system reduced from the 43 open issues identified last year. In October 2021 the SSRO introduced a DefCARS development which changed automated email notifications sent to stakeholders to include the issue owner responsible for the next step to closing each compliance issue. As this development was implemented during 2021/22, we would expect to see a further reduction in these open issues next year.

Figure 10: Proportion of contract report submissions correct first time and in subsequent submissions, by top 10 GUOs in 2021/22

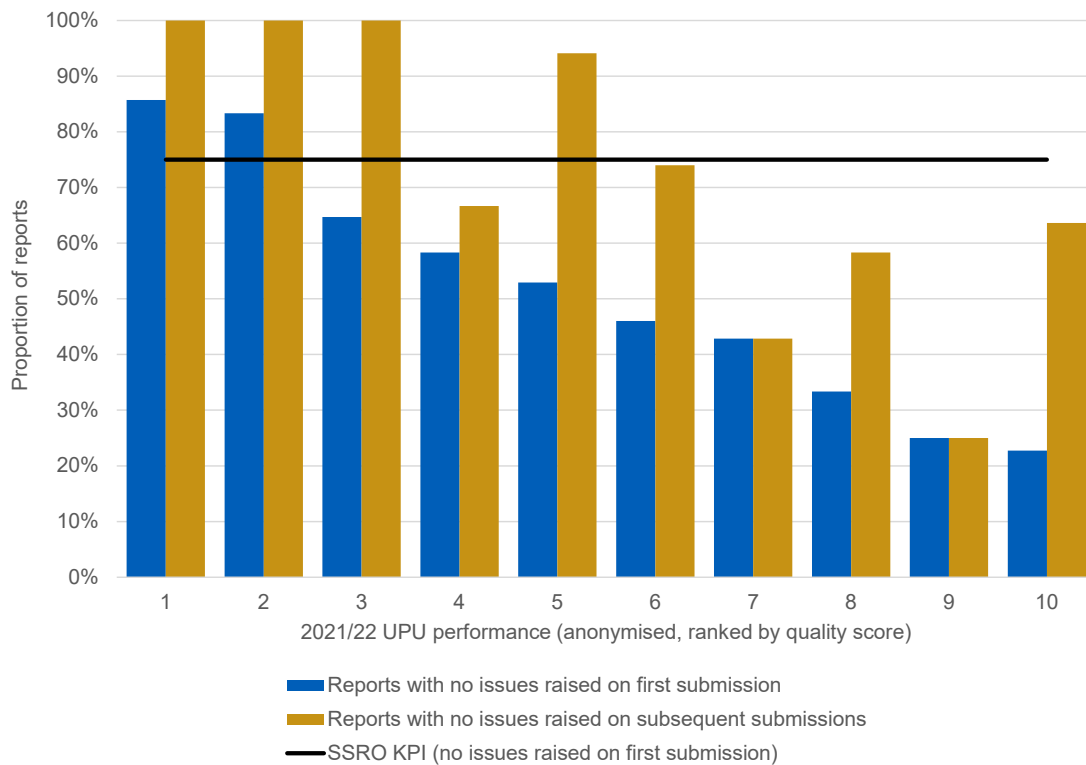


2.44 Figure 11 details the proportion of supplier reports submitted in 2021/22 with no issues raised following first submission and in subsequent submissions for the top 10 UPU. The top 10 UPU, by number of report submissions, account for 94 per cent of all supplier reports reviewed. Two UPU are achieving the SSRO's KPI of 75 per cent or more of reports right first time. The top 10 UPU average increases from 49 per cent right first time to 76 per cent when subsequent submissions are included and the overall average increases from 49 per cent to 75 per cent.

2.45 The seventh and ninth placed UPU have not resolved any of the compliance issues raised on their supplier reports. This could be due to the cut-off date for the analysis used in this report, although all UPU have been provided with at least two months to rectify compliance issues through the submission of correction reports or by responding to the SSRO. We will review why none of the issues raised were subsequently closed and whether they remain open or were closed after the cut-off date for this report. We will provide this information directly to the relevant contractors. The SSRO holds regular meetings with one of these UPU and will provide other contractors the opportunity to meet and discuss matters with us.

