Ministry
of Defence

Accounting Officer System Statement

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Chapter 1. Preface

1.1. Government Departments are required to incorporate into the Governance Statement section of their Annual Report and Accounts (ARAc) a summary account of how they achieve accountability for the funds voted through Parliament.

1.2. In 2016, the National Audit Office and Public Accounts Committee recommended, as part of its wider work on accountability to Parliament for taxpayers' money, that all departments should prepare accountability system statements, covering all of the accountability relationships and processes within that department, making clear who is accountable for what at all levels of the system from the Accounting Officer down. The government agreed that Principal Accounting Officers of the main central government departments should provide a statement of their accountability systems, covering all the relevant accountability relationships within the department, including relationships with arm's length bodies (ALB) and third-party delivery partners. These statements are known as Accounting Officer System Statements (AOSS).

1.3. Managing Public Money (MPM) is the principal guide for Accounting Officers on the expectations of their role. It sets out the demanding standards expected of all public servants in the UK, including the standards of honesty, impartiality, openness, accountability, accuracy, fairness, integrity, transparency, objectivity, and reliability. Accounting Officers are personally responsible for ensuring that proposals to commit public money measure up to standards of regularity, propriety, value for money and feasibility, and for reporting to Parliament on the way that public funds have been used.

1.4. An AOSS will be one part of the way in which Accounting Officers fulfil these responsibilities:

- Ensuring that the organisation that they manage, delivers the standards of governance, decision-making and financial management set out in Managing Public Money.
- Putting arrangements in place to satisfy themselves that each ALB has systems adequate to meet these standards.

Chapter 2: Scope of Departmental Accountability System

2.1. I am the Principal Accounting Officer (PAO) for the Ministry of Defence (MOD), one of 24 Ministerial Departments.

2.2. The MOD is a Ministerial department with overall responsibility for civilian oversight of the nation's Armed Forces, generating and sustaining the nation's military capability both in terms of equipment and personnel, developing the UK's defence policy and strategy, and providing the UK's nuclear deterrent.

2.3. Responsibility for delivering this complex array of activities is divided across the organisation as an enterprise, with the Department split at its highest level into four 'Areas' with 30 public bodies across them.

2.4. The Secretary of State (SofS) for Defence has overall responsibility for the Department. SofS is supported by three Ministers from the House of Commons, and by one from the House of Lords.

2.5. Created by Letters Patent in 1964, the Defence Council, is essential to the legal functioning of the MOD. Via powers of prerogative, it gives the SofS the ability to administer and command the Armed Forces by the Service Boards.

2.6. Each Minister has specific roles and responsibilities within the Department[1]. They have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of this department and its partner organisations. They look to me as the PAO to manage and delegate duties to support them in the making and delivering of policy and the handling of public funds. My responsibilities as PAO 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.

2.7. The Department works with multiple agencies and public bodies (as illustrated in the diagram on page 8) to achieve its objectives. The Accounting Officers of these bodies are responsible for the stewardship of the resources allocated to them, which is explained in their letters of appointment and delegated authority.

[1] The roles and responsibilities of MOD ministers can be found on the MOD website: https://www.gov.uk/government/organisations/ministry-of-defence

2.8. In all cases where these bodies produce statutory Annual Reports and Accounts (ARAc), the Chief Executive or Accounting Officer signs a governance statement outlining their internal control system.

2.9. Estimates are the means of obtaining the legal authority from Parliament to consume resources to finance the Department's agreed spending programme. This System Statement describes accountability for all expenditure of public money provided through the department's Main and Supplementary Estimates[2] (MOD and Armed Forces Pension and Compensation Scheme), all public money raised as income, its ALBs (i.e., Executive Agencies and Non-Departmental Public Bodies), and the management of shareholdings, financial investments, and other publicly owned assets for which I am responsible.

2.10. It describes the system which I apply to fulfil my responsibilities as an Accounting Officer in accordance with HMT guidance set out in Managing Public Money[3] and ensures that spending is carried out with regularity and propriety and achieves value for money.

2.11. This Statement describes the accountability system which is in place at the date of this statement, and which will continue to apply until a revised statement is published.

[2] https://www.gov.uk/government/publications/main-supply-estimates-2021-to-22
[3] https://www.gov.uk/government/publications/managing-public-money

Chapter 3: Governance Overview

Governance and Accountability

3.1 This Statement describes the accountability system which is in place at the date of this statement, and as the lead official and PAO for the department, I am accountable for the effective stewardship of its funds. I delegate responsibility for this stewardship and, to support the effectiveness of this delegation, I have put in place an operating model backed by effective governance processes and budget allocation arrangements. Where I have appointed Accounting Officers, their letters of designation reflect the principles outlined in Managing Public Money.

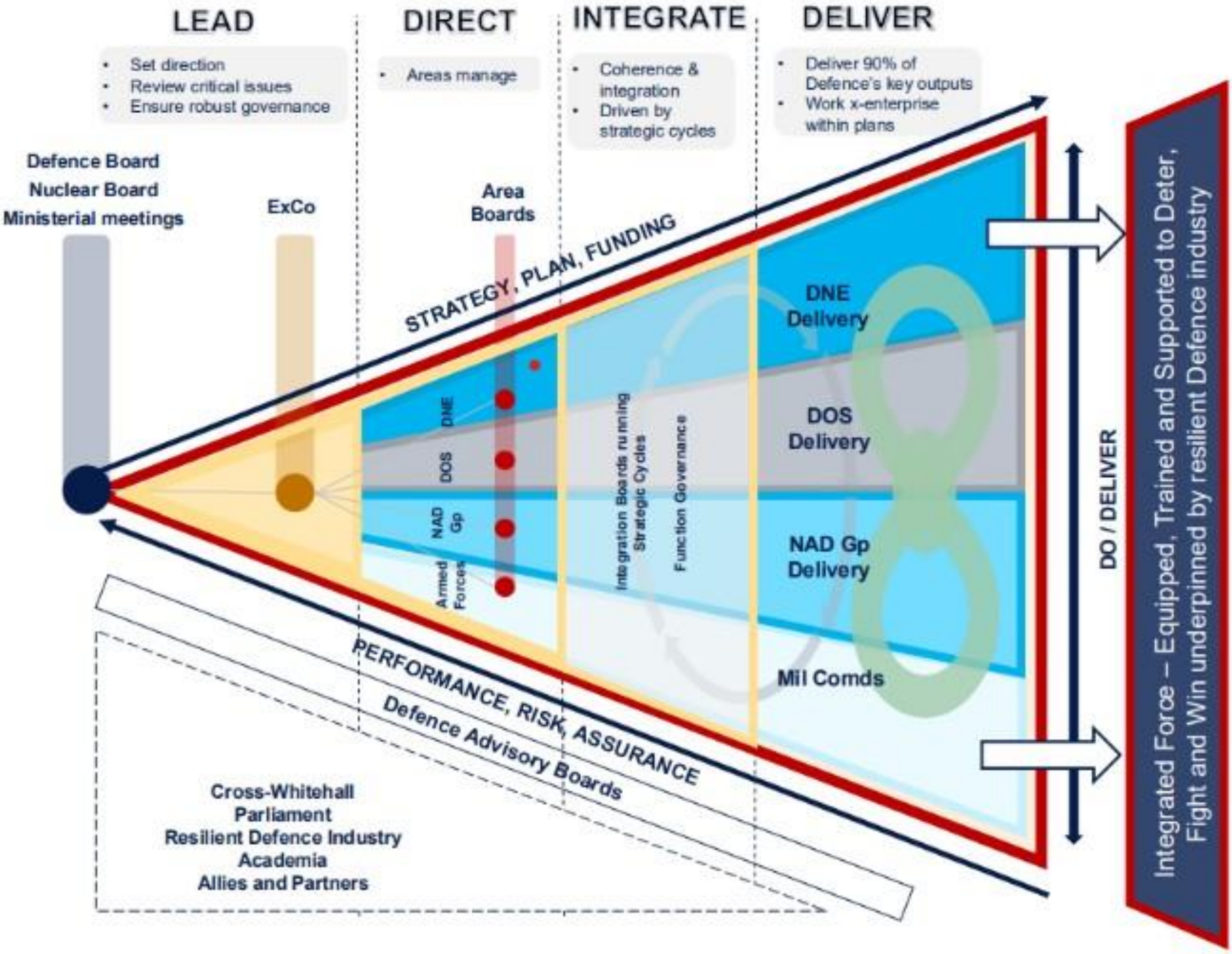
3.2 The delegation framework gives me insight into the business of the Department and its use of resources and allows the Secretary of State (SofS) through the Defence Board – to make informed decisions about progress against Departmental objectives, and if necessary, to steer performance back on track.

3.3. Defence is a complex enterprise involving multiple organisations with a legitimate requirement to be consulted and involved in decision making. Its governance architecture is therefore more complicated than some other departments, but necessarily so. The diagram that follows details the MOD Board structure and its committees.

Defence Operating Model

3.4. The purpose of the Defence Operating Model (DOM) is to optimally organise Defence to set and deliver its strategy in accordance with the outcomes set by ministers. Specifically, it configures the governance, accountability, structure, people, data, and technology to provide a comprehensive framework for turning political direction into policy and action. Its fundamental characteristic is to organise Defence as a single Enterprise aligning the components of Defence towards over-arching outcomes.

Figure 2 - Level 1 DOM



3.5 The Level 1 DOM at Figure 2 describes how Defence will operate. It shows how direction is set, how priorities are integrated and managed, and how delivery is driven with clear accountability. From left to right the diagram frames how direction and funds flow from the Defence Board through the four Areas, which are integrated through strategic cycles and by cross-cutting Functions, into delivery. From right to left it indicates how performance, risk and assurance arrangements connect delivery back to ExCo and Ministers so Defence can take a strategic approach.

3.6 Each of the four Areas is led by a 4* Military Officer or the equivalent grade Senior Civil Servant, who are collectively known as the “Quad”. As well as being individually accountable for the contribution of their four areas to Defence as an enterprise, they are also collectively responsible for the delivery of Defence outcomes as a whole. Whilst the Quad does not sit as its own Governance Forum, the Quad are core members of governance forums such as the Executive Committee (ExCo).

The four Areas and the Quad are as follows:

a. Department of State (DoS) – Led by myself as Permanent Secretary: it performs three interconnected roles: strategic integration and governance of the Enterprise; Functional Leadership and compliance; and Enterprise enablement

b. The Military Strategic Headquarters (MSHQ) and Armed Forces (AF) – Led by the Chief of Defence Staff, commands the Armed Forces to develop military plans, as well as generate and operate the Integrated Force.

c. The Defence Nuclear Enterprise (DNE – Led by the Chief of Defence Nuclear: responsible for cohering the enterprise which operates, maintains and sustains the nuclear deterrent. It is unique in Defence as it has entirely ring-fenced funding.

d. The National Armaments Director Group (NAD Gp) – Led by the National Armaments Director (NAD): Responsible for the UK's Arsenal including the acquisition of capability (including delivery, sustainment and support) and growing Defence Exports.

3.7 Intersecting these four areas, the DOM consists of four layers of activity across the enterprise:

a. Lead. The DOM anchors the delivery of activity to political direction and provides the mechanism through which Defence is led and managed as a single enterprise. At the apex, Ministers, the Defence Board, and the Defence Nuclear Board lead Defence by setting intent, priorities and risk appetite, which are expressed through Defence Strategy and the Defence Plan. ExCo will enable the Quad to lead and manage Defence on an enterprise basis. Supported by the Strategic Centre, it will translate Ministerial direction into strategy, national Defence policy, and prioritised plans; balance pressure and trade-offs; and hold delivery to account across the Defence Enterprise. Strategy, plans and funding are considered together, ensuring decisions are informed by affordability, risk and delivery confidence. Fusion of this layer above the Areas ensures the strategic integration of direction issued from the ExCo.

b. Direct. The individual responsibilities of the Quad are discharged through the four Areas in this layer. An Area Board and central staff support each leader to cohere the Area contributions across the enterprise through the Strategic Cycles and direct delivery within the Area. It is through this layer, reflected in Area Plans, that authorities are delegated from the Quad and further cascaded as necessary; it is the source of authority for the 3*s cohering and contributing to the Strategic Cycles.

c. Integrate. This is the critical layer in driving detailed coherence across the Defence Enterprise. Three Strategic Cycles and 13 Functions provide the means by which activity that cuts across organisational boundaries is routinely brought together, tensions are surfaced early and dependencies are managed explicitly to drive strategic integration. Through Strategic Cycles, which form the backbone of the Integrate layer, all Areas and Functions contribute to the delivery of "One Defence" enterprise outputs. Crucially, advice to ministers is routinely consolidated through an enterprise lens, rather than reflecting competing or fragmented organisational positions. Functions similarly provide cross-cutting coherence (e.g. Finance) and, where appropriate, second line assurance (e.g. Safety) in specific topics.

d. Deliver. Delivery occurs within the Areas and Military Commands, which are responsible for the majority of Defence outputs. They will operate within the priorities, funding, standards and guardrails set through the enterprise system, with clarity about what they are accountable for and how performance will be assessed. This preserves local authority and responsibility for delivery, while ensuring effort is aligned to Defence-wide priorities rather than optimised in isolation

3.8 Under the DOM there is a single governance framework to support clear authorities and accountability across Defence as an enterprise. The governance framework links Ministerial and Defence Board direction, ExCo collective leadership, the four Areas, the Strategic Cycles, and Functions, to deliver “One Defence” outcomes. Within this framework, there are three categories which governance forums come under: **Enterprise**, **Area** and **Integrate**.

Enterprise

Defence Council

3.9. The Defence Council is a formal body, with almost all of its work conducted by the Defence Board. The Secretary of State is the most senior individual in the Defence Council, which comprises of other Defence ministers, the Permanent Secretary, the Chief of Defence Staff, senior service officers and senior officials who head the armed services and the department’s major corporate functions.

3.10. Created by Letters Patent in 1964 it is essential to the legal functioning of the MOD. Via powers of prerogative, it gives the Secretary of State the ability to administer and command the Armed Forces by the Service Boards. The three Service boards (the Admiralty Board, the Army Board and the Air Force Board), which are sub-committees of the Defence Council, meet annually for each service chief to report to the Secretary of State on the health of their respective services.

Defence Board

3.11. The Defence Board, chaired by the Secretary of State, provides the top-level strategic leadership of the Department. As the highest committee within the Ministry of Defence, it is responsible for the full range of Defence business other than the conduct of operations. Its role is to set and steer Defence’s overall strategic direction; define and articulate Defence’s vision, values, priorities and capabilities; and ensure the Department is appropriately resourced to meet its objectives. The Board focuses on a small number of the most critical departmental priorities and top-level risks, directing action where required and holding the system to account for delivery.

Defence Audit and Risk Assurance Committee

3.12 The Defence Audit and Risk Assurance Committee (DARAC) reviews and challenges the Department’s approach to internal control and provides independent advice both to the Defence Board and Permanent Secretary as the Accounting Officer, on the effectiveness of the policies and processes in use. Its main focus is to assure the integrity of financial reporting and effectiveness of risk management. The committee provides assurance that financial reporting, systems, risk and internal controls and processes are designed effectively and are operating as they should. It identifies a small number of activities for deeper dives each year, in support of this process.

Defence Nuclear Board

3.13. The Defence Nuclear Board (DNB) is a sub-group of the Defence Board. It is the most senior board within MOD that deals exclusively with nuclear-related matters. The DNB is chaired by the Secretary of State for Defence and oversees and assures delivery of the UK's strategic nuclear deterrent and the Defence Nuclear Enterprise (DNE) that sustains it.

3.14. The DNB focuses on the strategic issues shaping the overall health of the Enterprise and ensures that mitigations for short term risks are considered in light of long-term target outcomes. It is guided by analysis of the strategic risks to our nuclear deterrence capability and posture and the planned mitigations, reported progress across the portfolio of Defence Nuclear projects and programmes, and analysis of cross-cutting strategic themes.

Executive Committee (ExCo)

3.15. The Executive Committee (ExCo) is the Department's senior decision-making forum, supporting the Defence Board in discharging its responsibilities as a Department of State. It provides collective strategic leadership and ensures coherence across Ministerial and organisational priorities. ExCo sets and refines the Department's strategic direction; supports the Permanent Secretary in fulfilling Accounting Officer duties; and provides advice and direction on risk, performance, and cross-cutting issues that require enterprise-level coordination. Its work programme is structured around the annual strategic planning cycle and includes recommending the Defence Strategy to the Defence Board, deciding the Defence Plan, directing Defence Reform activities, overseeing multi-year strategic and spending reviews, directing the Annual Budgeting Cycle, and resolving key performance challenges and risks escalated from across Defence. Through this, ExCo acts as the central mechanism for shaping, governing and driving delivery of Defence's strategic intent.

Investment Approvals Committee

3.16. The Investment Approvals Committee (IAC) is a sub-committee of the ExCo and the senior body in MOD responsible for decisions on major investment proposals. The IAC sets and enforces the policy and guidance for all investment and disinvestment decisions including where decisions are delegated.

3.17. The majority of IAC business is conducted through written correspondence but formally meets in person once a month to consider the most challenging cases In-Committee with additional meetings held as required. The Permanent Secretary, as the Accounting Officer, formally chairs the Committee, however this is normally delegated to Director General Finance for all but the most significant or material decisions. The IAC reports to the Defence Board through the Defence Management Group (DMG) and advises Defence Ministers on a course of action.