2.46 The SSRO also holds regular meetings with the tenth placed UPU which holds the same position in Figure 8 (Timeliness of supplier report submissions) and Figure 10 (contract report submissions correct first time and following subsequent submissions). We will review why a high number of its contract and supplier reports did not meet our quality indicator and provide this feedback directly at the next scheduled meeting to see what actions can be undertaken to improve the situation.

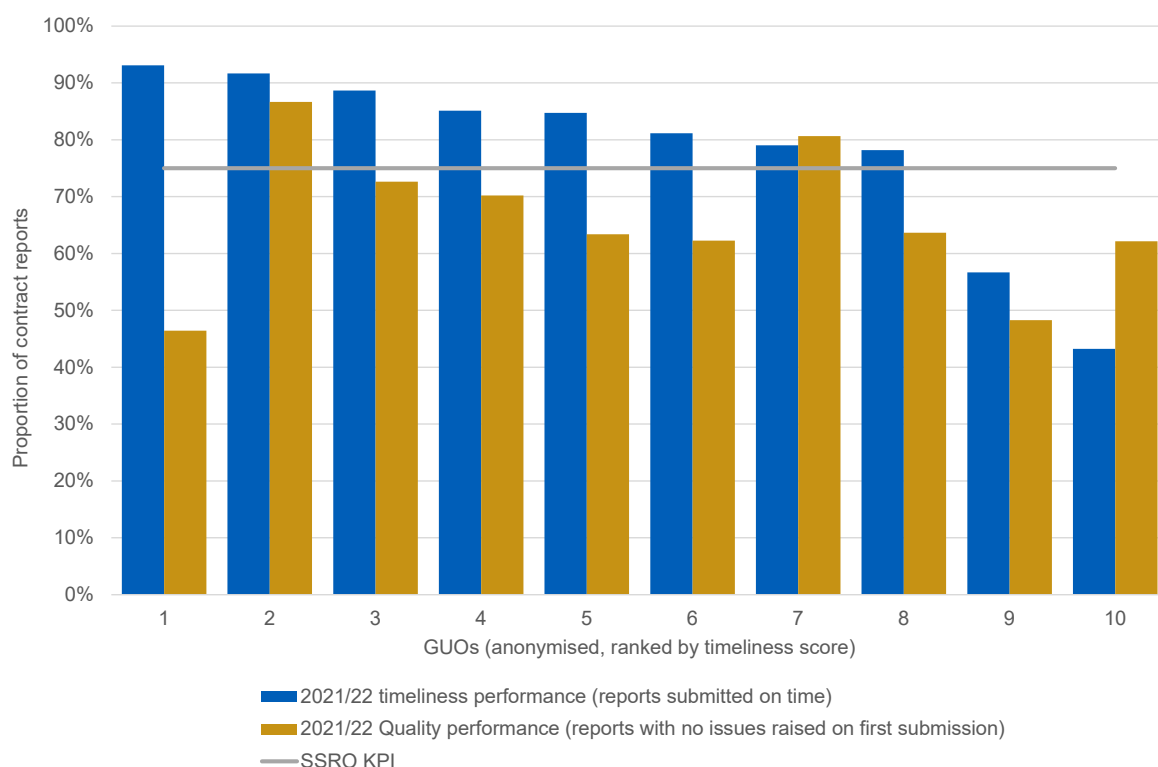
Figure 11: Proportion of supplier report submissions correct first time and on subsequent submissions, by top 10 UPU in 2021/22