Defence Safety Committee

3.18. The Defence Safety Committee (DSC) is a sub-committee of the ExCo and acts as the senior forum within Defence for the governance of Safety. It oversees the direction, delivery, performance, risk and assurance of Safety activity and of the Defence Safety Function.

3.19. The Committee brings together all parts of Defence at the most senior level to provide visible, top-level ownership and leadership of all aspects of Safety, improving safety culture and performance across Defence.

Area

Area Management Boards/Chief of Staff (CoS) Committee

3.20. Area Boards (and the equivalent CoS Committee) support the Quad individually in directing activity within their own Areas, implementing Defence Board and ExCo direction, supporting integration across Defence through the Strategic Cycles, and managing performance and risk. AMBs have two roles in managing risk, including Principal Risks. As the First Line of Defence, they make sure risks in their own Area are being managed well and that the agreed actions to reduce those risks are delivered. As the Second Line of Defence, where an Area owns a Defence-wide Principal or Strategic Risk, the AMB also leads and coordinates the actions that other parts of Defence need to take, ensuring everyone is working to a consistent mitigation plan.

Integrate

Integration Boards

3.21. Each of the three strategic cycles that drive integration below the Areas is cohered by an Integration Board, with representation from Areas and Functions. Any matter that cannot be agreed at this level due to impacts on accountabilities in another Area is escalated to the Area Board to scope further mitigation which may enable the proposed decision. Ultimately, if such a solution cannot be reached, alignment at ExCo.

Function Boards

3.22. The Function Boards support the Function Owner by coordinating and prioritising Functional activity in the Areas and Strategic Cycles; they include representation from all the Areas. Any issues unresolved can be escalated to the Area Boards with clear recommendations, or to ExCo as required.

Budget Allocation and Responsibility

3.23. The Department is allocated taxpayer's money through the Estimates process. Within the Defence Operating Model, I am ultimately accountable for making sure Defence as an enterprise does not overspend against its allocated budget and that the money is spent appropriately in the delivery of Ministers' priorities.

3.24. The Defence Plan is the primary planning document which directs the work of the whole Department and aligns resources to specific outcomes required to implement the strategic direction set out in the Defence Strategy. All four leaders within the quad must agree to this plan, although I have ultimate accountability for ensuring the enterprise keeps within its budgetary allocation. Where proposed commitments across the quad risk exceeding the Department's allocated budget, I am responsible for ensuring these commitments do not proceed until a credible plan for addressing pressures has been agreed, unless Ministers otherwise direct.

3.25. The Defence Planning Process takes place in the 'integrate' layer of the Defence Operating Model, specifically as part of the Strategic Planning Cycle (SPC). It involves prioritising and planning the delivery of outcomes in each part of Defence in order to meet MOD’s overall strategic intent as set out in DS and other supporting. strategies.

3.26. This principle cascades through subordinate parts of the organisation. Area budgets are also set annually through the SPC, informed by the other two strategic cycles (Integrated Force Strategic Cycle and Strategic Effects Cycle). Financial resources are cascaded to Areas in alignment with specific outcomes required of the Area.

3.27. The allocated control total (CT) – the spending limit for that area – is then reflected in the Defence Plan. The Letter of Delegation, which I issue to Area Budget Holders delegates financial authority and accountability for that Area and sets out expectations and boundaries for spend. Alongside allocated CTs for each area, contingency will held centrally within the department each year, held as unallocated provision unless and until allocated through agreed in-year governance processes.

3.28. Areas will be expected to operate within their annual CT, adjusting priorities and plans to remain within this limit. New commitments and activity by areas should only proceed where this is affordable, unless Ministers otherwise direct. In the event of unforeseen circumstances, Areas will re-visit their existing plans to see if resource can be reallocated. To support this, Areas will maintain a list of projects and programmes which can be reprioritised should pressures emerge. Engagement across the Area, and with the strategic cycles’ governance boards may be required, to reassess priorities and plans, escalating to ExCo for decision if necessary. Where resources cannot be reallocated, centrally held contingency may be allocated.

3.29. The Integrated Plan is an annual plan that provides the direction, prioritisation, and authority for Defence’s activity for each financial year. It drives all subordinate planning and delivery, including the Armed Forces Plan and the other Area Plans, reflecting the Budget allocations for the year and the outcome of the Defence Investment Plan (DIP).

3.30. Elements of the Integrated Plan form the MOD’s Strategic Plan. Every Government Department is required to produce a Strategic Plan, which is used to hold the Secretary of State and Permanent Secretary accountable for delivery and is monitored by the Cabinet Office and HM Treasury. The Integrated Plan/Strategic Plan shows how Defence is meeting government commitments and agreed priority areas, linked to our Spending Review settlement.

3.31. The Integrated Plan will provide direction to Defence to deliver the intent set out in the 2025 Strategic Defence Review (SDR) and the subsequent Defence Investment Plan (DIP). It uses Strategic and Enabling Outcomes as a framework to provide detailed direction needed to drive activity, and to set the Department for effective delivery. Where new projects or programmes are agreed, beyond those anticipated in the DIP, this shall be detailed in the annual DIP delivery update, alongside detail on offsetting choices to ensure the Department does not exceed its allocated budget.

3.32. The Integrated Plan forms the basis for performance monitoring and Holding to Account for delivery at the Defence Board and ExCo level, and in turn throughout Defence.

3.33. Performance and delivery are monitored against the Integrated Plan and the subordinate Area Plans, with performance and risk on a quarterly basis by default. These assessments are subject to continuous review and are brought together in a quarterly Defence Performance Report which provides a strategic overview of MOD performance against the Integrated Plan, highlighting areas that require strategic discussion and/or action to the ExCo and the Defence Board. This internal reporting also forms the basis of routine reporting to Cabinet Office and HMT on affordability and delivery, and will inform annual DIP delivery updates to Parliament.

3.34. The Military Commands are held to account for delivery of their Command Plans through quarterly reviews chaired by the CDS. The delivery organisations within the NAD Group are similarly held to account by the NAD. These discussions review performance, risk, and assurance assessments, providing formal challenge and support to the leadership. Decisions and actions are recorded and followed up to ensure that performance issues are addressed. Performance within the Defence Nuclear Enterprise is managed as part of the Defence Nuclear Executive Board agenda.

Governance Processes

3.35. Governance is about ensuring the MOD is managed in line with government rules and standards. It ensures the organisation works effectively and coherently to deliver its Policy and Strategy objectives and meets my and SofS' obligations to Parliament in accordance with MPM.

3.36. Governance is fundamentally about decision-making – making sure that strategic choices are properly understood, tested, and taken with appropriate reflection and challenge, and making sure that once taken, decisions are acted on. The Corporate Governance structure describes Defence's senior boards and committees and their decision-making responsibilities.

3.37. Organisations of the size and scale of MOD face a wide range of risks to the effective achievement of their objectives. MOD therefore has a risk management policy to identify and manage risks to avoid unwanted surprises and to identify opportunities. The understanding of our exposure to risk and the controls and the mitigations in place should inform decision-making, improve performance and the delivery of our outputs and outcomes. The risk management process also allows MOD to design and tailor controls (in the form of rules and standards) and take mitigating actions to manage the risks should they materialise.

3.38. Many of these rules, standards and controls are the responsibility of Functions, which provide a consistent approach to certain aspects of MOD activities as well as implementing wider government policy affecting MOD as a Department. Examples include Civil Service or military personnel policy, financial or commercial management, and safety regulations. Functions also use a range of mechanisms to implement internal policy and standards. These include Joint Service Publications (JSPs) and Policy, Rules, and Guidance for civilian staff, which apply to the whole of Defence. Control of Departmental programmes and projects is the responsibility of the relevant Senior Responsible Owner.

Assurance

3.39. From April 2023 the Departmental Internal Audit activities has been transferred to the Government Internal Audit Agency (GIAA). GIAA is an executive agency of His Majesty's Treasury (HM Treasury). As the government's primary provider of internal audit services, GIAA lead both the government internal audit profession and internal audit Function.

3.40. GIAA is independent of all Functions (i.e., those responsible for setting rules and standards for the delivery of activities that cuts across Defence), and the 4* 'Area' level organisations. It provides services to me as the Accounting Officer An Audit Charter, reviewed by the Defence Audit and Risk Assurance Committee (DARAC) and endorsed by me, defines the purpose, authority, and responsibility of GIAA, and grants internal auditors unrestricted access to all Functions, premises, assets, and personnel records, subject to compliance with MOD's security policies. GIAA has no direct authority or responsibility for the activities it reviews.