Analysis of timeliness and quality of submissions by GUO and UPU

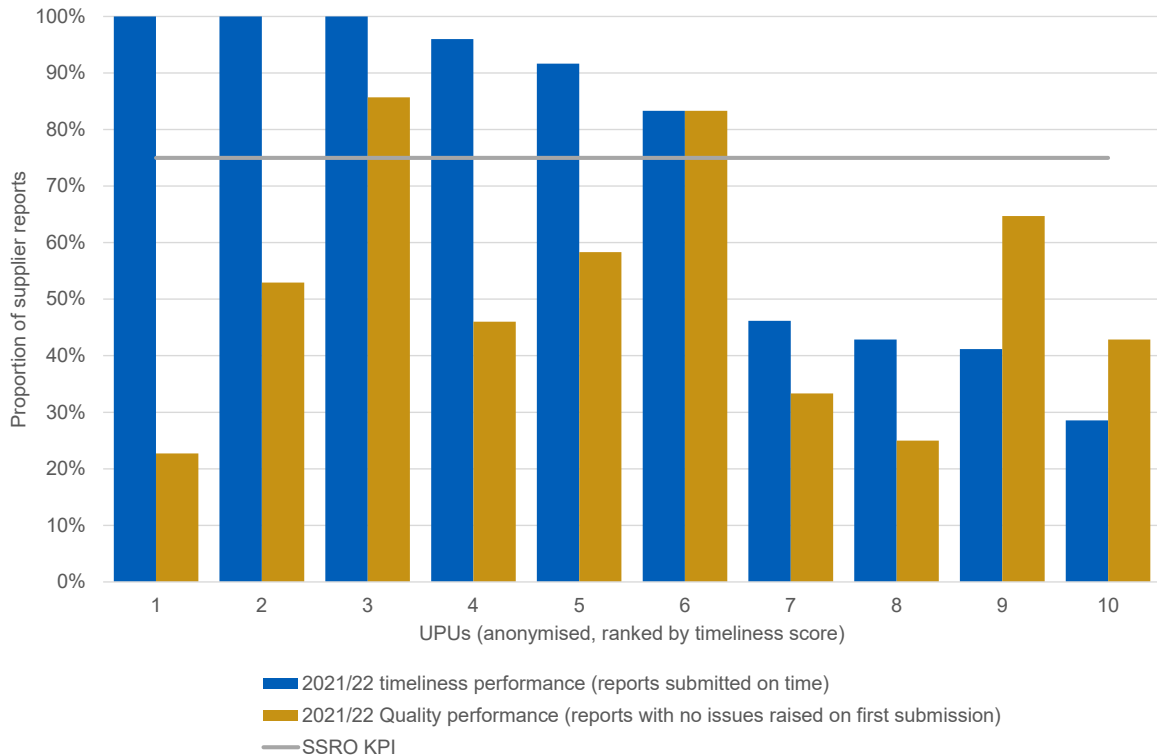
2.47 Figure 12 combines the GUO timeliness (Figure 7) and quality (correct first time from Figure 10) of contract report submissions in timeliness order. The chart details interesting comparisons, for example, the first GUO submitted the highest proportion of contract reports on time but achieved a comparatively low correct first time quality score. Two of the GUOs achieved a timeliness and quality score above our KPI of 75 per cent.

Figure 12: Timeliness and quality of contract report submissions for the top 10 GUOs for reports due in 2021/22



2.48 Figure 13 combines the UPU timeliness (Figure 8) and quality (correct first time from Figure 11) of supplier report submissions in timeliness order. The first UPU submitted the highest proportion of supplier reports on time but achieved a comparatively low correct first time quality score. Two of the UPU's achieved a timeliness and quality score above our KPI of 75 per cent.

Figure 13: Timeliness and quality of supplier report submissions for the top 10 UPU's for reports due in 2021/22



Analysis of themes arising from identified issues on contract and supplier reports

Significant messages

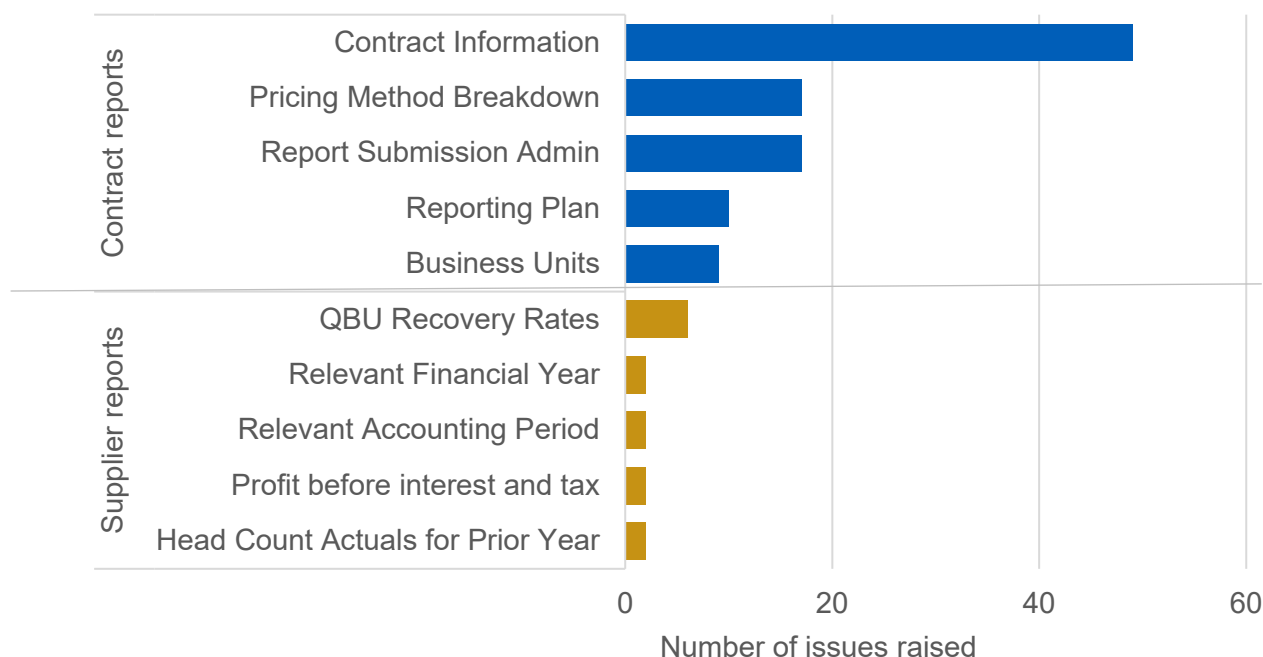
The MOD raised 174 issues on contract reports and 14 issues on supplier reports and the SSRO 576 issues on contract reports and 174 issues on supplier reports in 2021/22.

A high proportion of issues raised in reports relate to contractors incorrectly reporting basic information and inconsistencies within the reports.

Issues raised but not resolved in the system undermines data integrity due to poor data quality, creating gaps and inconsistencies in the data.

2.49 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. Figure 14 shows the top 5 themes identified from the issues raised by the MOD. In 2021/22, 102 of the 174 issues raised by the MOD on contract reports and all 14 of the issues raised on supplier reports centred around five themes. If an issue arises on a CIR submission and is applicable to each of the three initial submissions (the CPS, CNR and CRP), it is counted as three individual issues raised.

Figure 14: Top five themes from contract and supplier report issues raised by the MOD in 2021/22



2.50 We have further reviewed the top three themes for both contract and supplier reports raised by the MOD identified in Figure 14. Table 3 details the breakdown of the key issues raised across each theme on contract reports and Table 4 covers supplier reports. Most of these issues could only be identified by the MOD as a party to the contract, which is why it is important that MOD reviews take place on a timely basis.