3.41. With the exception of Military Operations, all business systems, processes, Functions, and activities within the MOD may be subject to GIAA audit. The GIAA annual risk-based audit plan defines what activities will be reviewed by GIAA and is formally approved by the DARAC. The plan may only be amended with the approval of the DARAC.

3.42. The Department's internal audit activity is supported by the DARAC. 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.

3.43. The National Audit Office (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 DIP and undertaking value for money reviews as directed.

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

3.45. Defence Risk and Assurance (DRA) is the central risk and assurance team, led by the Chief Risk Officer. DRA supports senior management in overseeing risk, control and assurance arrangements across the Department including at the Defence Board and DARAC. Responsibility for the design and implementation of effective risk management arrangements rests with DRA. Oversight of the Department's risk management framework is provided by the Defence Board, with the Executive Committee (ExCo) managing the enterprise risk portfolio.

3.46. The Department identifies its principal risks against core Ministerial commitments and Defence Outcomes, ensuring that risks which could directly affect the delivery of Defence strategic objectives can be effectively managed through appropriate governance and investment decisions. Risk themes and principal risks are agreed by ExCo and endorsed by the Defence Board. Principal risks are overseen collectively by senior management through ExCo's quarterly cycle. Each principal risk is owned by a designated ExCo member who is accountable for managing it within the agreed appetite and for providing assurance to ExCo and the Defence Board. Principal risk returns are collated by the Areas and submitted to DRA as part of the Quarterly Performance and Risk Review (QPRR).

3.47. The risk management framework is aligned with the principles outlined in the HMT Orange Book. Alignment with the five key principles is subject to an annual assessment to ensure continued compliance and effectiveness.

3.48. The MOD aims to maintain an efficient and effective internal control framework that supports the management of risk and the achievement of the Department's objectives. The Department uses a Defence Assurance Map, aligned to the Three Lines of Defence model, to provide a structured and integrated view of assurance over the key controls that underpin our internal control environment.

3.49. Assurance activity across Defence is carried out in accordance with this model. First-line governance arrangements within organisations and budget-holding areas provide routine assurance to senior boards and audit committees on the operation of local controls. Second-line Functions provide annual assurance over the enterprise-level controls captured in the Defence Assurance Map. This assessment tests whether key controls are operating effectively and identifies areas where further assurance or corrective action may be required.

3.50. DRA brings this activity together each year to produce a consolidated assurance assessment for the Accounting Officer. This draws on first-line governance reporting, second-line control testing and insights across the wider assurance landscape. The consolidated assessment is presented to the Defence Audit and Risk Assurance Committee (DARAC), which provides independent scrutiny and challenge before it is submitted to the Accounting Officer.

3.51. Fraud Defence is the MOD's central counter-fraud team, leading the Department's response to fraud, corruption and other economic crime. Although a cross-Government Function, the Counter Fraud team is part of the Finance Function. The Head of Fraud Defence leads the counter fraud activity, and supports the Director General Finance, who is the Board member responsible for counter-fraud, represents Defence as the victim of fraud, and is responsible for the Department's financial management system and for ensuring that financial governance supports effective stewardship of public funds. The counter-fraud team works closely with Functions (notably Finance, Commercial, Analysis, Audit, Legal and HR) and with the Defence police forces.

3.52. The Department is undertaking a major counter-fraud transformation programme, aimed at significantly increasing detection and recoveries, ensuring more joined-up working with the Defence police forces and the Areas, and strengthening 2nd line assurance. As part of this transformation, MOD is working with the Public Sector Fraud Authority to strengthen its fraud management planning. This will include leveraging the latest analytics and AI technology and rolling out an integrated investigative model. The Department has a policy of zero tolerance of fraud and works to instil a strong ethical culture in everyone working in Defence, through mandatory training which provides a clear understanding that fraud, bribery, corruption, and other unethical behaviour is not acceptable. A single Joint Service Publication (JSP) covers ethics and propriety and provides a practical source of reference on the Department's policies for business ethics, propriety and standards, making clear that they apply to both Service and civilian personnel. Some policies are also applicable to contractors. Fraud risks are identified, including in our procurement processes through the introduction of Initial Fraud Impact Assessments, undertaken at the commencement of major programmes. Failures of personal integrity and conduct are always investigated.

3.53. The MOD is committed to ensuring the highest standards of conduct in all that it does. For Service personnel, these are reinforced by the Royal Air Force (RAF) Ethos, Core Values and Standards; Values and Standards of the British Army; and the Ethos, Values and Standards of the Naval Service. For civil servants, these standards are reinforced by the Civil Service Code, MOD Corporate Standards Guide, and MOD Standards of Conduct and Behaviour policy and procedure.

3.54. The Department recognises the vital role of whistle-blowers, whose concerns help us identify and address wrongdoing. The Defence Confidential Hotline provides a secure and confidential route for Defence personnel and members of the public to report suspected fraud, corruption, bribery, theft or other irregularities. All reports are handled in confidence, and the Department is committed to protecting and supporting those who raise concerns.

3.55. If an individual or their chain of command believes there is a good reason not to use the Hotline – for example where doing so could delay action on a serious or urgent matter, including national security issues – concerns may be raised directly with the Permanent Secretary. Individuals may also raise concerns with the Civil Service Commission where appropriate. In the Armed Forces, that independent oversight role was fulfilled by the Service Complaints Ombudsman, who provided an impartial route for Service personnel to raise concerns about unfair treatment or failures in the complaints system. The Armed Forces Commissioner Act abolishes the Service Complaints Ombudsman for the Armed Forces role and transfers all Ombudsman functions into the new Armed Forces Commissioner from 1 April 2026.

Functional Leadership

3.56. The DOM operates a system of 13 Functions (10 of which are cross-Government Functions; 3 are MOD-specific) that provide cross-cutting services and ensure coherence across the whole of Defence. These Functions form a coherent, enterprise-wide mechanism for aligning strategy, standards, expertise and services under unified leadership structures, ensuring consistency and accountability across the Department. Functional Leadership within MOD is fully aligned to the cross-Government Functional Model and Standards.

3.57. Functions within the enterprise are overseen by either DoS or NAD Group, with either myself in my role as Permanent Secretary or the National Armaments Director being accountable for the Function. Additionally, DoS holds overarching accountability for Functional activity and how Functions operate on my behalf as Permanent Secretary.

3.58. Each Function will have a senior Functional Owner within the relevant Area. They are responsible for the effectiveness of their Function including its development to reflect changes to regulation or strategic direction, and for alignment to the Functions Framework

3.59. The Functions Framework sets a standardised model for how all Functions operate and their common accountabilities. This includes defining core functional activities, required artefacts such as an Operating Model, Functional Strategy and Annual Plan and specifies delivery modes.

3.60. Within that framework there are two categories of Functions, differentiated on their construct and the way in which they discharge their services to the wider organisation. Group A Functions provide their Functional activities / services via an end-to-end delivery approach. Group B Functions provide their service through a delegated model. The list of Functions by category is provided below.

a. Group A: Legal, Commercial, Finance
b. Group B: People, Analysis, Communications, Security, Safety, Science, Digital, Project Delivery, Infrastructure, Support.

3.61. To integrate Function Operating Models effectively with wider Defence governance, the following governance is in place:

a. Enterprise level. ExCo provides the mechanism for myself to have visibility of all 13 Functions and to exercise oversight authorities. The Strategy Board will provide coherence and alignment of strategies across the enterprise, agreeing individual Function multi-year strategies.
b. Area Board. These are responsible for performance management of Business-as-Usual Functional activities.
c. Function Boards. These support the Functional Owner to lead and oversee delivery of the six core activities detailed in the Framework and provide the forum for feedback from stakeholders, ensuring continuous improvement.

Chapter 4: Responsibilities within the Core Department

Areas

4.1. The wide-ranging reform of how Defence operates was set out in the 2025 Strategic Defence Review (SDR) and is already being implemented. The Defence Investment Plan (DIP), which implements the vision set out in the SDR was published 30 June 2026. MOD will be required to provide an annual delivery update against the DIP – reporting on progress and changes in financial investment plans – which will be reported to Parliament annually before summer recess. The first of these will be published by July 2027.

4.2. In April 2025, the core financial structure of the Department was simplified to consist of four Areas: The Department of State, The Armed Forces, the National Armaments Director Group and the Defence Nuclear Enterprise. The Area budget holders are accountable to the Permanent Secretary as Principal Accounting Officer on financial matters. The ring-fence for nuclear spending established in 2023 remains in place with the Chief of Defence Nuclear as Additional Accounting Officer (AAO) for this budget line.

4.3. Each of the "Quad" are personally accountable for the performance of their Area. The objectives for which they are accountable, the resource allocated to achieve those objectives and the metrics for performance will be contained within the Defence Plan.

4.4. Each of the "Quad" chairs an Area Management Board. 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 Areas, as well as chairing the relevant Area sub-committees, including audit and risk assurance committees.