Table 3: Breakdown of key issues from contract report issues raised by the MOD in 2021/22

Theme	MOD issues raised in DefCARS contract reports	Quantity of issues
Contract information (49)	Contractors entered an incorrect total contract price.	9
	Contractors entered an incorrect contract completion date in the CIR.	6
	Contractor entered an incorrect contract completion date in an On-Demand Contract Reporting Plan.	1
	Contractor reported the date contract entered into incorrectly.	6
Pricing method breakdown (17)	Contractors entered incorrect values in the CIR.	6
	Contractors entered incorrect values in other report types.	8
	Other issues.	3
Report submission admin (17)	Contact details not updated.	15*
	Report due date in CIR not populated or incorrect.	5*

*One CIR issue was raised for both the MOD contact details and the due date being incorrect which is why this sums to 20 instead of 17.

Table 4: Breakdown of key issues from supplier report issues raised by the MOD in 2021/22

Theme	MOD issues raised in DefCARS supplier reports	Quantity of issues
QBU recovery rate (6)	Full set of rates missing for the Business Unit.	2
	The source for each rate was not provided.	2
	Agreed rates part of the submission is incomplete.	2
Relevant financial year (2)	Contractor clarification required of the financial years for “last year actuals” and “this year estimates”.	2
QBUCAR Relevant accounting period (2)	Contractor entered last day of the relevant accounting period incorrectly.	2

SSRO Targeted Review: Supplier overhead reports

The SSRO carried out Targeted Reviews on four sets of supplier overhead reports submitted in DefCARS during 2021/22. This is the first year in which the SSRO’s Targeted Review has focused on supplier overhead reports rather than contract reports. The aim of the review was to consider:

- compliance by contractors against their statutory reporting obligations;
- reviews of the reports by the MOD, guided by the MOD’s Commercial Toolkit; and
- use of the data by the MOD.

The findings from these Targeted Reviews provide insight into how the regulatory framework and the MOD’s internal procedures are being applied. They also identify where some of the benefits of the reporting regime are being realised.

One contractor submitted three of their four overhead reports two months late. The MOD had not identified the delay until commencing the annual review with the contractor which resulted in the contractor then submitting the outstanding overhead reports from 2018/19 onwards. Eighteen of the 20 submissions for this QBU were submitted late with no enforcement action taken by the MOD.

The Targeted Review identified that the MOD performed a wide range of analytics work on overhead reports outside of DefCARS, utilising analytics tools that were developed with the help of private sector support, taking DefCARS data and analysing it in a useful way using Microsoft PowerBI. Whilst this work has been useful over the past two years, it has had its limitations and one of the Targeted Review recommendations was that the SSRO and MOD work together to provide management information within DefCARS in support of the MOD’s analytical requirements.