4.5. The Chief Defence Nuclear Enterprise supports me with nuclear deterrent aspects of national security and works very closely with the First Sea Lord (responsible for submarines in-service and operations that includes the Continuous-At-Sea Deterrent, CASD). The Defence Nuclear Enterprise (DNE) describes the federation of organisations and arrangements that supports our strategic nuclear deterrent capability and CASD.

4.6. I delegate relevant financial authority to other members of the quad through Letters of Delegation. Each Area has a Finance Director who acts as the Senior Finance Officer (SFO) and is the principal adviser on financial matters to their respective member of the Quad. The letters of delegation state that the SFOs have hard reporting lines to both their respective member of the "Quad" and to DG Finance for the integrity of the financial system and processes relating to resource consumption within the Area. The letter also includes delegated approvals limits in respect of equipment, infrastructure, and operating cost expenditure. Areas are given the freedom to subdelegate throughout their respective organisations to provide effective empowerment.

4.7. My DG Transformation is responsible to me for ensuring that Defence as a whole has an effective and efficient operating model and governance system; though strong direction, planning, accountability, performance and risk management, and assurance processes, this in turn will ensure that MOD is well-managed and has capacity and capability needed to face the challenges of the future.

4.8. A key focus of the Department of State's Business Operations team is to help the Department achieve its efficiency target, as set out in the Defence Investment Plan (DIP), and as a result they are leading the strategic approach to delivering transformational change and efficiency.

Department of State

4.9. The Department of State – led by me as Permanent Secretary – is accountable for contributing to Defence as an Enterprise by:

- Acting as lead policy advisor for the Enterprise and overall accountable for the development of strategy with support from the other members of the Quad.
- Fulfilling the role of Principal Accounting Officer for the Ministry of Defence.
- Providing functional leadership and compliance leadership, including compliant funding, risk and assurance processes for Defence as an enterprise.

4.10. The Office for Veterans' Affairs (OVA) transferred from the Cabinet Office into in the Ministry of Defence in February 2025. The move enables the Minister for Veterans and DG People to have complete oversight of the entirety of service; from training and retaining service personnel to supporting service leavers through transition, into civilian life (and sometimes back again). The OVA manages and distributes general grant funding, through the Armed Forces Covenant Fund Trust (AFCFT) and by direct or competed grants. These grants are in support of the Veterans Strategy and VALOUR programme. Charity and other organisations seeking this support must meet eligibility criteria before being considered.

The Armed Forces

4.11. The Armed Forces – led by the Chief of Defence Staff supported directly by the Military Strategic Headquarters – consists of the three single Military Commands (the Royal Navy, the British Army and the Royal Air Force).

4.12. The Area as a whole supports Defence by:

- Generating, maintaining and sustaining an Integrated Force
- Delivery of the majority of operational defence outcomes
- Military planning

4.13. While CDS is the member of the Quad for the Armed Forces as an area, the respective single service Chiefs retain command of their branch and support CDS with achieving the Area's input into Defence Outcomes.

National Armaments Director Group

4.14. The National Armaments Director Group, led by the National Armaments Director is has the following responsibilities with the Defence Enterprise:

- Readiness of the national ‘arsenal’ to meet the requirements of Defence Plans
- Shaping and delivering acquisition reform.
- Delivering an industrial strategy and forging relationships with industry.
- Overseeing Defence Exports

Defence Nuclear Enterprise (DNE)

4.15. The Defence Nuclear Enterprise, led by the Chief of the Defence Nuclear Enterprise, has bespoke governance and funding arrangements due to its role in sustaining the UK’s nuclear deterrent.

4.16. DNE as an area is responsible for:

- Cohering relevant organisations within the Defence Nuclear Enterprise.
- Operate, maintain, renew and sustaining the UK’s nuclear deterrence.
- Provide support to Principal Accounting Officer for the MOD by acting as an Additional Accounting Officer.

Chapter 5: Relationships with Public Bodies

5.1. The Department works with its public bodies to deliver services, regulation, and advice. This section sets out the distinct types of bodies and the department's relationships with them. In conducting business within the Defence Enterprise, the Department applies the principles and standards set out in the Cabinet Office's Partnerships with Arm's Length Bodies: Code of Good Practice[4].

5.2. As PAO, I am responsible for appointing the Accounting Officer (AO) of each executive public body. Each AO is personally responsible for ensuring that the resources under their remit are managed in accordance with the standards and policies set out in Managing Public Money and I expect them to support me in fulfilling my responsibilities.

5.3. These public bodies act at arm's length to the department and are directly accountable to the department and to ministers. Each agency reports on their own financial performance, governance structures and system of internal control in their own annual report.

Executive Agencies

5.4. Executive Agencies are administratively distinct business units within a department that deliver specified executive functions and outputs within a ministerial accountability framework, while remaining legally part of the department. Defence oversees four Executive Agencies (EAs):

- Defence Equipment and Support (DE&S)[5]
- Defence Science and Technology Laboratory (Dstl)[6]
- Submarine Delivery Agency (SDA) [7]
- UK Hydrographic Office (UKHO)[8] [9]

5.5. Each EA is led by a Chief Executive who I appoint as its Accounting Officer. All EAs prepare their own accounts, which are audited by the National Audit Office (NAO).

5.6. Each EA operates under a Framework Document[10] with its Owner, the Secretary of State for Defence. Governance is exercised through the EA Boards, which include independent Non-Executive Board Members (NEBMs). Risks identified by EAs are reported centrally to the MOD, and each EA submits an Annual Assurance Report assessing the adequacy of its control arrangements in supporting Defence outputs.

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[4] Arm's length body sponsorship code of good practice - GOV.UK
[5] Defence Equipment and Support - GOV.UK
[6] Defence Science and Technology Laboratory - GOV.UK
[7] Submarine Delivery Agency (SDA) Corporate plan financial year 2018 to 2019
[8] UK Hydrographic Office - GOV.UK
[9] Admiralty Digital Sailing Directions website
[10] MOD Framework Documents - GOV.UK

Defence Equipment and Support (DE&S)

5.7. DE&S is an executive agency and bespoke trading entity. Its purpose is to equip and support the UK's Armed Forces for operations now and in the future. Responsible for the safe procurement and through-life support of a vast range of equipment, from warships, aircraft, and missiles to armoured vehicles, body armour and field kitchens. It also undertakes decommissioning and disposal when equipment reaches the end of its service life and operates a range of services, including the British Forces Post Office, which delivers mail to service personnel in the UK and around the world. DE&S works closely with customers in the Military Commands as well as with Head Office.

5.8. In April 2023 the Defence Electronics and Components Agency (DECA) (previously an Executive Agency) merged into DE&S as an in-house directorate that provides secure access to assured onshore maintenance, repair, overhaul, upgrade, associated Post Design Services and managed services for an extensive range of electronic and general engineering equipment for air, land and sea platforms.

5.9. As a government owned organisation, its status grants Crown access to MOD Intellectual Property Rights (IPR)/International Traffic in Arms Regulations (ITAR) and government-to-government arrangements allowing the development of bespoke support solutions to meet specific customer requirements. DE&S is sponsored by the NAD Group.

Defence Science & Technology Laboratory (Dstl)

5.10. Dstl is an executive agency of MOD that delivers high-impact Science and Technology (S&T) products and services to Defence and Security customers. This S&T provision covers research, requirements and evaluation, specialist S&T advice and services, and operational support. It is undertaken in partnership with industry, academia, wider government, and its allies. In addition, Dstl provides stewardship of Defence and Security S&T by ensuring that the required capabilities are available at the right time in line with S&T Strategy, bringing together the right people, relationships, infrastructure, knowledge, and licences to practise, and maximising the effectiveness and efficiency of the MOD's S&T infrastructure and assets. Dstl is sponsored by the NAD Group.

Submarine Delivery Agency (SDA)

5.11. The SDA is an Executive Agency and is responsible for the procurement, in-service support, and disposal of all RN submarines, some of the most complex equipment in the world. SDA ensures that new submarines and equipment are delivered into service on time, within budget and at an affordable cost, and that in-service boats are maintained to provide capabilities to the RN, including the critical Continuous At Sea Deterrent. SDA is a crucial part of the nuclear enterprise which, together with the Defence Nuclear Organisation and Navy Command, keep safe and capable submarines at sea, providing the UK's strategic deterrent and supporting global security. SDA is sponsored by DNO.

UK Hydrographic Office (UKHO)

5.12. The UKHO is an executive agency and trading fund. See paras 5.27 for further information.

Executive Non-Departmental Public Bodies (NDPBs)

5.13. Executive NDPBs are arm's-length bodies that carry out executive (delivery) functions on behalf of government departments but are legally separate from them. They are accountable to ministers for performance and governance and operate within a strategic framework set by ministers but enjoy operational autonomy.

5.14. Although NDPBs have operational autonomy, each is governed by a Framework Agreement that sets out the conditions for Grant in Aid (GIA) expenditure, monitoring arrangements, and performance indicators agreed with the sponsoring budgetary Area within MOD. As with all central government departments, the MOD determines annually how much of its allocated budget to distribute to its public bodies in each year of a multi-year agreement within the parameters of a multi-year funding agreement.

5.15. Longer-term financial support to external organisations delivering Defence objectives is typically provided through GIA. This mechanism applies to most of the MOD's NDPBs with Executive Functions. GIAs are generally regular or recurring payments, giving recipients a degree of autonomy in how funds are used. The Atomic Weapons Establishment (AWE) is the sole NDPB with Executive Functions not funded via GIA.

5.16. These agreements are signed by the Chair and Chief Executive (or equivalent) of the NDPB, alongside the Budget Holder and Finance Directors of the sponsoring Area.

5.17. Each of the NDPBs has an Accounting Officer appointed by me and prepares its own accounts which are audited by the NAO.

5.18. The Department's Executive NDPBs are listed below, with links to further information on their roles. Framework documents under which they operate can be viewed at MOD Framework Documents - GOV.UK.

Name	Role	Website
Armed Forces Covenant Fund Trust (AFCFT)	The Armed Forces Covenant Fund Trust (the Trust) supports the Armed Forces Covenant by delivering funding programmes that create real change to Armed Forces communities across the UK. AFCFT look after the Armed Forces Covenant Fund.	https://www.gov.uk/government/collections/covenant-fund
Atomic Weapons Establishment (AWE)	AWE plc runs the Atomic Weapons Establishment (AWE). The Ministry of Defence owns the AWE sites and sponsors AWE who are responsible under a contract with MOD for operating the sites safely and securely; delivering a safe, effective and efficient nuclear warhead programme for the nation's nuclear	https://www.gov.uk/government/organisations/atomic-weapons-establishment and https://www.awe.co.uk/

	deterrent; and providing services to support nuclear threat reduction. AWE employs the workforce, holds the nuclear site licenses, environmental permits and other regulatory permissions. Until June 2021, AWE was run under a Government Owned Contractor Operated (GOCO) construct which ended following MOD triggering a contractual break point allowing it to take ownership of AWE plc.	
National Army Museum (NAM)	NAM examine the Army's role from the British Civil Wars to the modern day. Through their collections they preserve and share stories of ordinary people with extraordinary responsibilities. They explore the role of the Army and its relevance today.	https://www.nam.ac.uk/
Royal Navy Museums (formerly National Museum of the Royal Navy (NMRN))	The Royal Navy Museums, is a museum of the history of the RN located in the Portsmouth Historic Dockyard section of Her Majesties Naval Base (HMNB) Portsmouth, Portsmouth, Hampshire, England.	https://www.nmrn.org.uk/
Royal Air Force Museum (RAFM)	RAFM share the story of the RAF, past, present, and future – using the stories of its people and our collections to engage, inspire and encourage learning.	http://www.rafmuseum.org.uk/
Single Source Regulations Office (SSRO)	The SSRO conducts a range of statutory functions in support of the regulatory framework, including recommending the rates that should apply when calculating contract profit rates; issuing pricing guidance that facilitates the agreement of contract costs and profits; and providing opinions and determinations that resolve disputes and clarify contract-specific issues. Please refer to Paragraphs 7.14-7.15 for further detail. SSRO is sponsored by the NAD Group.	https://www.gov.uk/government/organisations/single-source-regulations-office

5.19. The Armed Forces Covenant Fund Trust (AFCFT) and the three Service museums are registered charities and therefore have a statutory duty to comply with the Charities Acts. Each is overseen by a Board of Trustees which provides governance and strategic oversight of decision making.

5.20. The SSRO is governed by a Board, led by an independent Non-Executive Chair, and comprising both Executive and Non-Executive Board members.

NDPBs with Advisory Functions

5.21. Advisory NDPBs play a role in strengthening Defence decision-making by providing independent, expert advice on specific complex and sensitive issues.

5.22. 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.

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

Name	Function	Site
Advisory Committee on Conscientious Objectors (ACCO)	ACCO advise the SofS for Defence on all conscientious objection claims. These claims are made by those in the armed forces whose application for permission to retire, resign or be discharged have been refused by the service authorities.	https://www.gov.uk/government/organisations/advisory-committee-onconscientious-objectors/about
Armed Forces' Pay Review Body (AFPRB)	AFPRB provides independent advice to the Prime Minister and the SofS for Defence on the pay and charges for members of the Naval, Military and Air Forces of the Crown.	https://www.gov.uk/government/organisations/armed-forces-pay-review-body
Veterans Advisory and Pensions Committees (VAPC)	13 VAPC's across the UK serve and support ex-servicemen and women, their widows or widowers and their immediate family members. VAPC are an independent voice, to assist whenever or wherever ex-serviceman and woman have served, whether in World War 2 or Afghanistan.	https://www.gov.uk/government/organisations/veterans-advisory-andpensions-committees-x13

5.24. In 2025-2026, two MOD advisory NDPBs (Independent Medical Expert Group (IMEG) and Nuclear Research Advisory Committee (NRAC) were reclassified as Expert Committees as part of the Productive and Agile State Programme.

Expert Committees

5.25. Similar to advisory NDPBs, Expert Committees play a role in strengthening Defence decision-making by providing independent, expert advice on specific complex and sensitive issues. Their insights help ensure that policy development, strategic planning, and operational choices are informed by specialist knowledge and objective challenge. This external perspective supports transparency, enhances credibility, and mitigates the risk of insular thinking within the Department.

Name	Construct	Website
The Advisory Group on Military and Emergency Response Medicine (AGMERM)	The AGMERM provides specialist advice to the MOD on the medical aspects of defence against chemical, biological and radiological threats.	Advisory Group on Military and Emergency Response Medicine - GOV.UK (www.gov.uk)
Central Advisory Committee on Compensation (CACC)	CACC 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.	https://www.gov.uk/government/organisations/central-advisory-committee-oncompensation
Defence Science Expert Committee (DSEC)	DSEC 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	https://www.gov.uk/government/organisations/defence-scientific-advisorycouncil
Defence Nuclear Safety Expert Committee (DNSEC)	DNSEC is the primary source of independent advice to the SofS for Defence on nuclear safety issues associated with the defence nuclear programmes.	https://www.gov.uk/government/organisations/defence-nuclear-safetycommittee
Independent Medical Expert Group (IMEG)	The IMEG advises the Minister for Defence Person and Veterans on medical and scientific aspects of Armed Forces Compensation Scheme (AFCS) and related matters.	https://www.gov.uk/government/organisations/independent-medical-expertgroup
Nuclear Research Advisory Committee (NRAC)	The NRAC provides independent, external, evidence-based advice to the MOD Chief Scientific Adviser (Nuclear) (CSA(N)), MOD Director Warhead (and Senior Responsible Owner, SRO), DG Nuclear, and other senior MOD officials.	https://www.gov.uk/government/organisations/nuclear-research-advisorycouncil

Trading Funds

5.26. A trading fund is a financial and accounting framework established by law to enable a government department, or part of a department, to adopt certain accounting and management practices common in the private sector. Under the Government

Trading Funds Act 1973 trading funds have standing authority to use its receipts to meet its expenses or outgoings. A trading fund can only be established with the agreement of HMT. A minimum of 50% of the trading fund’s revenue will consist of receipts for goods and services provided by the department, and where the responsible Minister and HMT are satisfied that the setting up of the trading fund will lead to ‘improved efficiency and effectiveness in management of operations.’

5.27. The Department currently has one trading fund, The United Kingdom Hydrographic Office (UKHO) which is an Executive Agency with Trading Fund status owned by the SofS for Defence. Its Chief Executive is appointed as an Accounting Officer by HMT’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.

5.28. UKHO is subject to a Framework Agreement[11]. 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 formals (i.e., permanent MOD personnel) Non-Executive Directors amongst its members.

5.29. 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.

5.30. UKHO also has a subsidiary company (Admiralty Holdings Ltd) whose activities are highlighted below in Chapter 8 (Paragraph 2) of this Statement. UKHO is sponsored by the NAD Group.

Public Corporations

5.31. Public corporations are market-facing public sector bodies that earn over 50% of their income from commercial trading while remaining under government control; they operate to deliver services on a business footing, publish their own accounts, and are governed through Managing Public Money–compliant framework documents[12].