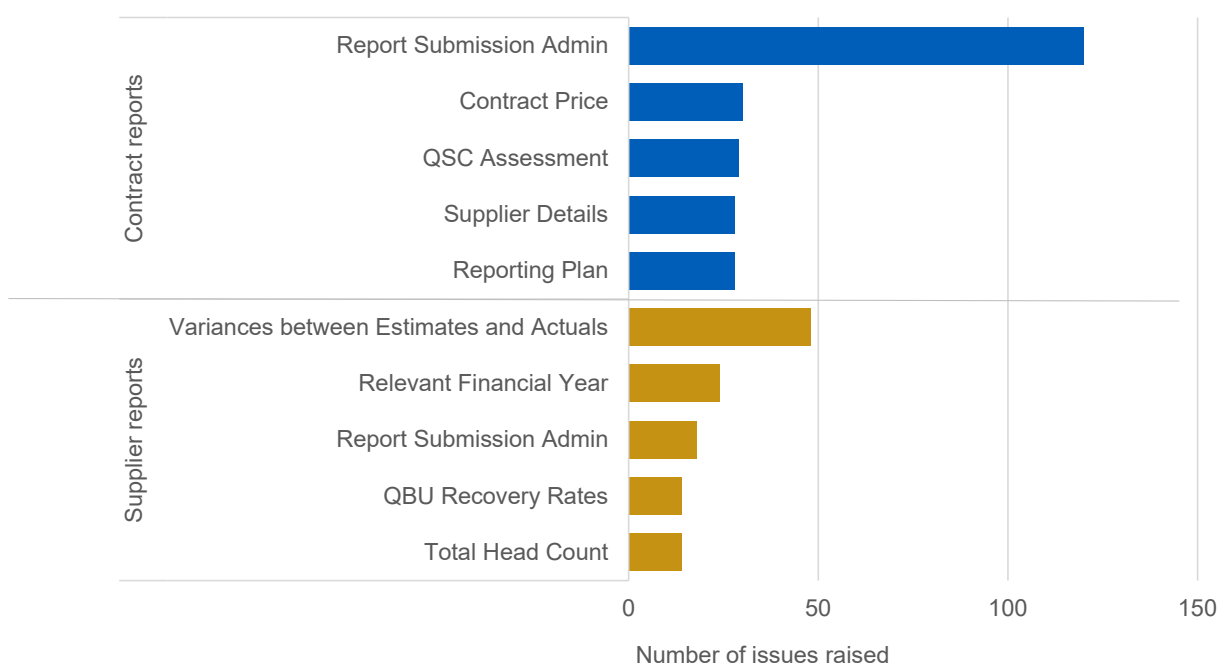
The MOD does not have a defined process it follows to review supplier report submissions for accuracy and quality, but this is recognised as something that needs to be resolved. The MOD has started to use overhead reports, both in a strategic and a tactical manner, but reported that it does not review every overhead submission as a matter of course. The SSRO did not observe that the reports selected for Targeted Review were used as part of the formal process for the rate claim assessment, as is guided by Chapter 8 of the MOD’s commercial toolkit. The rates portfolio covers both qualifying and non-qualifying business units and the MOD considered the reports for those business units for which there was an in-year business need for rates.

The MOD had only updated user permissions within DefCARS in May 2022 to enable the team members looking at supplier reports to raise queries on submissions within the system itself. The MOD raised some compliance issues in DefCARS on one of the submissions considered for the Targeted Review to which the contractor was required to respond. Corrective actions were agreed through subsequent discussions between the MOD and the contractor, but the contractor had not resolved any of the MOD's issues on the system at the time of drafting the report. Leaving unresolved matters within DefCARS undermines data integrity due to poor data quality, creating gaps and inconsistencies in the data.

The Targeted Review demonstrated that the MOD has made effective use of a number of supplier reports, albeit focusing primarily on the QBUCAR submissions, but that more could be done. The SSRO is undertaking a project on overheads which is considering the reporting of supplier information by contractors in relation to overheads and forward planning. The project aims to improve the overhead information submitted by contractors for the purposes of enabling better strategic analysis and processing of rate claims.

2.51 Figure 15 shows the top 5 themes identified from the issues raised by the SSRO. In 2021/22 235 of the 576 contract report issues and 118 of the 174 supplier report issues raised centred around five themes.

Figure 15 Top five themes from contract and supplier report issues raised by the SSRO in 2021/22



2.52 We have further reviewed the top three themes for both contract and supplier reports raised by the SSRO, identified in Figure 15, and this is set out in Tables 5 and 6.

Table 5: Breakdown of key issues from contract report issues raised by the SSRO in 2021/22

Theme	SSRO issues raised in DefCARS contract reports	Quantity of issues
Report Submission Admin (120)	Contractor used incorrect report due date or not selected (left blank)	109
	Contractor not attaching document	5
	Other issues	6
Contract Price (30)	Total Contract Price on the contract page does not match the value entered on the summary analysis of price page in the CIR	27
	Total Contract Price on the contract page does not match the value entered on the summary analysis of price page in the ICR	1
	Total Contract price has changed in the QCR but latest pricing amendment date field is blank	2
QSC Assessment (29)	Listed sub-contracts entered into but the 'Assessed as QSC?' fields are selected as Not Assessed Yet.	21
	Not all fields completed	6
	Yes selected for 'Assessed as QSC' but the contractor stated otherwise on the same row.	2