5.32. MOD has three public corporations:

- Oil and Pipeline Agency[13]
- Octric Semiconductors Ltd[14]
- Sheffield Forgemasters International Ltd[15]

Oil and Pipeline Agency (OPA)

5.33. The Oil and Pipelines Agency (OPA) provides an Oil Fuel Depot and Petroleum Storage Depot capability to MOD. It manages, operates, and maintains six Naval Oil Fuel Depots (located at Gosport, Thanckes, Garelochhead, Campbeltown, Loch Striven and Loch Ewe) and two Petroleum Storage Depots on behalf of MOD. OPA provides the RN, its main customer, with the safe, dependable, and cost-effective

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063058/20220315_UKHO_Framework_Document_-_FINAL_Formatted.pdf
[12] MOD Framework Documents - GOV.UK
[13] https://www.gov.uk/government/organisations/oil-and-pipelines-agency
[14] Octric - A foundry for the next frontier
[15] Home - Sheffield Forgemasters

storage and issue of petroleum products. The Department funds the infrastructure and maintains it and additionally pays the OPA for providing a fuel storage service.

5.34. The OPA is governed by the Oil and Pipelines Act 1985[16]. 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. OPA is sponsored by the NAD Group.

Octric Semiconductors Ltd
5.35. Octric Semiconductors Ltd is a specialist manufacturer of high-performance compound semiconductors, based in Newton Aycliffe, County Durham. Octric secure a critical UK defence supply chain as it is the UK's only secure facility able to manufacture gallium arsenide (GaAs) semiconductors and is developing further capability (including gallium nitride, GaN). Octric Semiconductors Ltd is sponsored by the NAD Group.

Sheffield Forgemasters Internal Ltd (SFIL)
5.36. Sheffield Forgemasters International Limited (SFIL) is a heavy engineering company specialising in the manufacture of large-scale, high integrity, bespoke steel castings and forgings, and is a Tier II supplier to UK defence.

Other Public Bodies

Name	Construct	Website
Royal Hospital Chelsea (RHC)	RHC 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.	http://www.chelsea-pensioners.co.uk/
Commonwealth War Graves Commission (CWGC)	CWGC was founded by Royal Charter. The SofS 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.	http://www.cwgc.org/
The Independent Monitoring	The IMBCTC is appointed by and reports to the SofS for Defence. The	https://www.army.mod.uk/who-we-are/corps-regiments-

[16] https://www.legislation.gov.uk/ukpga/1985/62/contents

Board for the Military Corrective Training Centre (IMBMCTC)	MOD funds the payment of Board members' travel and subsistence costs.	and-units/adjutantgenerals-corps/provost/military-provost-staff/mctc/
Armed Forces Commissioner (AFC)	The role of the AFC is to provide independent and impartial oversight of the Service Complaints system for members of the UK Armed Forces, and to act as a direct point of contact for serving personnel and their families, who will be able to raise general service welfare concerns that may impact on their service lives and their ability to serve. The AFC was established on 1 April 2026 and replaced the Service Complaints Ombudsman for the Armed Forces.	https://www.afcommissioner.org.uk/
Ploughshare	A technology transfer company owned by Secretary of State for Defence, which seeks to identify civil sector exploitation routes for MOD-owned IP.	https://ploughshare.co.uk/
Reserve Forces' and Cadets' Associations (RFCA)	The RFCA is comprised of 13 individual associations which cover the United Kingdom. They were formed in 1908 and until 1999 were known as Territorial, Auxiliary and Volunteer Reserve Associations (TAVRAs) and are central government bodies with Crown status. The RFCAs are established by Act of Parliament, each with its own scheme of association, drawn up by the Defence Council under the Reserve Forces Act 1996 (RFA 96), therefore the RFCAs are ALBs of the MOD. These schemes last for 5 years, after which re-constitution must take place.	https://www.gov.uk/government/organisations/reserve-forces-and-cadetsassociations/about
Service Police Complaints Commissioner (SPCC)	The SPCC's role is similar to the Independent Office for Police Conduct, which is the police complaints watchdog for England and Wales. It is responsible for investigating the most serious complaints and conduct matters involving the Service Police and sets the standard by which the police should handle complaints, bringing the Service Police into line with their civilian counterparts, under the Service Police (Complaints etc.) Regulations 2023.	https://www.gov.uk/guidance/the-service-police-complaints-system

The Service Prosecuting Authority (SPA)	SPA 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 consulting 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.	http://spa.independent.gov.uk/

Other Recipients of MOD Funding

5.37. 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.

Air Training Corps (ATC)	ATC is headed by a full-time reservist Air Commodore supported by several permanent staff, all directly funded by Air. 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.	https://www.raf.mod.uk/aircadets/
Duke of York's Royal Military School (DYRMS)	DYRMS is a company limited by guarantee and an exempt charity. MOD provides a GIA to fund equipment and services at the school to enhance its military ethos. The Board of Governors function 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.	http://www.doyrms.com/
The Defence and Security Media Advisory (DSMA) Committee	The DSMA Committee 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	https://dsma.uk/

	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.	
International Organization for Migration (IOM)	IOM 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.	https://www.iom.int/
The United Kingdom Reserve Forces Association (UKRFA)	UKFRA 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.	https://www.gov.uk/government/organisations/united-kingdom-reserve-forcesassociation

Private Company Limited by Guarantee

5.38. The Navy, Army, and Air Force Institutes (NAAFI) provide catering, retail, and leisure facilities for the armed forces in numerous overseas locations. It is regarded as a related party outside the Departmental boundary, but the NAAFI Council nevertheless includes serving senior officers from the three services; its board of directors includes several Non-Executive Directors. NAAFI's accounts are subject to external audit. More information on NAAFI's role can be found at http://www.naafi.co.uk/

Chapter 6: Grants to Private and Voluntary Sector Bodies

General Grants

6.1. A General Grant is a one-off payment by the MOD to an external body where it requires or wishes to maintain direct control over the expenditure. Although Grants are normally one-off payments, they can in exceptional circumstances (usually with HMT authority), be paid on a regular or recurring basis to recipients. Grants are made for specific purposes, to reimburse expenditure on agreed items or functions, and often paid only on statutory conditions, and to satisfy specific conditions.

6.2. The MOD publishes its General Grant data in accordance with Cabinet Office guidelines here https://www.gov.uk/government/collections/government-grants-data-and-statistics.

6.3. The MOD runs several General Grant schemes, the recipients of which will vary according to the purpose of the General Grant. These are issued in accordance with the 'Government Functional Standard GovS 015: Grants' produced by the Cabinet Office, a copy of which can be found at: https://www.gov.uk/government/publications/grantsstandards. The Cabinet Office Government Grants Management Function undertake compliance exercises on all Government Grant schemes biennially.

6.4. 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.

6.5. A list of the MOD's General Grant schemes reported at September 2025 is shown below. More detail on the role of each recipient can be found in the links provided:

Name	**Website**
Armed Forces Day	https://www.armedforcesday.org.uk/
Armed Forces Families Fund (AF3)	https://covenantfund.org.uk/
Confederation of Service Charities	https://www.cobseo.org.uk/
Invictus UK 2027	https://www.invictusgamesfoundation.org/invictus-games/birmingham-2027
LGBT Armed Forces Memorial	https://www.fightingwithpride.org.uk/lgbt-armed-forces-community-memorial/
Reducing Veteran Homelessness Programme	https://covenantfund.org.uk/
Reimagining of Boathouse 6 at Portsmouth Historic Dockyard	https://www.nmrn.org.uk/
School Cadets Expansion Officers	

Service Children Progression	https://www.scipalliance.org/
Stem and Digital Bursary Programme Section 31 Grant	https://www.lancashireskillshub.co.uk/uncategorised/strategic-command-launches-bursary-programme-for-uk-students/#:~:text=Strategic%20Command%20has%20launched%20a%20bursaries%20programme,of%20science%2C%20technology%2C%20engineering%20and%20mathematics%20(STEM)
Thrive Together	https://covenantfund.org.uk/
UK Defence Solutions Centre	https://www.ukdsc.org/
Veterans' Capital Housing Fund	https://covenantfund.org.uk/
Volunteer Cadet Corps	https://volunteercadetcorps.org/

Grants-In-Aid (GIA)

6.6. Grants in Aid provide more general support, usually for an NDPB, with fewer specific but more general controls on the Body and less oversight by the funder. Long term support for external organisations should be provided through a GIA. Any regular or recurring payments to external bodies must be treated as GIAs and not as a series of Grants.

6.7. If empowered by legislation or the Appropriation Act, MOD may offer financial support to external bodies delivering or contributing towards Defence objectives through a GIA. A GIA provides more general financial support, usually for a Non-Departmental Public Body (NDPB), with fewer specific controls over the way in much the funding may be used but more general controls on the recipient.

6.8. GIA must be supported by a Financial Framework (FF) document that accurately reflects the control framework to be put in place and the responsibilities of the external body as a result of receiving a GIA. The FF must be regularly reviewed to ensure it remains fit for purpose.