- 2.53 Contractors are required by Regulation 22(2)(b) to provide the date that the report is due. One hundred and eight of the issues raised were because the report due date was either incorrect or blank. This field is important as it is used to consider whether submissions are being made on time or not.
- 2.54 The SSRO has included automatic validation rules in DefCARS which are designed to help contractors make their submissions right first time. We have implemented over two hundred validation rules since the system first went live, flagging warnings for contractors to review prior to submission, focusing on the areas where contractors had consistently made errors in past submissions. DefCARS provides contractors with automated validation warnings if the report due date field is left blank on all report types and so this should not be an area where contractors are making errors in their submissions. We have identified that 66 of the 109 issues raised were because the contractor either did not select, or used an incorrect, report due date which would have resulted in an automated validation warning.
- 2.55 We previously identified the report due date field as being problematic for contractors and implemented a further DefCARS development in September 2021 to provide contractors with a list of regular statutory reports and associated due dates from the latest submitted CRP. This facility only becomes available once a CIR is submitted as it relies on the information contained within the initial reporting plan. The facility cannot be used for on-demand reports as the CRP cannot forecast these submissions.
- 2.56 Ninety of the SSRO's issues were raised against CIR submissions and 14 issues against on-demand reports, which remains a concern, but does demonstrate that the DefCARS development has been successful for the remaining report types. The 90 issues raised are attributable to 30 CIRs. Issues raised against the Report Submission Admin page in DefCARS are applicable to each of the three initial submissions (the CPS, CNR and CRP), and so each issue raised is counted as three individual issues.

- 2.57 Four of the five issues raised by the SSRO were because contractors did not include an attachment in their report submission related to the CCS, meaning the CCS did not include all the relevant information required by the legislative framework. CCS reports do not have a template in DefCARS, as only general reporting requirements are included for this report type on the system and the contractor should determine the format of the rest of the submission alongside the MOD, but this must be attached in DefCARS.
- 2.58 A validation warning was implemented from 20 October 2021 to remind contractors to attach their templates when submitting a CCS report. An automated validation warning was generated in three of the five cases, so the contractors appear to have ignored this warning. In one of the other cases, a contractor submitted an On-Demand Contract Reporting Plan and referred to information provided in an attachment which was not included on the system.
- 2.59 A validation warning was implemented in March 2017 to warn contractors of when the Total Contract Price on the contract page does not match the value entered on the summary analysis of price page. A total of 22 of the 28 cases identified received an automated validation warning. A validation was also implemented in May 2019 to warn of where the Total Contract Price has changed from the last submitted contract report (of any report type), but the latest pricing amendment date field is blank. Both of the cases identified in Table 5 received this validation warning.
- 2.60 Regulation 25(2)(l)(ix) requires a contractor in a Contract Notification Report to confirm for each sub-contract if an assessment has been made under regulation 61(1) or (4), and the outcome of that assessment. This requirement is repeated in a QCR, lower value ICR and the CCR. In September 2021, we changed the three drop-down options in DefCARS against the field 'Assessed as QSC' to make the requirement clearer to contractors.
- 2.61 A total of 21 issues were raised by the SSRO as contractors stated that the sub-contracts had been entered into but in the 'Assessed as QSC?' field had selected 'Not Yet Assessed'. In July 2022, the SSRO published version 11 of our contract reporting guidance which included an update to help contractors with reporting QSC assessments, understanding sub-contract aggregation rules and referenced new QSC assessment notification templates which can be found on our website that the contractor may choose to use once a QSC assessment has taken place. Whilst we have highlighted in the report where a number of contractors appear to have ignored validation warnings, this is a small subset of contractors. Automated validation checks do help contractors, and the SSRO will consider whether to implement further validation warnings to support contractors with completing the sub-contract QSC assessment fields correctly in the future.
- 2.62 A validation was implemented in December 2019 to warn contractors when fields on the row for each sub-contract entered are not complete. In four of the six cases where the SSRO raised an issue relating to this field, an automated validation warning was generated. Two issues were raised because the contractors concerned had reported yes against 'assessed as QSC' but contradicted this in other fields.