6.9. An Accounting Officer (AO) must be designated by me for the external body. This will normally be the senior full-time official (CE or equivalent).

6.10. A list of the current GIA recipients is shown below. More detail on the role of each recipient can be found in the links provided:

Name	**Website**
Armed Forces Covenant Fund Trust	https://covenantfund.org.uk
Armed Forces Memorial	http://www.thenma.org.uk/
Army Cadet Force Association	https://armycadets.com/
Army Families Federation	http://www.aff.org.uk/

Army Museum Ogilby Trust	https://www.armymuseums.org.uk
Army Sport Control Board	http://armysportcontrolboard.org/
Combined Cadets Force Association	https://combinedcadetforce.org.uk/
Commonwealth War Graves Commission	https://www.cwgc.org/
Council for Cadet Rifle Shooting	http://www.ccrs.org.uk/
Council of Voluntary Welfare Workers	https://cvww.org.uk/
Defence Relationship Management	https://www.gov.uk/government/groups/defence-relationship-management
Duke of York's Royal Military School	https://www.doyrms.com
First Aid Nursing Yeomanry	http://www.fany.org.uk
Gurkha Welfare Trust	https://www.gwt.org.uk
Marine Society and Sea Cadets	http://www.ms-sc.org/
Naval Families Federation	https://nff.org.uk
RAF Central Fund (previously the RAF Sports Federation)	https://www.rafsportsfederation.uk/
RAF Museum	https://www.rafmuseum.org.uk
Reserve Forces & Cadets Associations	Reserve Forces' and Cadets' Associations (RFCA) - GOV.UK
RN Museums (previously the National Museum of Royal Navy)	https://www.nmrn.org.uk/
Royal Hospital - Chelsea	
Royal Irish (Home Service) Benevolent Fund	http://www.aftercareservice.org/downloads.htm
SSRO	https://www.gov.uk/government/organisations/single-source-regulations-office
Victoria Cross & George Cross Association	https://vcgca.org

Chapter 7: Major Contracts and Outsourced Services

7.1. 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 taxpayers' money.

7.2. 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.

Investment Approvals Committee (IAC)

7.3. The IAC is the MOD's senior body responsible for considering major investment proposals on behalf of the Defence Board. All projects considered are categorised according to their value. A programmes complexity, risk, and contentiousness will also be considered when deciding the proportionate approval route. On particularly expensive, complex, innovative, risky, novel, or contentious projects, the IAC makes recommendations to Ministers and to HMT in line with the Departments delegations. The IAC considers 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 Area, each of whom reports to Director General (DG) Finance as well as to their Area Budget Holder.

7.4. 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 members are Military Strategic Headquarters Deputy Chief of the Defence Staff (Force Development), DG Commercial & Industry, Chief Information Officer, the Chief Scientific Adviser, National Armaments Director (NAD) DG International Collaboration and Exports, NAD DG Options and Commissioning and for in-committee cases, a Non-Executive Director from the wider SCS to bring challenge and transparency to the board. A similar board is used for the IAC Nuclear (IAC Nuc)) pertaining to investment proposals in the DNE.

7.5. The IAC is supported by advisors from across MOD Functions including the DG People, Chief of Defence Logistics and Support and Chief of Defence Intelligence.

7.6. The IAC and IAC (Nuc) are supported by Strategic Finance Investment Approvals (SFIA), whose role is to work closely with the single Services, Budget Holders and project delivery teams to ensure that qualifying projects are properly scrutinised, and that timely, relevant, and accurate information is provided to the IAC/IAC (Nuc) and to ministers so that an informed decision can be reached. It provides training to across the four Areas in MOD and promotes awareness and best practice in investment approvals. In order to take the highest value and most contentious cases forward, SFIA also works closely with HMT and other parts of government to obtain external approvals.

7.7. The department continues to drive reform of its acquisition system. Key to this is setting programmes up for success, which is supported by the Risk and Complexity Assessment which is mandated for all programmes over £10M and is encouraging early discussions around the strategic challenges faced by a programme. Through collaboration with the NAD Portfolio Office and Head of Profession for Project Delivery, we continue to strengthen a proportionate risk-based approach to decision making and are putting in place tools to support the tailoring of evidence and assurance to the risk and complexity of our programmes. This work forms part of the department's acquisition reform activities, which support the ambition to drive greater pace in delivery to the front line as set out in the Defence Command Paper.

Government Major Projects Portfolio (GMPP)

7.8. Each government department will continue to publish performance summaries of projects and programmes that are listed on the Government Major Projects Portfolio (GMPP) in the National Infrastructure and Service Transformation Authority (NISTA) Annual Report. This consists of a Delivery Confidence Assessment rating, financial information (whole life cost, annual budget and forecast spend), key project schedule milestones and a summary performance narrative. A revised and much reduced GMPP contains around 100 of Government's highest risk, most expensive and complex projects and programmes. MOD has the largest holdings at 20 programmes that are further categorised as Mega (Dreadnought), Mission Critical (those listed in the Strategic Defence Review and National Security Strategy), and Major Programmes (those that require HM Treasury approval). While there will be many projects and programmes that remain above the Departmental Approval Limits, not all will be included on the GMPP. A Memorandum of Understanding between MOD and HM Treasury and accompanying guidance sets out the assurance and performance reporting requirements for such projects and programmes. MOD and HM Treasury shall also agree a broader list of programmes, below Departmental Approval Limits, on which MOD shall provide regular updates on cost forecasts and delivery confidence, to support transparency and early management of affordability risks.

7.9. NISTA will oversee assurance activity and co-ordinate such reviews for those projects and programmes on the GMPP. For all other assurance requirements Departmental Assurance Co-ordinators will draw on a pan-Government pool of Assurance Reviewers who will undertake reviews following the NISTA framework and report their findings to formally Accounting Officer appointed Senior Responsible Owners.

7.10. Accounting Officer Assessments are produced to support major investment decisions (typically those projects and programmes listed on the GMPP). Summaries of these assessments are produced, approved by the Accounting Officer and published on Gov.UK. A similar arrangement applies to approved Full Business Cases.

Director General Commercial and Industry

7.11. Director General Commercial and Industry is Defence's most senior Commercial Officer, responsible for developing procurement strategies; negotiating and managing contracts to meet agreed requirements for equipment, goods and services to support military capability through life at 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.

7.12. DG Commercial and Industry has delegated authority to enter into contracts and to pass commercial licences to Commercial Directors, and then subsequently to commercial staff across Defence. Only commercial staff holding the correct level of delegation are authorised to enter into contracts on behalf of MOD. The MOD Commercial Function forms part of the wider Government Commercial Function.

7.13. 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 Contract Regulations ensure that MOD pays a fair and reasonable price to industry for the services or goods being supplied while ensuring value for money for the taxpayer.

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

7.14. Concerns about the MOD's ability to achieve value for money in single source procurement led to a fundamental reform of its approach through the Defence Reform Act 2014. The new regime, which is delivered through the Single Source Contract Regulations (SSCRs) introduced three features:

- Clear rules on how qualifying single source defence contracts can be priced.
- Greater transparency, including a suite of mandatory reports, and an obligation placed on suppliers to demonstrate that single source costs to the MOD are appropriate, attributable to the contract and reasonable; and
- The creation of the Single Source Regulations Office (SSRO) to issue guidance on application of the SSCRs and arbitrate between the MOD and suppliers (if a dispute is referred by either party, the SSRO can make legally binding decisions on contract price).

7.15. The SSRO makes an annual recommendation to the SofS on Baseline Profit Rates. It also reviews the how the SSCRs are operating and recommends changes to the SofS.

7.16. 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.

7.17. 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 several cyber security standards that have to be met in order to contract with MOD. These are outlined in the Cyber Security Model[17] which articulates the minimum

[17] https://www.contracts.mod.uk/announcements/cyber-security-model/

required cyber security standards depending on the level of cyber risk for each contract.

Chapter 8: Investments, Joint Ventures, and Other Assets

8.1. 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.

8.2. The MOD has invested in the following companies:

- Admiralty Holdings Limited (AHL) is a subsidiary of UKHO and a private limited company owned wholly by the SofS for Defence. It is a dormant company which was set up to enter into commercial arrangements with UKHO. AHL acts on the Sof'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.
- AWE plc – see 5.18 for further information.
- Octric Semiconductors Ltd (Octric) is a Public Corporation, wholly owned by the Secretary of State for Defence since its acquisition in September 2024. See 5.35 for further information.
- Sheffield Forgemasters International Limited (SFIL) is a Public Corporation and has been wholly owned by the Secretary of State for Defence since its acquisition by MOD in 2021. See 5.36 for further information.

Chapter 9: Conclusion

9.1. 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.

9.2. 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.

Jeremy Pocklington
Permanent Secretary to the Ministry of Defence – Accounting Officer