Table 6: Breakdown of key issues from supplier report issues raised by the SSRO in 2021/22

Theme	SSRO issues raised in DefCARS supplier reports	Quantity of issues
QBUCAR variances between estimates and actuals (48)	An explanation of any material difference is required	48
Relevant Financial Year (26)	The relevant financial year to which the report relates is incorrect	26
Report Submission Admin (18)	Amend report due date/relevant financial year	8
	Missing information in the ARCR and ERCR report submissions	3
	Report cannot be reviewed until rates added to the QBUCAR	2
	Other	5

- 2.63 The regulatory framework requires the contractor to input the estimates as well as actuals for the relevant accounting period in the QBUCARs and explain any material difference. A high number of the issues raised were attributable to the contractor not entering any information in the material difference commentary box. Issues raised against QBUCARs are applicable to each of the two submissions, the estimated and actual QBUCAR submissions.
- 2.64 Twenty-six issues were raised because contractors submitted supplier reports with the wrong financial year in the Contract page selected. Frequently this is due to contractors' financial year not aligning to the government financial year. We have also identified ERCR and ERAPS submissions that use the following financial year as opposed to aligning with the QBUCAR. The SSRO requested a correction report to amend this oversight.

Improving the quality of submissions and the use of data

Significant messages

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.

The SSRO considers the completeness and consistency of submissions but only the MOD can identify whether report submissions are accurate when reviewing reports.

When reviewing reports within DefCARS the MOD should use the compliance issue logging functionality, ensuring the contractor responds and that the issue is appropriately closed.

We will investigate whether we can develop alternative measures for the quality indicator in future as our current analysis is based on a 'pass' or 'fail' approach against each submission.

The MOD could make better use of enforcement action where contractors have disregard for resolving issues raised within DefCARS requiring correction to improve the quality of reports.

- 2.65 The number of reports that were right first time in 2021/22 improved for contract reports but declined for supplier reports. Contractors are encouraged to take greater care when submitting reports to ensure the data provided is correct and complete.

- 2.66 Increasing the amount of report reviews performed by the MOD, raising quality issues through the compliance issue logging functionality and seeing these through to a satisfactory resolution should improve the accuracy of subsequent reports. As data quality improves there is likely to be a corresponding increase in data utilisation to support and develop the regulatory framework, making successful procurement decisions and improving contract management.
- 2.67 In our Targeted Review we found an example where the MOD raised an issue within DefCARS, but subsequently met with the contractor and resolved the issue outside of the system. When issues are raised or resolution takes place outside of DefCARS the system's and ultimately the MOD's audit trail is lost, making it less likely that issues will be addressed in individual reports and reducing the quality of these reports and the quality of the management information available to identify issues across reports. We encourage the MOD to raise all issues within DefCARS and record progress to a resolution within the system.
- 2.68 The SSRO's performance indicator is based on a 'pass or fail' assessment of a report submission. We consider whether reports are right first time, whether subsequent submissions are correct, and the number and type of issues raised on each report. This approach provides a broad assessment of the quality of submissions, acknowledging the fact that a single error in any part of a submission may lead to a 'fail' assessment in relation to the KPI, but that the rest of the data within the submissions may be of good quality and submitted on time, and therefore useful to recipients by informing contract management or procurement activities.
- 2.69 The percentage of reports submitted right first time continues to be below our KPI for both contract and supplier reports. We acknowledge that achieving this KPI may be difficult based upon how we measure whether a report submission has passed or failed and we may investigate whether this can be enhanced to provide the percentage of the report that is correct.
- 2.70 The MOD has taken no enforcement action associated with the quality standard of reports. This report shows that two contractors took no corrective action on their supplier report submissions despite issues being raised within the system. In such cases we encourage the MOD to use enforcement actions to improve the quality of reports.

3. Recommendations

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 direct 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 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.

